



**Lung Kee (Bermuda) Holdings Limited**

Stock Code: 255



**2007 Interim Report**

## CONTENTS

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	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	16
OTHER INFORMATION	20

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

# Deloitte.

德勤

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

### Introduction

We have reviewed the interim financial information set out on pages 4 to 15 which comprises the condensed consolidated balance sheet of Lung Kee (Bermuda) Holdings Limited as of 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

## **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 7th September, 2007

## 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, 2007 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June, 2007*

		Six months ended 30th June,	
		2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
	Notes		
Turnover	4	1,248,492	992,907
Other income		4,168	6,751
Changes in inventories of finished goods and work in progress		(10,198)	29,165
Raw materials and consumables used		(606,112)	(519,629)
Employee benefits expenses		(208,027)	(177,313)
Depreciation and amortisation of property, plant and equipment		(86,032)	(69,938)
Other expenses		(178,392)	(169,449)
Finance costs		(17,916)	(14,504)
Profit before taxation	5	145,983	77,990
Taxation	6	(21,142)	(14,142)
Profit for the period		124,841	63,848
Attributable to:			
Equity holders of the Company		124,170	62,215
Minority interests		671	1,633
Profit for the period		124,841	63,848
Dividends paid/payable	7	40,301	68,180
Earnings per share (HK cents)	8		
— Basic		20.03 cents	10.04 cents
— Diluted		20.03 cents	10.04 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2007

	Notes	30th June, 2007 (unaudited) HK\$'000	31st December, 2006 (audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	9	38,800	38,800
Property, plant and equipment	9	814,243	846,360
Prepaid lease payments			
— non-current portion		43,724	42,760
Deposit paid for acquisition of property plant and equipment		12,311	6,426
Deferred consideration receivable			
— non-current portion		5,023	7,622
		<b>914,101</b>	<b>941,968</b>
<b>Current assets</b>			
Inventories		756,080	623,680
Trade and other receivables	10	622,978	543,351
Bills receivable	10	41,459	42,242
Deferred consideration receivable			
— current portion		5,262	5,391
Prepaid lease payments			
— current portion		1,035	1,000
Taxation recoverable		3,117	3,114
Bank balances and cash		221,043	149,938
		<b>1,650,974</b>	<b>1,368,716</b>
<b>Current liabilities</b>			
Trade and other payables	11	290,828	278,105
Bills payable	11	33,111	35,823
Taxation payable		34,759	34,263
Dividend payable		32	25
Unsecured bank borrowings			
— due within one year	12	593,974	480,720
		<b>952,704</b>	<b>828,936</b>

	<i>Notes</i>	<b>30th June, 2007 (unaudited) HK\$'000</b>	31st December, 2006 (audited) HK\$'000
Net current assets		<b>698,270</b>	539,780
Total assets less current liabilities		<b>1,612,371</b>	1,481,748
Non-current liability			
Unsecured bank borrowings			
— due after one year	12	<b>230,000</b>	240,000
		<b>1,382,371</b>	1,241,748
CAPITAL AND RESERVES			
Share capital	13	<b>62,002</b>	62,001
Reserves		<b>1,321,046</b>	1,182,350
Equity attributable to equity holders of the Company		<b>1,383,048</b>	1,244,351
Minority interests		<b>(677)</b>	(2,603)
		<b>1,382,371</b>	1,241,748

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	PRC statutory reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 1st January, 2006 (audited)	61,968	114,992	—	20,439	75,492	863,606	1,136,497	24,457	1,160,954
Exchange differences arising on 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 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
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	32,212	—	—	32,212	439	32,651
Profit for the period	—	—	—	—	—	88,248	88,248	(1,028)	87,220
Total recognised income and expense for the period	—	—	—	32,212	—	88,248	120,460	(589)	119,871
Recognition of equity-settled share based payments	—	—	1,035	—	—	—	1,035	—	1,035
Interim dividend paid	—	—	—	—	—	(27,900)	(27,900)	(12,000)	(39,900)
Disposal of subsidiaries	—	—	—	—	—	—	—	(16,962)	(16,962)
Capital injection from a minority shareholder	—	—	—	—	—	—	—	300	300
At 31st December, 2006 (audited)	62,001	116,041	1,035	71,793	75,492	917,989	1,244,351	(2,603)	1,241,748
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	51,852	—	—	51,852	55	51,907
Profit for the period	—	—	—	—	—	124,170	124,170	671	124,841
Total recognised income for the period	—	—	—	51,852	—	124,170	176,022	726	176,748
Shares issued on exercise of share options	1	25	—	—	—	—	26	—	26
Recognition of equity-settled share based payments	—	—	2,950	—	—	—	2,950	—	2,950
Final dividend paid for the year ended 31st December, 2006	—	—	—	—	—	(40,301)	(40,301)	—	(40,301)
Capital injection from a minority shareholder	—	—	—	—	—	—	—	1,200	1,200
At 30th June, 2007 (unaudited)	62,002	116,066	3,985	123,645	75,492	1,001,858	1,383,048	(677)	1,382,371



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	Six months ended 30th June,	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Net cash from (used in) operating activities	60,791	(8,609)
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(34,598)	(162,096)
Proceeds from disposal of subsidiaries in last year	2,728	—
Proceeds from disposal of property, plant and equipment	1,008	4,318
Other investing cash flows	1,350	1,665
	(29,512)	(156,113)
Net cash from financing activities		
New bank borrowings raised	196,609	424,402
Repayments of bank borrowings	(100,520)	(35,535)
Dividend paid	(40,294)	(68,180)
Interest paid	(17,916)	(14,205)
Repayment of floating rate notes	—	(150,000)
Other financing cash flows	1,226	1,094
	39,105	157,576
Net increase (decrease) in cash and cash equivalents	70,384	(7,146)
Cash and cash equivalents at the beginning of the period	149,938	148,785
Effect of foreign exchange rates changes	721	3,210
Cash and cash equivalents at the end of the period	221,043	144,849
Cash and cash equivalents, being		
Bank balances and cash	221,043	144,953
Bank overdrafts	—	(104)
	221,043	144,849

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2007*

### 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 investment 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, 2006.

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 the Group’s accounting period beginning 1st January, 2007. The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

#### **Standards or interpretations issued but not yet effective**

The Group has not early applied the new standards, amendments or interpretations that have been issued but are not yet effective.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

### 3. CHANGE OF ACCOUNTING ESTIMATE

Prior to 1st January, 2007, buildings of the Group were depreciated over the term of the relevant lease or land use right, or 50 years, whichever is shorter. As part of the annual review process, management has reassessed the useful life of the buildings and considers that it is more appropriate to use 20 years as the estimated useful life. With effect from 1st January, 2007, buildings were depreciated over the term of the relevant lease or land use right, or 20 years, whichever is shorter. This change in accounting estimate has increased the depreciation charge for the current period by approximately HK\$7,900,000.

### 4. SEGMENT INFORMATION

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

#### Six months ended 30th June, 2007

	<b>Mould bases</b> HK\$'000	<b>Metal and parts</b> HK\$'000	<b>Total</b> HK\$'000
<b>TURNOVER</b>			
External sales	<b>1,160,229</b>	<b>88,263</b>	<b>1,248,492</b>
<b>RESULTS</b>			
Segment results	<b>172,919</b>	<b>15,831</b>	<b>188,750</b>
Unallocated income			<b>4,168</b>
Unallocated expenses			<b>(29,019)</b>
Finance costs			<b>(17,916)</b>
Profit before taxation			<b>145,983</b>
Taxation			<b>(21,142)</b>
Profit for the period			<b>124,841</b>

Six months ended 30th June, 2006

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

## 5. PROFIT BEFORE TAXATION

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

	<b>Six months ended 30th June,</b>	
	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories recognised as expense	<b>908,809</b>	752,174
Gain on disposal of property, plant and equipment	<b>(244)</b>	(1,629)
Interest income	<b>(1,350)</b>	(1,665)

## 6. TAXATION

	Six months ended 30th June,	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
The charge comprises:		
Hong Kong Profits Tax	—	28
Taxation in jurisdictions outside Hong Kong	21,142	14,114
	<b>21,142</b>	<b>14,142</b>

Hong Kong Profits Tax was calculated at 17.5% on the estimated assessable profit for the six months ended 30th June, 2006. No provision for Hong Kong Profits Tax has been made for the six months ended 30th June, 2007 as there are no assessable profit for the period.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual tax rate used for the six months ended 30th June, 2007 is ranged from 12% to 27% (2006: 12% to 27%).

Pursuant to an approval by the People's Republic of China (the "PRC") tax authority, one of the Company's PRC subsidiaries is granted advanced-technology exemption from 50% PRC income tax for three years commencing 1st January, 2005.

## 7. DIVIDENDS

On 17th May, 2007, a dividend of HK6.5 cents per share was paid to shareholders as final dividend for the year ended 31st December, 2006 (2006: HK11 cents per share).

The Directors have determined that an interim dividend of HK8 cents per share (2006: HK4.5 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 28th September, 2007.

## 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,	
	2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
Earnings		
Profit attributable to equity holders of the Company for the purpose of basic and diluted earnings per share	124,170	62,215
<hr/>		
	Six months ended 30th June,	
	2007 (unaudited)	2006 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,008,132	619,827,403
Effect of dilutive potential ordinary shares on exercise of share options of the Company	11,702	74,543
Weighted average number of ordinary shares for the purpose of diluted earnings per share	620,019,834	619,901,946

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

At 30th June, 2007, the Directors considered the carrying amounts of the Group's investment properties do not differ significantly from the fair values. Consequently, no change in fair value has been recognised in the current period.

During the period, the Group incurred expenditures of approximately HK\$5,032,000 (2006: HK\$44,871,000) on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$12,088,000 (2006: HK\$92,705,000) and HK\$8,952,000 (2006: HK\$12,019,000) on acquisition of plant and machinery, and furniture and equipment, respectively, for the purpose of expanding the Group's production facilities.

## 10. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

The Group allows an average credit period of 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$546,467,000 (31st December, 2006: HK\$466,015,000).

An aged analysis of the Group's trade receivables and bills receivable at the balance sheet date are as follows:

	<b>30th June, 2007 (unaudited) HK\$'000</b>	<b>31st December, 2006 (audited) HK\$'000</b>
0 to 60 days	<b>401,346</b>	342,926
61 to 90 days	<b>115,409</b>	94,885
Over 90 days	<b>71,171</b>	70,446
	<b>587,926</b>	508,257

## 11. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$123,579,000 (31st December, 2006: HK\$133,771,000).

An aged analysis of the Group's trade payables and bills payable at the balance sheet date are as follows:

	<b>30th June, 2007 (unaudited) HK\$'000</b>	<b>31st December, 2006 (audited) HK\$'000</b>
0 to 60 days	<b>118,380</b>	120,409
61 to 90 days	<b>19,327</b>	29,194
Over 90 days	<b>18,983</b>	19,991
	<b>156,690</b>	169,594

## 12. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$196,609,000 (2006: HK\$424,402,000) which were used for repayment of the bank loan and general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$100,520,000 (2006: HK\$35,535,000) during the period.

## 13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Issued and fully paid ordinary shares of HK\$0.1 each:		
At 1st January, 2007	620,005,303	62,001
Issue of shares by exercise of share options	8,000	1
	<hr/>	<hr/>
At 30th June, 2007	620,013,303	62,002
	<hr/>	<hr/>

## 14. CAPITAL COMMITMENTS

As at 30th June, 2007, the Group had capital expenditures amounting to approximately HK\$15,404,000 (31st December, 2006: HK\$13,893,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group's turnover for the six months ended 30th June, 2007 was approximately HK\$1,248 million (2006: approximately HK\$993 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2007 was approximately HK\$124 million (2006: approximately HK\$62 million). Basic earnings per share for the six months ended 30th June, 2007 was HK20.03 cents (2006: HK10.04 cents).

The Group's profit for the six months ended 30th June, 2007 registered substantial growth as compared with that of the same period in the year of 2006.

In response to the strong domestic consumption in China, the market continued to prosper with satisfactory growth in manufacturing industry. Together with the rapid development of automobile industry, the Group enjoyed promising growth in orders from automobile parts and accessories manufacturers, accounting for an increased share of the Group's turnover. As fueled by the stable growth of global demand for consumer products, the Group overseas business developed smoothly, contributing to a steady return for the Group. As a whole, the Group achieved a favorable growth in sales turnover during the period under review.

Expansion of the Heyuan plant in Guangdong province had been completed. Coupled with the successful merge of production facilities of the Dongguan plant in Guangdong Province into the Heyuan plant, the production capacity of the Group are further fortified. During the review period, the Group received abundant orders demanding the production lines of Heyuan plant to operate fully in order to meet the production schedule; as a result, some improvement projects on the production process could not be put forward as scheduled. Although the production lines had not been fully enhanced, the Group can still enjoy the benefit of improved economy of production scale, which helps in lowering the production cost. As a result, the Group's operation cost was effectively under controlled.

During the period under review, price of steel required for production remained at a high level; nevertheless, the fluctuation of price was relatively mild, allowing the Group to control its production cost more easily. On the other hand, in response to the surging steel price, the Group had moderately adjusted its selling price which accommodates partly the rising cost of material, alleviated the pressure of uplifted cost laid upon the Group.

As for the steel trading business, the Group reinforces its sales activities in Eastern China and actively develops new customer base, the mould steel turnover recorded moderate growth as compared with that of last year.

To conclude, the Group's profitability and cost control performance during the period under review was satisfactory as compared with that of last year.

## **PROSPECTS**

In view of the gradual amelioration of global economic condition, the market atmosphere is favorable. Furthermore, taking the benefit of improved economy of scale after its recent plant expansion, with effective cost control and its passion in the pursuit of excellence, the Group anticipates a further improvement on overall performance and turnover. Yet the Group maintains a prudent view toward the ever-changing global market situations.

China economy still experiences rapid growth and the domestic market keeps on booming. Persistent growth in demand in consumer products in China together with the speedy evolution of design and style of consumer products offers great opportunities for development. In particular, there is great potential for market growth as more and more parts and components of the automobile industry made in China. As a result of keen competition in the automobile industry, its production volume and quality have been uplifted, further nourishes its ability to export. Since the quality requirements for automobile products are more stringent, the demand for quality moulds is boosted up. The quality mould products promoted by the Group nicely suit the market needs. It is anticipated that the flourishing of automobile industry will bring fruitful business opportunities to the Group.

Through active exploration of overseas markets with participation in major international exhibitions, the Group's brand name is increasingly recognised and its direct sales business to Europe and the United States will progress steadily. Furthermore, America and European manufacturers also prefer to specify their vendors in China to use the Group's products. The quality of the Group's products has reached international standard and the Group's international status further consolidated.

Facing such a vast market potential in China, the Group will fortify its competitive edge and leading position through persistently developing its distribution and logistic network in order to serve its customers' needs more closely and to secure larger market coverage. Through years of effort, the business in Southern China has progressed steadily. The Group has set up a sales and distribution office in Fujian Province of China to provide quality comprehensive services to local customers, with a view to deriving benefits from the upcoming opportunity of "three direct linkages of trade, mail, and air and shipping services" across the Straits. Turning to the Eastern markets of China, the rapid growth of private-owned enterprises in Zhejiang Province elevates demand for quality moulds that will be favorable to the business development of the Group. For the market in Northern China, business is gradually developed and the set up of distribution center in Tianjin seeks to further explore new business opportunities in this area. The Central Western part of China, though located in remote area with economic development at burgeoning stage, its market potential cannot be neglected. The Group will co-operate with local agents to lay the foundation for future business development.

The production capacity of the Heyuan plant is further enlarged after the expansion. The Group will devote to streamline its production process and management system to fully support the production needs of the Group and leverage the benefit of economy of scale. Capitalizing on its advantageous location, part of the Dongguan plant will serve as sales order processing and logistic base to co-ordinate the operations of all plants in China. The Guangzhou plant still dedicates in the production of high precision mould base and its overseas customers base will be expanded following the continual improvement in its product quality. The Group will keep improving the production technique and management system in its Shanghai and Taizhou plants in Eastern China, aiming at enhancing overall performance of the Group. Plants located in Southern and Eastern China will complement each other to build up a sound and efficient production base for the Group. The overseas plants located in Japan, Taiwan and Malaysia will continue to provide quality products and services to their local customers, bringing satisfactory contribution to the Group. Moreover, the Group will constantly monitor the market change and customers needs in different regions and will act appropriately by investing in manufacturing plants and facilities if deemed necessary.

The steel price remains unstable and it is expected that the prices of both imported and China mould steels will continue to rise. The Group will formulate appropriate material procurement strategies in view of the fluctuation of steel prices. Labor cost is also expected to go up, the Group will strive to tighten its cost control by devising manpower and time saving production workflows. Coupled with manpower restructuring and training, the Group endeavors to adopt an effective production and management mode that can achieve "high quality at optimal cost with speedy delivery".

Looking ahead, the business environment is challenging. The Group will adhere to its positive and pragmatic principles in achieving a steady development and healthy growth in its future business.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2007, the Group had a net cash deficit of approximately HK\$603 million. The Group had cash balance of approximately HK\$221 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$824 million, equal to approximately 60% of equity attributable to equity holders of the Company of approximately HK\$1,383 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th June, 2007, the Group employed a total of approximately 10,060 employees, including approximately 9,730 employees in its PRC production sites and approximately 330 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 auditor, 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 HK8 cents per share (2006: HK4.5 cents per share) in respect of the six months ended 30th June, 2007 to be payable on or about 16th October, 2007 to shareholders whose names appear in the Register of Members of the Company on 28th September, 2007.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 27th September, 2007 to 28th September, 2007, 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 4:30 p.m. on 25th September, 2007.

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 26th September, 2007 will be entitled to the interim dividend.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2007, 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		Number of share options and corresponding 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	150,000	345,058,631	55.65%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	150,000	345,058,631	55.65%
Mak Koon Chi	Beneficial owner	2,843,750	—	500,000	3,343,750	0.54%
Wai Lung Shing	Beneficial owner	2,843,750	—	500,000	3,343,750	0.54%
Fung Wai Hing	Beneficial owner	1,457,031	—	500,000	1,957,031	0.32%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	150,000	300,000	0.05%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	150,000	300,000	0.05%
Lee Tat Yee	Beneficial owner	150,000	—	150,000	300,000	0.05%
Lee Joo Hai	Beneficial owner	—	—	100,000	100,000	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 positions 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, 2007.

## 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, 2007, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 6,680,000, representing about 1.08% 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 HK\$
	At 1st January, 2007	Exercised during the period	Lapsed during the period	At 30th June, 2007			
Category 1: Directors							
Siu Tit Lung	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Siu Yuk Lung	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Mak Koon Chi	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Wai Lung Shing	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Fung Wai Hing	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Chan Chun Sing, Colin	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Liu Wing Ting, Stephen	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Lee Tat Yee	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Lee Joo Hai	100,000	—	—	100,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Total	2,350,000	—	—	2,350,000			
Category 2: Employees							
	118,000	(8,000)	(110,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
	4,330,000	—	—	4,330,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Total	4,448,000	(8,000)	(110,000)	4,330,000			
Total all categories	6,798,000	(8,000)	(110,000)	6,680,000			

The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$3.65.

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, 2007, 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	Interest of controlled corporation	56,016,108	9.03%

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, 2007.

## 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, 2007.

## **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, 7th September, 2007