

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. Its subsidiaries are principally engaged in the manufacture and marketing of mould bases, metal and parts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 31.

An interim dividend of HK4.5 cents per share amounting to approximately HK\$27,900,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK6.5 cents per share payable to shareholders registered on the register of members on 7th May, 2007, amounting to approximately HK\$40,300,000.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 72.

### INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2006 were revalued by an independent firm of professional property valuers on an open market value basis. The revaluation increase of approximately HK\$6,900,000 has been recognised in the income statement. Details of the movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure in respect to factory premises and staff quarters at a cost of approximately HK\$83 million. The Group continued its plant expansion policy and expended approximately HK\$152 million on new plant and machinery and approximately HK\$45 million on other furniture and equipment during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

### PROPERTIES HELD FOR INVESTMENT

Details of the major properties held for investment by the Group at 31st December, 2006 are set out on page 73.

### SHARE CAPITAL

Details of the Company's share capital are set out in note 27 to the financial statements.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2006 represented the accumulated profits of approximately HK\$148,287,000 (2005: HK\$27,033,000).

### MAJOR CUSTOMERS AND SUPPLIERS

Since the Group has a very wide customer base, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year.

The Group's largest supplier contributed 16% to the total purchases for the year. The Group's five largest suppliers accounted for 44% of the total purchases for the year.

At no time during the year did a director, an associate of a director or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers.

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive directors

Siu Tit Lung (*Chairman*)

Siu Yuk Lung (*Managing Director*)

Mak Koon Chi

Wai Lung Shing

Fung Wai Hing

#### Non-executive director

Chan Chun Sing, Colin

#### Independent non-executive directors

Liu Wing Ting, Stephen, JP

Lee Tat Yee

Lee Joo Hai

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Mak Koon Chi, Mr. Fung Wai Hing and Dr. Lee Tat Yee retire from office by rotation and, being eligible, offer themselves for re-election.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive directors

Mr. Siu Tit Lung, aged 56, elder brother of Mr. Siu Yuk Lung, has been an executive director and the chairman of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for the overall strategic planning and corporate development of the Group. He has over 37 years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Dongguan City and Heyuan City in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 53, younger brother of Mr. Siu Tit Lung, has been an executive director and the managing director of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for policy making and the corporate management of the Group. He has over 35 years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association. He is also an honorary citizen of Heyuan City in the PRC.

Mr. Mak Koon Chi, aged 48, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. He is a past chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a fellow of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from the Hong Kong Polytechnic University and Murdoch University with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 45, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. Mr. Wai is responsible for the policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick with a Master of Business Administration Degree. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Hong Kong Institute of Directors. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

**BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT** *(Continued)***Executive directors** *(Continued)*

Mr. Fung Wai Hing, aged 54, has been an executive director of the Company since August 1997 and is a director of certain subsidiaries of the Company. Mr. Fung is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham with a Master of Science Degree in Industrial Management and from The University of Hong Kong with a Master of Business Administration Degree. He is currently one of the directors and past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is the honorary secretary of the Hong Kong Diecasting Association, a member of the Steering Committee of the Industrial Centre of the Hong Kong Polytechnic University and a member of The Hong Kong Institute of Directors. He has extensive experience in the trading business.

**Non-executive director**

Mr. Chan Chun Sing, Colin, aged 52, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He is a fellow of The Hong Kong Institute of Directors. He has many years of experience in the information technology industry.

**Independent non-executive directors**

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 54, has been an independent non-executive director of the Company since December 1992. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited and a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Hong Kong Institute of Directors. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the chairman of the Audit Committee of the Company.

Dr. Lee Tat Yee, aged 59, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. He is a fellow of The Hong Kong Institute of Directors. Dr. Lee is currently a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems. He is the chairman of the Remuneration Committee of the Company.

Mr. Lee Joo Hai, aged 51, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore, the Singapore Institute of Directors and The Hong Kong Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the chairman of the Nomination Committee of the Company.

## DIRECTORS' INTERESTS IN SHARES

At 31st December, 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		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 and 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 and 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%

**DIRECTORS' INTERESTS IN SHARES** *(Continued)*

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**

<b>Name of director</b>	<b>Nature of interests</b>	<b>Name of associated corporation</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital of the class</b>
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".

## DIRECTORS' INTERESTS IN SHARES *(Continued)*

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 31st December, 2006.

## SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 28 to the financial statements.

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

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2006	Granted during the year	Exercised during the year	At 31st December, 2006			
<b>Category 1: Directors</b>							
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)	-	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
	-	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
<b>Total</b>	<b>150,000</b>	<b>2,350,000</b>	<b>(150,000)</b>	<b>2,350,000</b>			

**SHARE OPTIONS** *(Continued)*

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2006	Granted during the year	Exercised during the year	At 31st December, 2006			
<b>Category 2: Employees</b>							
	296,000	-	(178,000)	118,000	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
<b>Total</b>	296,000	4,330,000	(178,000)	4,448,000			
<b>Total all categories</b>	446,000	6,680,000	(328,000)	6,798,000			

The closing price of the Company's shares immediately before 3rd November, 2006, the date of grant of the 2006 options was HK\$3.82.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was approximately HK\$5.003.

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 year.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 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	Interest of controlled corporation	56,016,108	9.03%



## **SUBSTANTIAL SHAREHOLDERS** *(Continued)*

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 31st December, 2006.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Other than the share option scheme disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## **CONNECTED TRANSACTIONS**

During the year ended 31st December, 2006, the Group had the following connected transactions:

- (1) On 15th June, 2006, the Company and Mr. Karl Erik Helldin ("Mr. Helldin"), a director of LKM Heatlock Company Limited ("LKM Heatlock"), as guarantors provided a cross guarantee (the "Cross Guarantee") on a joint and several basis in favour of a bank in order to obtain the HK\$7,000,000 revolving credit facility to be made available by the bank for use by LKM Heatlock (the "Banking Facility"). The maximum liability of the Company and Mr. Helldin in respect of the Banking Facility under the Cross Guarantee is limited to HK\$7,000,000 and no division of such liability between the Company and Mr. Helldin is provided for thereunder.

LKM Heatlock is an indirect non wholly-owned subsidiary of the Company which is owned as to 70% by LKM (BVI) Limited ("LKM (BVI)"), a wholly-owned subsidiary of the Company, and 30% by Dynamic Allied Investments Limited ("Dynamic Allied"), a company wholly-owned by Mr. Helldin, a director of LKM Heatlock and Dynamic Allied, and his spouse.

**CONNECTED TRANSACTIONS** *(Continued)*

Since Mr. Helldin is a director of LKM Heatlock and Dynamic Allied and a controlling shareholder of Dynamic Allied, LKM Heatlock is an associate of Mr. Helldin and is thus a connected person of the Company within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Accordingly, the financial assistance provided by the Company and Mr. Helldin to LKM Heatlock by way of provision of the Cross Guarantee in respect of the Banking Facility to LKM Heatlock constitutes a connected transaction for the Company under the Listing Rules. An announcement dated 15th June, 2006 in respect of the transaction was published.

- (2) On 8th September, 2006, LKM (BVI) as vendor entered into an agreement ("the Agreement") with Zoto Company Limited ("Zoto") (a company which was owned as to 90% by Mr. Li Siu Cheung ("Mr. Li") and as to 10% by the spouse of Mr. Li) as purchaser and Mr. Li as shareholder of Sky Lucky Metal Limited ("Sky Lucky Metal") and Sky Lucky Steel Limited ("Sky Lucky Steel") in relation to the disposal of 60% interest in Sky Lucky Metal and 70% interest in Sky Lucky Steel by LKM (BVI) (the "Disposal").

As at 8th September, 2006, Sky Lucky Metal was an indirect non wholly-owned subsidiary of the Company, which was owned as to 60% by LKM (BVI), 30% by Mr. Li and 10% by Zoto. Sky Lucky Steel was an indirect non wholly-owned subsidiary of the Company, which was owned as to 70% by LKM (BVI) and 30% by Mr. Li. As Mr. Li was a director and a substantial shareholder of both Sky Lucky Metal and Sky Lucky Steel and hence a connected person of the Company under the Listing Rules. Accordingly, the signing of the Agreement constitutes a connected transaction for the Company under the Listing Rules. An announcement dated 8th September, 2006 in respect of the transaction was published and a circular dated 29th September, 2006 was sent to the shareholders of the Company.

The consideration for the Disposal was HK\$25,800,000, payable by Zoto in cash in the following manner:

- (a) HK\$12,000,000, being the first installment of the consideration, paid by Zoto on the date of completion of the Agreement, which was on 6th October, 2006;
- (b) HK\$2,760,000, being the second installment of the consideration, paid by Zoto before 1st January, 2007;
- (c) HK\$2,760,000, being the third installment of the consideration, payable by Zoto before 1st July, 2007;
- (d) HK\$2,760,000, being the fourth installment of the consideration, payable by Zoto before 1st January, 2008;
- (e) HK\$2,760,000, being the fifth installment of the consideration, payable by Zoto before 1st July, 2008; and
- (f) HK\$2,760,000, being the balance of the consideration, payable by Zoto before 31st December, 2008.

### CONNECTED TRANSACTIONS *(Continued)*

The Disposal represented a good opportunity for the Group to realise its investment and to streamline its business structure to focusing its resources on the development of other market segments, such as markets in the Eastern and North-Western China.

Upon completion of the Disposal on 6th October, 2006, the Group ceased to have any interest in Sky Lucky Metal or Sky Lucky Steel.

### CONTINUING CONNECTED TRANSACTIONS

Pursuant to a products sale and purchase agreement dated 22nd December, 2005 (the "2005 Products Sale and Purchase Agreement"), 河源龍記金屬製品有限公司 (Heyuan Lung Kee Metal Products Co., Ltd. ("Heyuan Lung Kee")) and 東莞天祥五金製品有限公司 (Dongguan Tin Cheung Metal Products Co., Ltd. ("Dongguan Tin Cheung")) agreed to sell and purchase the Products by Heyuan Lung Kee to or from Dongguan Tin Cheung (as the case may be) during the period from 1st January, 2006 to 31st December, 2006 (both dates inclusive). Products refer to products in relation to the Group's business including but not limited to (1) steel; and (2) mould bases and components of mould bases manufactured by Heyuan Lung Kee or Dongguan Tin Cheung (as the case may be) (the "Products").

As at 22nd December, 2005, Heyuan Lung Kee was an indirectly wholly-owned subsidiary of the Company. Dongguan Tin Cheung was a wholly-owned subsidiary of Sky Lucky Metal, a 60% owned subsidiary of the Company and Mr. Li was a director and a substantial shareholder who has direct and/or indirect control of 40% of the voting rights of Sky Lucky Metal, which was owned as to 30% by Mr. Li and 10% by Zoto, a company owned as to 90% by Mr. Li. As Dongguan Tin Cheung was an associate of Mr. Li, who was a connected person of the Company, the transactions contemplated under the 2005 Products Sale and Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules. An announcement dated 22nd December, 2005 in respect of the transactions was published.

The sale of the Products by Heyuan Lung Kee to Dongguan Tin Cheung under the 2005 Products Sale and Purchase Agreement totaled approximately HK\$6,400,000 for the year ended 31st December, 2006.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors of the Company (the "Board") engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

**CONTINUING CONNECTED TRANSACTIONS** *(Continued)*

The auditor of the Company has also reviewed these transactions and confirmed to the Board that the continuing connected transactions:

- (a) have received the approval of the Board;
- (b) have been entered into in accordance with the relevant agreement governing the transactions; and
- (c) have not exceeded the annual cap disclosed in previous announcement.

As the term of the 2005 Products Sale and Purchase Agreement would be expired on 31st December, 2006 and in order to comply with the requirements under the Listing Rules, Heyuan Lung Kee and Dongguan Tin Cheung entered into a new products sale and purchase agreement on 28th November, 2006 which sets out the framework within which the Products are to be sold and purchased by Heyuan Lung Kee to or from Dongguan Tin Cheung (as the case may be) for a further term commencing on 1st January, 2007 and expiring on 5th October, 2007 (both dates inclusive)(the "New Products Sale and Purchase Agreement").

Reference was made to the transaction of the Disposal, which was disclosed in the abovementioned section "Connected Transactions", the Group ceased to have any interest in Sky Lucky Metal since the completion date of the Disposal (i.e. 6th October, 2006).

As at 28th November, 2006, Dongguan Tin Cheung was a wholly-owned subsidiary of Sky Lucky Metal, which is owned as to (i) 30% by Mr. Li (a director and substantial shareholder of Sky Lucky Metal), and (ii) 70% by Zoto (which is owned as to 90% by Mr. Li and as to 10% by the spouse of Mr. Li). Although Sky Lucky Metal has ceased to be a subsidiary of the Company since 6th October, 2006, Mr. Li being a director and a substantial shareholder of Sky Lucky Metal continues to be a connected person of the Company for the 12-month period from 6th October, 2006 to 5th October, 2007 under the Listing Rules. Accordingly, Dongguan Tin Cheung is an associate of Mr. Li, who is a connected person of the Company, and the transactions contemplated under the New Products Sale and Purchase Agreement will constitute continuing connected transactions for the Company under the Listing Rules. An announcement dated 28th November, 2006 in respect of the transactions was published.

The cap amount for sale of the Products by Heyuan Lung Kee to Dongguan Tin Cheung for the period from 1st January, 2007 to 5th October, 2007 would not exceed HK\$9,000,000.

**SUFFICIENCY OF PUBLIC FLOAT**

Throughout the year ended 31st December, 2006 until the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or Laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### EMOLUMENT POLICY

The Remuneration Committee reviews the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme in 2002. Details of the scheme are set out in note 28 to the financial statements.

### CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 7 to 13 and "Audit Committee Report" from pages 14 to 15.

### INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, Mr. Liu Wing Ting, Stephen, Dr. Lee Tat Yee and Mr. Lee Joo Hai, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has assessed the independence of the independent non-executive directors. The Nomination Committee and the Company consider all of the independent non-executive directors are independent.

### CHARITABLE DONATIONS

The Group made charitable and other donations amounting to approximately HK\$701,000 during the year.

### AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Siu Yuk Lung**

*Managing Director*

Hong Kong, 30th March, 2007