



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



2008
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 INFORMATION	9
MANAGEMENT DISCUSSION AND ANALYSIS	17
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 16, which comprises the condensed consolidated balance sheet of Lung Kee (Bermuda) Holdings Limited as of 30th June, 2008 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, 25th August, 2008

FINANCIAL RESULTS

The directors of Lung Kee (Bermuda) Holdings Limited (the “Company”) (the “Directors”) 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, 2008 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

		Six months ended 30th June,	
		2008	2007
	<i>Notes</i>	(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Turnover	3	1,554,483	1,248,492
Other income		13,866	4,168
Changes in inventories of finished goods and work in progress		26,782	(10,198)
Raw materials and consumables used		(757,876)	(606,112)
Employee benefits expenses		(256,293)	(208,027)
Depreciation and amortisation of property, plant and equipment		(90,321)	(86,032)
Other expenses		(213,323)	(178,392)
Interest on bank borrowings wholly repayable within five years		(9,762)	(17,916)
Profit before taxation	4	267,556	145,983
Income tax expense	5	(88,593)	(21,142)
Profit for the period		178,963	124,841
Attributable to:			
Equity holders of the Company		177,655	124,170
Minority interests		1,308	671
		178,963	124,841
Dividends recognised as distribution during the period	6	93,002	40,300
Interim dividend of HK11 cents (2007: HK8 cents) per share	6	68,201	49,602
		HK cents	HK cents
Earnings per share	7		
— Basic		28.65	20.03
— Diluted		28.65	20.03

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2008

	Notes	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	43,500	43,500
Property, plant and equipment	8	855,580	813,969
Prepaid lease payments			
— non-current portion		45,463	44,946
Deposits paid for acquisition of property, plant and equipment		17,693	8,951
		962,236	911,366
Current assets			
Inventories		808,951	800,843
Trade and other receivables	9	846,785	687,983
Bills receivable	9	47,488	40,349
Prepaid lease payments			
— current portion		1,094	1,077
Deferred consideration receivable		5,023	7,622
Taxation recoverable		3,649	3,032
Derivative financial instruments		225	—
Bank balances and cash		197,754	261,115
		1,910,969	1,802,021
Current liabilities			
Trade and other payables	10	492,269	412,038
Bills payable	10	36,312	36,334
Taxation payable		61,186	40,183
Dividend payable		48	39
Derivative financial instruments		—	1,468
Unsecured bank borrowings			
— due within one year	11	500,575	416,664
		1,090,390	906,726

		30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
	<i>Notes</i>		
Net current assets		820,579	895,295
Total assets less current liabilities		1,782,815	1,806,661
Non-current liabilities			
Unsecured bank borrowings			
— due after one year	11	—	220,000
Deferred tax liabilities		14,581	1,634
		14,581	221,634
		1,768,234	1,585,027
CAPITAL AND RESERVES			
Share capital	12	62,002	62,002
Reserves		1,703,863	1,522,095
Equity attributable to equity holders of the Company		1,765,865	1,584,097
Minority interests		2,369	930
		1,768,234	1,585,027

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

	Equity attributable to equity holdings of the Company								
	Share capital HK\$'000	Share premium HK\$'000	PRC statutory reserve HK\$'000 (Note)	Translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2007 (audited)	62,001	116,042	75,492	71,792	1,035	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 and expense for the period	–	–	–	51,852	–	124,170	176,022	726	176,748
Recognition of equity-settled share-based payments	–	–	–	–	2,950	–	2,950	–	2,950
Final dividend for the year ended 31st December, 2006	–	–	–	–	–	(40,300)	(40,300)	–	(40,300)
Shares issued on exercise of share options	1	25	–	–	–	–	26	–	26
Capital injection	–	–	–	–	–	–	–	1,200	1,200
At 30th June, 2007 (unaudited)	62,002	116,067	75,492	123,644	3,985	1,001,859	1,383,049	(677)	1,382,372
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	66,266	–	–	66,266	29	66,295
Profit for the period	–	–	–	–	–	181,681	181,681	978	182,659
Total recognised income and expense for the period	–	–	–	66,266	–	181,681	247,947	1,007	248,954
Recognition of equity-settled share-based payments	–	–	–	–	2,703	–	2,703	–	2,703
Transfer on cancellation of share options	–	–	–	–	(81)	81	–	–	–
Interim dividend declared	–	–	–	–	–	(49,602)	(49,602)	–	(49,602)
Transfer	–	–	19,088	–	–	(19,088)	–	–	–
Capital injection	–	–	–	–	–	–	–	600	600
At 31st December, 2007 and 1st January, 2008 (audited)	62,002	116,067	94,580	189,910	6,607	1,114,931	1,584,097	930	1,585,027
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	94,865	–	–	94,865	131	94,996
Profit for the period	–	–	–	–	–	177,655	177,655	1,308	178,963
Total recognised income and expense for the period	–	–	–	94,865	–	177,655	272,520	1,439	273,959
Recognition of equity-settled share-based payments	–	–	–	–	2,250	–	2,250	–	2,250
Final dividend paid for the year ended 31st December, 2007	–	–	–	–	–	(93,002)	(93,002)	–	(93,002)
At 30th June, 2008 (unaudited)	62,002	116,067	94,580	284,775	8,857	1,199,584	1,765,865	2,369	1,768,234

Note: The PRC statutory reserve represents the appropriation of certain percentages of profit after taxation of subsidiaries in the People's Republic of China (the "PRC") as recommended by the directors of those subsidiaries.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	Six months ended 30th June,	
	2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000
Net cash from operating activities	267,149	60,791
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(116,504)	(34,598)
Proceeds from disposal of property, plant and equipment and land use rights	28,067	1,008
Proceeds from disposal of subsidiaries in 2006	2,599	2,728
Other investing cash flows	1,960	1,350
	(83,878)	(29,512)
Net cash (used in) from financing activities		
Repayments of bank borrowings	(188,253)	(100,520)
Dividend paid	(92,993)	(40,294)
Interest paid	(9,762)	(17,916)
New bank borrowings raised	42,336	196,609
Other financing cash flows	—	1,226
	(248,672)	39,105
Net (decrease) increase in cash and cash equivalents	(65,401)	70,384
Cash and cash equivalents at beginning of the period	261,115	149,938
Effect of foreign exchange rates changes	2,040	721
Cash and cash equivalents at the end of the period, represented by bank balances and cash	197,754	221,043

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30th June, 2008

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 Hong Kong Accounting Standard 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 and financial instruments, 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 Group for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, a number of new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st January, 2008.

The adoption of these new Interpretations 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) — Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1st January, 2009

² Effective for annual periods beginning on or after 1st July, 2009

³ Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Since over 90% of the revenue and results are generated from the manufacturing and marketing of mould bases, no segment information is presented.

4. PROFIT BEFORE TAXATION

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

	Six months ended 30th June,	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Cost of inventories recognised as an expense	1,083,852	908,809
Gain on disposal of property, plant and equipment and land use rights	(6,831)	(244)
Interest income	(1,960)	(1,350)

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Taxation in jurisdictions outside Hong Kong		
– Current period	75,510	21,142
– Underprovision in prior period	135	–
	75,645	21,142
Deferred taxation	12,948	–
	88,593	21,142

No provision for Hong Kong Profits Tax has been made for the six months ended 30th June, 2007 and 30th June, 2008 as there is no assessable profit for both periods.

5. INCOME TAX EXPENSE (Continued)

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30th June, 2008.

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, 2008 is ranged from 14% to 25% (six months ended 30th June, 2007: 12% to 27%).

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is entitled to an exemption from PRC income tax for next two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years. 2008 is the second year of tax exemption granted to that subsidiary.

Pursuant to an approval by the PRC tax authority, one (six months ended 30th June, 2007: two) of the Company's PRC subsidiaries is granted advanced-technology exemption from 50% PRC income tax for three years commencing from the year of grant. While the tax exemption granted to one of the subsidiaries ended in 2007, another subsidiary continues to be under tax exemption, which will be ended in 2009, by enjoying the concessionary tax rate of 14%.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 24% to 25% for all subsidiaries in the PRC from 1st January, 2008, except for the two continuing tax exemption cases as mentioned above. Such exemptions will continue and be determined based on the new tax rate of 25%.

6. DIVIDENDS

Dividends recognised as distribution during the period

On 15th May, 2008, a dividend of HK15 cents per share was paid to shareholders as final dividend for the year ended 31st December, 2007 (six months ended 30th June, 2007: HK6.5 cents per share).

Interim dividend for the current period

The Directors have determined that an interim dividend of HK11 cents per share (six months ended 30th June, 2007: HK8 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 11th September, 2008.

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,	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to equity holders of the Company for the purpose of basic and diluted earnings per share	177,655	124,170

	Six months ended 30th June,	
	2008	2007
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,013,303	620,008,132
Effect of dilutive potential ordinary shares on exercise of share options of the Company	—	11,702
Weighted average number of ordinary shares for the purpose of diluted earnings per share	620,013,303	620,019,834

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for six months ended 30th June, 2008.

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

At 30th June, 2008, 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\$6,801,000 (six months ended 30th June, 2007: HK\$5,032,000) on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$89,994,000 (six months ended 30th June, 2007: HK\$12,088,000) and HK\$6,411,000 (six months ended 30th June, 2007: HK\$8,952,000) on acquisition of plant and machinery and furniture and equipment, respectively, for the purpose of expanding the Group's production facilities.

9. 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\$670,557,000 (31st December, 2007: HK\$580,146,000).

An aged analysis of the Group's trade and bills receivables is presented below:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
0 to 60 days	490,730	413,665
61 to 90 days	144,893	128,450
Over 90 days	82,422	78,380
	718,045	620,495

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$225,507,000 (31st December, 2007: HK\$196,118,000).

An aged analysis of the Group's trade and bills payables is presented below:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
0 to 60 days	212,417	200,772
61 to 90 days	36,984	22,160
Over 90 days	12,418	9,520
	261,819	232,452

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$42,336,000 (six months ended 30th June, 2007: HK\$196,609,000) which were used for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$188,253,000 (six months ended 30th June, 2007: HK\$100,520,000) during the period using the funds generated from operations.

12. 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, 31st December, 2007 and 30th June, 2008	620,013,303	62,002

13. CAPITAL COMMITMENTS

As at 30th June, 2008, the Group had capital expenditures amounting to approximately HK\$66,118,000 (31st December, 2007: HK\$104,681,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the six months ended 30th June, 2008 was approximately HK\$1,554 million (six months ended 30th June, 2007: approximately HK\$1,248 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2008 was approximately HK\$178 million (six months ended 30th June, 2007: approximately HK\$124 million). Basic earnings per share for the six months ended 30th June, 2008 was HK28.65 cents (six months ended 30th June, 2007: HK20.03 cents).

The Group's performance for the six months ended 30th June, 2008 registered a substantial growth as compared with that of the same period in the year of 2007.

During the period under review, domestic consumption in China began to slow down. Though keen competition and "survival of the fittest" situation prevailed in the manufacturing industry as a whole, individual industries and enterprises still reported excellent performance. The automobile parts and accessories industry in China maintained a continuous growth; as a result, the orders for mould base and steel from this industry accounted for a notable share of the Group's turnover. The Group continued to develop new direct sales outlets and distributors in the Southern, Eastern and Northern regions of China, which helps to reinforce close contacts with customers and to fortify the Group's sales network. Furthermore, the market coverage of the Group was also widened. To sum up, the Group's business in China recorded a favorable growth in sales turnover, coupled with stable development of the overseas business, the Group achieved a satisfactory growth in profit.

Inevitably, the Group was also affected by the external unfavorable economic factors. The Subprime Mortgage Crises of the United States brought uncertainties to the global business environment. The surge of oil and raw material prices drove up production cost. The launch of the new labor law and regulations, and the Unification of Income Tax Rate for foreign and domestic enterprises in China further boosted up labor cost and tax burden laid onto enterprises. Directed by profound experience, a cautious mind and positive attitude, the Group reacted promptly with strategic adjustment and effective cost control measures.

With the smooth operation of plants situated both in Southern and Eastern regions of China, the Group continued to improve and restructure its management system and production process, in order to uplift production efficiency and reduce operating cost. At the same time, the Group kept on enhancing its value added machining ability and product precision, with an aim to gain more confidence and support from customers. During the reviewed period, the Group duly adjusted its product price, to accommodate part of the increase in material costs, which helped to alleviate the cost pressure imposed on the

Group. The Group also strengthened its credit evaluation and management system. As a result, average collection period of accounts receivable was maintained at a reasonable level, and credit collection rate was also improved, contributing to a more healthy and stable financial position of the Group.

During the period as reviewed, China had unfortunately experienced a severe snowstorm in the South and a disastrous earthquake in the Sichuan Province, which imposed great impact on its economy and people. Nevertheless, the Group's staff and business partners in China were not much affected by these misfortunes, allowing the Group to continue its contribution to the economic development of China.

PROSPECTS

As influenced by external economic factors and the spiraling costs, both the global market situations and business-operating environment are expected to be clouded with uncertainties. Yet, the Group still maintains a cautious and positive view, and seeks to devise an appropriate long term development plan, to lessen the risks as incurred by the market fluctuation, and to grasp potential business opportunities in the market.

The negative impact imposed by the U.S.A. Subprime Mortgage Crisis has surfaced in the first half year. It is expected that further severe impact exerted upon the market is unlikely to take place. The macro-economic measures implemented by Chinese government have come to effect for a period of time. Though the domestic economy has slightly slowed down, the market potential is still enormous. To capitalize the business opportunities of the upcoming "Three Direct Linkages of trade (mail, air and shipping services) across the Taiwan Straits", the Group will further strengthen the capacity of its Taiwan plant, and to fortify sales offices situated in Fujian Province of China, by consolidating the sales distribution network and comprehensive services. The Group will further expand the production capacity of Taizhou plant in the Eastern region of China, to cater for the increasing demand for quality mould of private-owned enterprises in Zhejiang Province. The Group will strive to alert persistently to the market changes and customer needs in different regions, in order to formulate a suitable market strategies to maintain its competitive edge and leading position in the fluctuating market environment.

Through years of effort, plants in the Southern and Northern China have accumulated valuable management experience and sophisticated production techniques, providing a stable and solid production base to the Group. With vision to pursue excellence, the Group persistently meliorates its core ability by adopting new mindset and concept, to sharpen its management skills and to explore new production modes. It aims to improve the management and production techniques in all levels, including the front desks and the back up offices, to uplift the operational effectiveness as a whole. In addition, the Group will introduce new production facilities, such as "Simultaneous 5-axis machining center", to improve the precision of products, to shorten its delivery leadtime, and to advance into

a more high-end product segment. This will reinforce LKM brand name promotion and expand new customer base, and ultimately bring profit growth to the Group.

Following the recent strengthening of U.S. dollars, prices of the raw materials and mould steels have dropped slightly but raw material prices will expect to fluctuate continuously. As driven by the prevailing inflation, labor cost, transportation cost and other operational cost will be jacked up increasingly. In light of this, the Group will put great emphasis on its cost analysis, as well as monitoring and control, to reduce ineffective expenditure and waste. At the same time, by streamlining its management and production structure, through manpower restructuring and training, the Group expects to generate optimal operational effectiveness.

Though the business environment is still full of uncertainties, the Group will positively face every challenge and strive for ongoing improvement in its sales and marketing management techniques, production methods and service quality, in order to achieve a steady development and healthy growth in its future business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2008, the Group had a net cash deficit of approximately HK\$303 million. The Group had cash balance of approximately HK\$198 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$501 million, equal to approximately 28% of equity attributable to equity holders of the Company of approximately HK\$1,766 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2008, the Group employed a total of approximately 9,000 employees, including approximately 8,700 employees in its PRC production sites and approximately 300 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

OTHER INFORMATION

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external 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 HK11 cents per share (six months ended 30th June, 2007: HK8 cents per share) in respect of the six months ended 30th June, 2008 to be payable on or about 25th September, 2008 to shareholders whose names appear in the Register of Members of the Company on 11th September, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10th September, 2008 to 11th September, 2008, 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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 9th September, 2008.

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 9th September, 2008 will be entitled to the interim dividend.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2008, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”).

Interests in the Company

Name of director	Capacity	Number of shares held		Number of 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	650,000	345,558,631	55.73%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	650,000	345,558,631	55.73%
Mak Koon Chi	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Wai Lung Shing	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Fung Wai Hing	Beneficial owner	1,457,031	—	1,000,000	2,457,031	0.40%
Ting Chung Ho	Beneficial owner	20,000	—	480,000	500,000	0.08%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	300,000	450,000	0.07%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Tat Yee	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Joo Hai	Beneficial owner	—	—	250,000	250,000	0.04%

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 had any interests or short positions in any shares, underlying shares or 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, 2008.

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, 2008, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 13,218,000, representing about 2.13% 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			At 30th June, 2008	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2008	Lapsed during the period	Cancelled during the period				
Category 1: Directors							
Siu Tit Lung	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Siu Yuk Lung	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Mak Koon Chi	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Wai Lung Shing	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Fung Wai Hing	500,000	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Ting Chung Ho	180,000	—	—	180,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	300,000	—	—	300,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Chan Chun Sing, Colin	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Liu Wing Ting, Stephen	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Lee Tat Yee	150,000	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Lee Joo Hai	100,000	—	—	100,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Total	5,930,000	—	—	5,930,000			

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2008	Lapsed during the period	Cancelled during the period	At 30th June, 2008			
Category 2: Employees							
	3,630,000	(166,000)	—	3,464,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	3,942,000	—	(118,000)	3,824,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Total	<u>7,572,000</u>	<u>(166,000)</u>	<u>(118,000)</u>	<u>7,288,000</u>			
Total all categories	<u>13,502,000</u>	<u>(166,000)</u>	<u>(118,000)</u>	<u>13,218,000</u>			

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, 2008, 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	49,492,108	7.98%

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, 2008.

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, 2008.

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, 25th August, 2008