



LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 255)

Website: <http://www.irasia.com/listco/hk/lkm>

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

FINANCIAL RESULTS

The directors (the “Directors”) of Lung Kee (Bermuda) Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2006 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

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

Dividends paid	6	<u>68,180</u>	<u>61,952</u>
Earnings per share	7		
— Basic		<u>10.04 cents</u>	<u>20.04 cents</u>
— Diluted		<u>10.04 cents</u>	<u>20.03 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

		30th June, 2006 (unaudited) HK\$'000	31st December, 2005 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		35,700	35,700
Property, plant and equipment		800,913	708,280
Prepaid lease payments — non-current portion		43,656	39,313
Deposits paid for acquisition of property, plant and equipment		<u>19,037</u>	<u>16,883</u>
		<u>899,306</u>	<u>800,176</u>
Current assets			
Inventories		601,519	531,036
Trade and other receivables	8	516,327	469,751
Bills receivable	8	47,365	48,564
Prepaid lease payments — current portion		1,014	914
Taxation recoverable		4,994	4,979
Bank balances and cash		<u>144,953</u>	<u>150,582</u>
		<u>1,316,172</u>	<u>1,205,826</u>
Current liabilities			
Trade and other payables	9	254,271	295,378
Bills payable	9	30,866	40,847
Dividend payable		26	14
Taxation payable		43,191	46,806
Unsecured bank borrowings		459,616	310,206
Bank overdraft		104	1,797
Floating rate notes		<u>—</u>	<u>150,000</u>
		<u>788,074</u>	<u>845,048</u>
Net current assets		<u>528,098</u>	<u>360,778</u>

Total assets less current liabilities	<u>1,427,404</u>	<u>1,160,954</u>
Non-current liabilities		
Unsecured bank borrowings	<u>250,000</u>	<u>—</u>
	<u>1,177,404</u>	<u>1,160,954</u>
CAPITAL AND RESERVES		
Share capital	62,001	61,968
Reserves	<u>1,088,755</u>	<u>1,074,529</u>
Equity attributable to equity holders of the Company	1,150,756	1,136,497
Minority interests	<u>26,648</u>	<u>24,457</u>
	<u>1,177,404</u>	<u>1,160,954</u>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain properties, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2005.

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

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

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions — 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, 2006#

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

Six months ended 30th June, 2005#

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

4. PROFIT BEFORE TAXATION

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

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

5. TAXATION

Six months ended 30th
June,
2006 2005
HK\$'000 HK\$'000

The charge comprises:

Hong Kong Profits Tax	28	60
Taxation in jurisdictions outside Hong Kong	<u>14,114</u>	<u>21,730</u>
	<u>14,142</u>	<u>21,790</u>

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

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

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), certain PRC subsidiaries enjoyed a 50% reduction on PRC enterprise income tax during the period.

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

6. DIVIDENDS

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

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

7. EARNINGS PER SHARE

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

Six months ended 30th
June,
2006 2005
HK\$'000 HK\$'000

Earnings

Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	<u>62,215</u>	<u>124,124</u>
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Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share	619,827,403	619,329,823
Effect of dilutive potential ordinary shares on exercise of share options of the Company	<u>74,543</u>	<u>290,693</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>619,901,946</u>	<u>619,620,516</u>

8. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

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

Included in trade and other receivables are trade receivables of approximately HK\$445,862,000 (31st December, 2005: HK\$431,803,000).

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

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

9. TRADE AND OTHER PAYABLES AND BILLS PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 30th June, 2006 was approximately HK\$993 million (2005: approximately HK\$899 million). Profit attributable to equity holders of the Company for the six months ended 30th June, 2006 was approximately HK\$62 million (2005: approximately HK\$124 million). Basic earnings per share for the six months ended 30th June, 2006 was HK10.04 cents (2005: HK20.04 cents)

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

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

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

Viewing internally, the Group's expansion of the Heyuan plant in Guangdong province, China is now in progress. Though plant and production facilities are still under installation and testing, they are contributing to the increase of depreciation cost on plant and machinery. It will take time to witness the return on capital investment during this expansion period. Furthermore, in order to improve the Group's productivity in the long run, production facilities of the Dongguan plant in Guangdong province is being merged into the Heyuan plant. To carry out such merger, relocation cost is incurred and it takes time for both manpower and machineries to be smoothly coordinated after the restructuring. Short term negative impact on the production efficiency is inevitable during this period.

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

Prospects

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

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

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

The expansion of Heyuan plant in Guangdong province is expected to be completed by the end of this year with the additional production capacity commenced by stages. The production facilities and manpower of Dongguan plant will be fully merged into Heyuan plant during the same period. The production capacity of the Heyuan plant, after its expansion and merger with the production facilities of Dongguan plant, will be much enlarged and the production system more efficient and streamlined. Moreover, through the restructuring of human resource, the management and technical skills of the staff will become more sophisticated. The Group is confident that enhanced productivity and improved overall performance will be achieved in the year of 2007.

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

Liquidity and Financial Resources

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

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

Employees and Remuneration Policies

As at 30th June 2006, the Group employed a total of approximately 11,770 employees, including approximately 11,430 employees in its PRC production sites and approximately 340 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements.

INTERIM DIVIDENDS

The Directors have declared an interim dividend of HK4.5 cents per share (2005: HK9 cents per share) in respect of the six months ended 30th June, 2006 to be payable on or about 17th October, 2006 to shareholders whose names appear in the Register of Members on 29th September, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28th September, 2006 to 29th September, 2006, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office of the Company, Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 27th September, 2006.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption of shares or other securities of the Company by the Company or any of its subsidiaries during the six months ended 30th June, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 8th September, 2006

As at the date of this announcement, the executive directors of the Company are Mr. Siu Tit Lung (Chairman), Mr. Siu Yuk Lung, Mr. Mak Koon Chi, Mr. Wai Lung Shing and Mr. Fung Wai Hing, the non-executive director of the Company is Mr. Chan Chun Sing, Colin and the independent non-executive directors of the Company are Mr. Liu Wing Ting, Stephen, Dr. Lee Tat Yee and Mr. Lee Joo Hai.

*Please also refer to the published version of this announcement in **South China Morning Post**.*