



## LUNG KEE (BERMUDA) HOLDINGS LIMITED

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### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2003*

#### 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 Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

During 2002, the Board of Directors resolved to change the financial year end date of the Company from 31st March to 31st December in order to facilitate the preparation of accounts of the Group as most of the Group's investments and business activities principally operate in the People's Republic of China (the "PRC") and the relevant subsidiaries of the Company which carry on the businesses in the PRC have a financial year end date of 31st December. As a result of the change in the financial year end date, the condensed consolidated financial statements for the current period cover the period of six months from 1st January, 2003 to 30th June, 2003. Accordingly, the comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes cover the period of six months from 1st April, 2002 to 30th September, 2002.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the period of nine months from 1st April, 2002 to 31st December, 2002, except for the adoption of the SSAP 12 (revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustments has been required.

During the period, the Group issued floating rate notes ("FRNs") which are in bearer form in the denomination of HK\$500,000 each. The FRNs carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are due in 2006. The interest are payable every three months. The costs incurred in connection with the issue of the FRNs are charged immediately to the income statement. Interest expenses are accrued on a time basis, by reference to the principal amount outstanding and at the applicable interest rate.

**3. SEGMENT INFORMATION**

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

Six months ended 30th June, 2003

	<b>Mould base HK\$'000</b>	<b>Metal and parts HK\$'000</b>	<b>Elimination HK\$'000</b>	<b>Total HK\$'000</b>
<b>TURNOVER</b>				
External sales	<b>489,851</b>	<b>70,820</b>	—	<b>560,671</b>
Inter-segment sales	—	<b>127,920</b>	<b>(127,920)</b>	—
	<b>489,851</b>	<b>198,740</b>	<b>(127,920)</b>	<b>560,671</b>
Inter-segment sales are charged at prevailing market rates				
<b>RESULTS</b>				
Segment results	<b>85,260</b>	<b>13,362</b>	—	<b>98,622</b>
Unallocated corporate income				<b>7,141</b>
Profit from operations				<b>105,763</b>

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Six months ended 30th September, 2002

	Mould base HK\$'000	Metal and parts HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>TURNOVER</b>				
External sales	407,588	117,596	—	525,184
Inter-segment sales	10,948	82,679	(93,627)	—
	<u>418,536</u>	<u>200,275</u>	<u>(93,627)</u>	<u>525,184</u>

Inter-segment sales are charged at prevailing market rates

**RESULTS**

Segment results	<u>72,378</u>	<u>14,481</u>	—	86,859
Unallocated corporate income				<u>5,440</u>
Profit from operations				<u>92,299</u>

**4. PROFIT FROM OPERATIONS**

Profit from operations has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>30th June, 2003 HK\$'000</b>	<b>30th September, 2002 HK\$'000</b>
Loss on disposal of property, plant and equipment	412	1,153
Interest income	(7,141)	(5,440)
Exchange (gain) loss	<u>(1,242)</u>	<u>6,000</u>

**5. TAXATION**

	<b>Six months ended</b>	
	<b>30th June, 2003 HK\$'000</b>	<b>30th September, 2002 HK\$'000</b>
The charge comprises:		
Hong Kong		
Profits tax	<b>163</b>	1,281
Deferred tax	<b>(571)</b>	—
	<b>(408)</b>	1,281
Taxation in jurisdictions outside Hong Kong	<b>14,828</b>	10,540
	<b>14,420</b>	11,821

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the period.

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 PRC, the Company's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In the current period, certain PRC subsidiaries are exempted from PRC income tax, and other PRC subsidiaries enjoyed a 50% reduction on PRC income tax.

Certain income of the Group is not subject to taxation in the jurisdictions in which the Group operates.



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### **6. DIVIDENDS**

On 14th May, 2003, a dividend of HK5 cents per share was paid to shareholders as final dividend for the period of nine months from 1st April, 2002 to 31st December, 2002 (final dividend for the year ended 31st March, 2002: HK5 cents per share).

The Directors have determined that an interim dividend of HK7 cents per share (for the six months ended 30th September, 2002: HK5 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 19th September, 2003.

**7. EARNINGS PER SHARE**

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

	<b>Six months ended</b>	
	<b>30th June, 2003 HK\$'000</b>	<b>30th September, 2002 HK\$'000</b>
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share	<b>75,300</b>	60,256
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of the group headed by Lung Kee Metal Holdings Limited based on dilution of their earnings per share	—	(289)
Earnings for the purposes of diluted earnings per share	<b>75,300</b>	59,967
<b>Number of shares</b>	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>486,916</b>	485,047
Effect of dilutive potential ordinary shares on exercise of options of the Company	<b>1,932</b>	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>488,848</b>	485,047

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

In the opinion of the Directors, there was no material difference between the carrying amount and the market value of the investment properties as at 30th June, 2003.

During the period, the Group incurred expenditure of approximately HK\$18,550,000 on the properties under construction in the PRC.

In addition, the Group spent HK\$45,689,000, HK\$3,609,000 and HK\$3,576,000 on acquisition of plant and machinery, furniture and equipment and other assets respectively, for the purpose of expanding the Group's business.

**9. TRADE AND OTHER RECEIVABLES**

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

Included in trade and other receivables are trade receivables of HK\$374,686,000 (31st December, 2002: HK\$350,230,000) and an aged analysis of which is as follows:

	<b>30th June, 2003 HK\$'000</b>	<b>31st December, 2002 HK\$'000</b>
0 to 60 days	<b>267,892</b>	232,465
61 to 90 days	<b>51,657</b>	51,009
Over 90 days	<b>55,137</b>	66,756
	<b>374,686</b>	<b>350,230</b>



**10. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK\$68,042,000 (31st December, 2002: HK\$65,016,000) and an aged analysis of which is as follows:

	<b>30th June, 2003 HK\$'000</b>	<b>31st December, 2002 HK\$'000</b>
0 to 60 days	<b>39,578</b>	56,413
61 to 90 days	<b>18,421</b>	5,002
Over 90 days	<b>10,043</b>	3,601
	<b>68,042</b>	<b>65,016</b>

**11. UNSECURED BANK BORROWINGS**

During the period, the Group raised new bank loans in the amount of approximately HK\$49,941,000, which were used for general working capital. The loans bear interest at market rates and are repayable within one year.

In addition, the Group repaid bank loans amounting to approximately HK\$11,927,000 during the period.

**12. FLOATING RATE NOTES**

During the period, a subsidiary of the Company issued FRNs in the amount of HK\$150 million which are due in 2006. The FRNs carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are guaranteed by the Company.

**13. SHARE CAPITAL**

	<b>Authorised at</b>		<b>Issued and fully paid at</b>	
	<b>30th June, 2003 HK\$'000</b>	<b>31st December, 2002 HK\$'000</b>	<b>30th June, 2003 HK\$'000</b>	<b>31st December, 2002 HK\$'000</b>
Ordinary shares of HK\$0.1 each				
At beginning of the period/year	<b>60,000</b>	60,000	<b>48,684</b>	48,395
Issue of new shares	—	—	—	289
Shares issued on exercise of share options	—	—	<b>187</b>	—
At end of the period/year	<b>60,000</b>	60,000	<b>48,871</b>	48,684

**14. CAPITAL COMMITMENTS**

As at 30th June, 2003, the Group had capital expenditure amounting to approximately HK\$20,078,000 (31st December, 2002: HK\$59,532,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

**15. DISPOSAL OF A SUBSIDIARY**

During the period, the Group entered into a Sale and Purchase Agreement to dispose 60% interest in Sky Bright Metal Product Limited ("Sky Bright"), being the entire interest of Sky Bright held by the Group, with a consideration of HK\$6,805,800. The disposal was completed on 23rd May, 2003.

**16. SHARE OPTIONS SCHEME**

The following table discloses details of the Company's share options held by the employees and directors and movements in such holdings during the period:

	<b>Number of share options</b>			
	At 1st January, 2003	Exercised during the period	Cancelled during the period	At 30th June, 2003
Directors	2,500,000	—	—	2,500,000
Employees	2,500,000	(1,870,000)	(545,000)	85,000
Total	5,000,000	(1,870,000)	(545,000)	2,585,000

The closing price of the Company shares immediately before the date on which the options were exercised was HK\$2.90.