

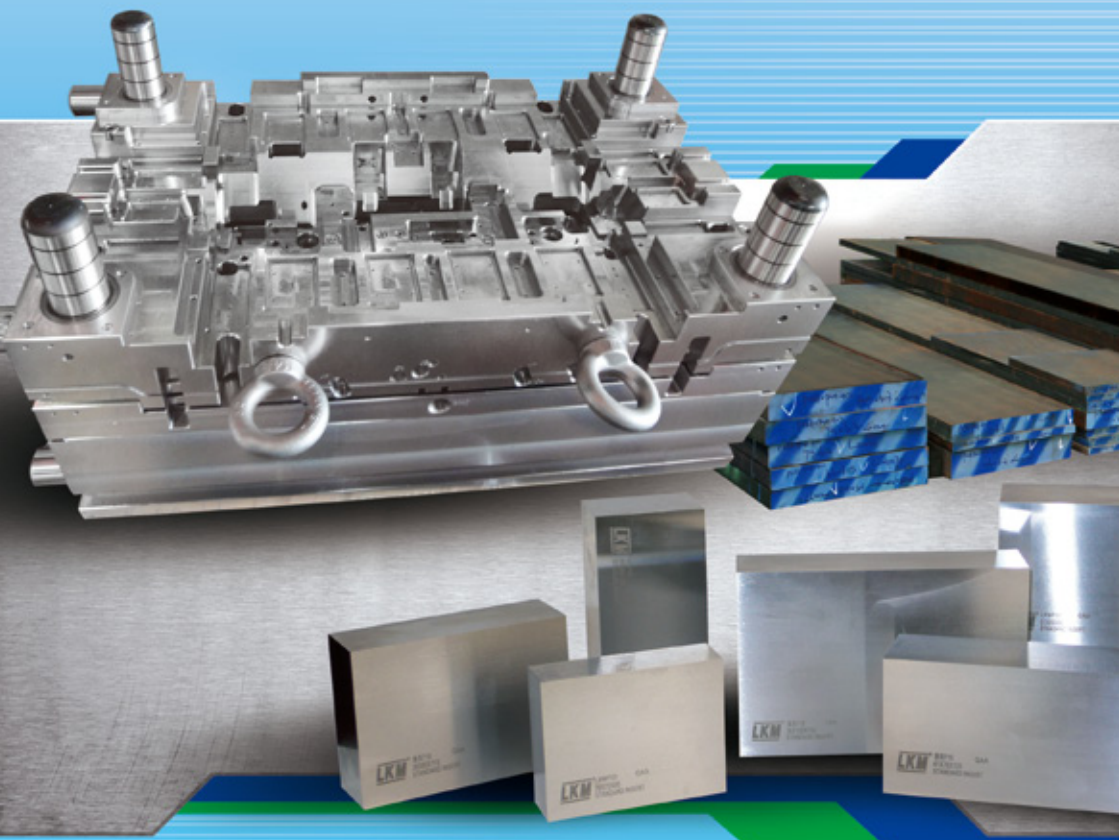


Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

# 2010

## Interim Report



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## 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 19, which comprises the condensed consolidated statement of financial position of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of 30th June, 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows 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 34 “Interim Financial Reporting” (“HKSA 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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, 20th August, 2010

## 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, 2010 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2010

		<b>Six months ended 30th June,</b>	
		<b>2010</b>	2009
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Revenue		<b>1,290,575</b>	1,032,238
Other income		<b>6,422</b>	27,246
Changes in inventories of finished goods and work in progress		<b>3,311</b>	(10,022)
Raw materials and consumables used		<b>(539,592)</b>	(476,955)
Employee benefits expenses		<b>(235,344)</b>	(174,524)
Depreciation of property, plant and equipment		<b>(89,191)</b>	(97,177)
Other expenses		<b>(226,769)</b>	(146,862)
Interest on bank borrowings wholly repayable within five years		<b>(445)</b>	(1,157)
Profit before taxation		<b>208,967</b>	152,787
Income tax expense	4	<b>(65,679)</b>	(50,121)
Profit for the period	5	<b>143,288</b>	102,666
Other comprehensive income (expense):			
Exchange difference arising on translation of foreign operation		<b>24,632</b>	(2,107)
Total comprehensive income for the period		<b>167,920</b>	100,559
Profit for the period attributable to:			
Owners of the Company		<b>141,986</b>	102,803
Non-controlling interests		<b>1,302</b>	(137)
		<b>143,288</b>	102,666

		<b>Six months ended 30th June,</b>	
		<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
	<i>Notes</i>		
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>166,840</b>	100,700
Non-controlling interests		<b>1,080</b>	(141)
		<b>167,920</b>	100,559
		<b>HK cents</b>	HK cents
Earnings per share	7		
– Basic		<b>22.64</b>	16.58
– Diluted		<b>22.53</b>	16.58

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2010

	Notes	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	8	41,400	41,400
Property, plant and equipment	8	682,312	710,750
Prepaid lease payments			
— non-current portion		42,293	42,308
Deposits paid for acquisition of property, plant and equipment		24,957	15,916
Deposits paid relating to leasehold land interests		5,313	—
		<b>796,275</b>	<b>810,374</b>
<b>Current assets</b>			
Inventories		521,967	426,115
Trade and other receivables	9	606,768	479,470
Bills receivable	9	30,107	28,340
Prepaid lease payments			
— current portion		1,062	1,049
Taxation recoverable		—	66
Bank balances and cash		585,068	629,746
		<b>1,744,972</b>	<b>1,564,786</b>
<b>Current liabilities</b>			
Trade and other payables	10	364,037	324,711
Bills payable	10	30,276	36,141
Taxation payable		34,921	13,946
Dividend payable		91	74
Embedded derivative		—	417
Unsecured bank borrowings			
— due within one year	11	46,804	46,707
		<b>476,129</b>	<b>421,996</b>

		<b>At 30th June, 2010 HK\$'000 (unaudited)</b>	At 31st December, 2009 HK\$'000 (audited)
Net current assets		<b>1,268,843</b>	1,142,790
Total assets less current liabilities		<b>2,065,118</b>	1,953,164
Non-current liability			
Deferred tax liabilities		<b>19,698</b>	19,696
		<b>2,045,420</b>	1,933,468
<b>CAPITAL AND RESERVES</b>			
Share capital	12	<b>62,822</b>	62,274
Reserves		<b>1,976,528</b>	1,866,204
Equity attributable to owners of the Company		<b>2,039,350</b>	1,928,478
Non-controlling interests		<b>6,070</b>	4,990
Total equity		<b>2,045,420</b>	1,933,468



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2010

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note)	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000			Sub-total HK\$'000
At 1st January, 2009 (audited)	62,002	116,067	133,137	297,504	10,481	1,203,932	1,823,123	4,856	1,827,979
Profit (loss) for the period	-	-	-	-	-	102,803	102,803	(137)	102,666
Exchange difference arising on translation of foreign operation	-	-	-	(2,103)	-	-	(2,103)	(4)	(2,107)
Total comprehensive (expense) income for the period	-	-	-	(2,103)	-	102,803	100,700	(141)	100,559
Recognition of equity-settled share-based payments	-	-	-	-	1,253	-	1,253	-	1,253
Transfer on cancellation/lapse of share options	-	-	-	-	(5,716)	5,716	-	-	-
Final dividend for the year ended 31st December, 2008	-	-	-	-	-	(68,202)	(68,202)	-	(68,202)
Transfer	-	-	3,366	-	-	(3,366)	-	-	-
At 30th June, 2009 (unaudited)	62,002	116,067	136,503	295,401	6,018	1,240,883	1,856,874	4,715	1,861,589
Profit for the period	-	-	-	-	-	118,125	118,125	169	118,294
Exchange difference arising on translation of foreign operation	-	-	-	4,340	-	-	4,340	42	4,382
Total comprehensive income for the period	-	-	-	4,340	-	118,125	122,465	211	122,676
Recognition of equity-settled share-based payments	-	-	-	-	1,347	-	1,347	-	1,347
Transfer on lapse of share options	-	-	-	-	(249)	249	-	-	-
Share issued on exercise of share options	272	11,507	-	-	(1,987)	-	9,792	-	9,792
Interim dividend for the year ended 31st December, 2009	-	-	-	-	-	(62,000)	(62,000)	-	(62,000)
Capital contribution by a minority shareholder of a subsidiary	-	-	-	-	-	-	-	64	64
Transfer	-	-	39,769	-	-	(39,769)	-	-	-
At 31st December, 2009 and 1st January, 2010 (audited)	62,274	127,574	176,272	299,741	5,129	1,257,488	1,928,478	4,990	1,933,468
Profit for the period	-	-	-	-	-	141,986	141,986	1,302	143,288
Exchange difference arising on translation of foreign operation	-	-	-	24,854	-	-	24,854	(222)	24,632
Total comprehensive income for the period	-	-	-	24,854	-	141,986	166,840	1,080	167,920
Recognition of equity-settled share-based payments	-	-	-	-	95	-	95	-	95
Transfer on lapse of share options	-	-	-	-	(57)	57	-	-	-
Share issued on exercise of share options	548	14,907	-	-	(2,475)	-	12,980	-	12,980
Final dividend for the year ended 31st December, 2009	-	-	-	-	-	(69,043)	(69,043)	-	(69,043)
At 30th June, 2010 (unaudited)	62,822	142,481	176,272	324,595	2,692	1,330,488	2,039,350	6,070	2,045,420

Note: The 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 STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2010

	Six months ended 30th June,	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Net cash from operating activities	81,146	297,948
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(68,710)	(40,062)
Deposits paid relating to leasehold land interests	(5,313)	—
Proceeds on disposal of property, plant and equipment and land use rights	2,624	355
Interest received	1,430	1,077
Proceeds on disposal of subsidiaries in 2006	—	2,483
	(69,969)	(36,147)
Net cash used in financing activities		
Dividends paid	(69,026)	(68,196)
Repayment of bank borrowings	(11,028)	(174,433)
Interest paid	(445)	(1,157)
Proceeds from new shares issued	12,980	—
New bank borrowings raised	10,242	25,758
	(57,277)	(218,028)
Net (decrease) increase in cash and cash equivalents	(46,100)	43,773
Cash and cash equivalents at the beginning of the period	629,746	309,259
Effect of foreign exchange rates changes	1,422	(901)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	585,068	352,131

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2010

## 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 (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments) HKAS 27 (Revised)	Improvements to HKFRSs 2009 Consolidated and Separate Financial Statements
HKAS 39 (Amendment) HKFRS 1 (Amendment)	Eligible Hedged Items Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised) HK(IFRIC) – Int 17	Business Combinations Distributions of Non-cash Assets to Owners

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group applies Hong Kong Financial Reporting Standard (“HKFRS”) 3 (Revised) “*Business Combinations*” prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) “*Consolidated and Separate Financial Statements*” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1st February, 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2013.

## **2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

HKFRS 9 “*Financial Instruments*” introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “*Financial Instruments: Recognition and Measurement*” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## **3. SEGMENT INFORMATION**

The Group only has one operating segment, based on information reported to the chief operating decision maker (the Group’s board of directors) for the purposes of resources allocation and performance assessment, which is the aggregated results of the Group, including all income, expenses and tax charges.

As a result, there is only one reportable segment for the Group. For information regarding this segment, reference can be made to the consolidated financial statements as a whole.

The segment result of the Group represents profit after taxation set out in the consolidated statement of comprehensive income.

#### 4. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in jurisdictions outside Hong Kong	65,677	45,966
Deferred taxation	2	4,155
	<b>65,679</b>	<b>50,121</b>

No provision for Hong Kong Profits Tax has been made as there was no assessable profit for both periods.

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 average annual tax rate used for the six months ended 30th June, 2010 ranged from 12.5% to 25% (2009: 12.5% to 25%).

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 the next two years starting from their first profit-making year, followed by a 50% relief in tax rate for the next three years. 2007 was the first year of tax exemption granted to that subsidiary. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law"), the relief shall continue and this subsidiary is entitled to a concessionary tax rate of 12.5% for the current period.

Pursuant to an approval by the relevant PRC tax authority, one (2009: one) of the Company's PRC subsidiaries is granted advanced-technology relief from PRC income tax for three years commenced from the year of grant. Under the EIT Law, the subsidiary continues to enjoy the tax relief by enjoying a concessionary tax rate of 22% until the end of 2010.

## 5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	867,187	771,386
Loss on disposal of property, plant and equipment	4,057	159
Government grants ( <i>note</i> )	(1,277)	(20,414)
Interest income	(1,430)	(1,077)

*Note:* The amount represents government grants received during the period from the local treasury authority in the PRC as a general support for the Group's contribution in advanced technology development.

## 6. DIVIDENDS

Interim and special dividends for the current period:

On 20th August, 2010, the Directors determined that an interim dividend of HK13 cents (2009: HK10 cents) per share and a special dividend of HK5 cents per share (2009: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 8th September, 2010.

Dividend recognised as distribution during the period:

During the current period, a dividend of HK11 cents per share amounting to approximately HK\$69,043,000 (2009: HK\$68,202,000) was declared and paid to the shareholders as final dividend for the year ended 31st December, 2009 (2009: HK11 cents per share).

## 7. EARNINGS PER SHARE

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

	<b>Six months ended 30th June,</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<b>141,986</b>	102,803
	<b><u>2010</u></b>	<u>2009</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>627,214,541</b>	620,013,303
Effect of diluted potential ordinary shares on the exercise of shares options	<b>2,942,991</b>	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>630,157,532</b>	620,013,303

For six months ended 30th June 2009, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market prices for shares for the period.



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

The Directors considered the carrying amounts of the Group's investment properties as at 30th June, 2010 and 30th June, 2009 did not differ significantly from the fair values. Consequently, no change in fair value has been recognised in both periods.

During the period, the Group incurred expenditures of approximately HK\$6,107,000 (2009: HK\$64,000) on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$51,467,000 (2009: HK\$34,914,000), HK\$937,000 (2009: HK\$4,709,000), HK\$566,000 (2009: HK\$2,329,000) and HK\$592,000 (2009: HK\$3,238,000) during the period on acquisition of plant and machinery, furniture and equipment, buildings and motor vehicles, respectively, for the purpose of expanding and upgrading the Group's production facilities.

## 9. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

The Group allows a credit period ranged from 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$525,768,000 (31st December, 2009: HK\$429,828,000).

The following is an analysis of trade and bills receivables by age, presented based on the invoice date.

	<b>At 30th June, 2010 HK\$'000 (unaudited)</b>	<b>At 31st December, 2009 HK\$'000 (audited)</b>
0 to 60 days	<b>409,678</b>	353,595
61 to 90 days	<b>124,546</b>	86,023
Over 90 days	<b>21,651</b>	18,550
	<b>555,875</b>	458,168

## 10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$116,902,000 (31st December, 2009: HK\$101,543,000).

The following is an analysis of trade and bills payables by age, presented based on the invoice date.

	<b>At 30th June, 2010 HK\$'000 (unaudited)</b>	<b>At 31st December, 2009 HK\$'000 (audited)</b>
0 to 60 days	<b>93,657</b>	106,471
61 to 90 days	<b>25,523</b>	16,203
Over 90 days	<b>27,998</b>	15,010
	<b>147,178</b>	137,684

## 11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$10,242,000 (2009: HK\$25,758,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$11,028,000 (2009: HK\$174,433,000) 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, 2009 and 30th June, 2009	620,013,303	62,002
Shares issued on exercise of share options	<u>2,720,000</u>	<u>272</u>
At 31st December, 2009	622,733,303	62,274
Shares issued on exercise of share options	<u>5,488,000</u>	<u>548</u>
At 30th June, 2010	<u>628,221,303</u>	<u>62,822</u>

## 13. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible directors and employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1st January, 2010	9,944,000
Lapsed during the period	(102,000)
Exercise during the period	<u>(5,488,000)</u>
Outstanding at 30th June, 2010	<u>4,354,000</u>

The Group recognised an amount of approximately HK\$95,000 (2009: HK\$1,253,000) as expenses for the period in relation to the share options granted by the Company.

In respect of the share options exercised during the period ended 30th June, 2010, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$4.30.

On 9th July, 2010, 6,748,000 share options with an exercise price of HK\$4.10 per share were granted and the closing price of the Company's share immediately before 9th July, 2010, the date of grant of options, was HK\$4.01.

#### 14. CAPITAL COMMITMENTS

	<b>At 30th June, 2010 HK\$'000</b>	At 31st December, 2009 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of:		
— property, plant and equipment	<b>50,681</b>	43,418
— leasehold land interests	<b>21,206</b>	—
	<b>71,887</b>	43,418

#### 15. RELATED PARTY TRANSACTIONS

Transactions between group companies have been eliminated on consolidation and are not disclosed in this note.

The remuneration of key management during the period was as follows:

	<b>Six months ended 30th June</b>	
	<b>2010 HK\$'000 (unaudited)</b>	2009 HK\$'000 (unaudited)
Short-term benefits	<b>24,590</b>	20,592
Post-employment benefits	<b>1,110</b>	1,110
Share-based payment expenses	<b>39</b>	550
	<b>25,739</b>	22,252

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2010 was approximately HK\$1,291 million (2009: approximately HK\$1,032 million). Profit attributable to owners of the Company for the six months ended 30th June, 2010 was approximately HK\$142 million (2009: approximately HK\$103 million). Basic earnings per share for the six months ended 30th June, 2010 was HK22.64 cents (2009: HK16.58 cents).

Since the outbreak of financial tsunami in September, 2008, the global economy has undergone a difficult adjustment process for over one year. Up till now, the negative impact as imposed by the financial tsunami gradually subsided and the economy in some region began to recover. In this connection, the Group's performance in the first quarter of 2010 has significantly improved, and the momentum carried on throughout the second quarter. As a result, the Group's turnover in the first half year, when compared with that of the same period in 2009, achieved a substantial growth; and the Group's performance gradually resumes the turnover level prior to the financial tsunami.

Economic situation of overseas markets amid Europe and America are gradually recovering, though in a rather slow pace. Overseas customers demand high quality mould products, which is effectively matched by the Group, readily equipped with the production skills and market competitive edge for high precision moulds. On the other hand, as triggered by proactive domestic economic stimulus measures being launched by the Chinese government, the domestic consumer market in China has experienced a substantial growth. At the same time, privately owned enterprises were keen on increasing their export business; consequently there was a satisfactory growth in both domestic and exports trade in China. Moreover, due to the shortage of skilled labor and the upsurge of labor cost, some of our customers in China resort to direct sourcing of quality mould products and parts from the Group; it further expedited the pace of the Group in developing the in-depth machining services for the medium-high end mould industry.

During the period under review, the Group's effort as invested in cost control and uplifting operation efficiency has gained satisfactory return. The Group endeavored to enhance its internal management system in the various plants being located in the Southern and Eastern regions of China, fortifying its market edge and leading position through upgrading of its product quality. Furthermore, the Group advocated excellence and innovative mind; and has achieved higher productivity by discarding obsolete and low efficient equipment, adding high precision machineries, and implementing automation system. At the same time, the Group improved both its efficiency and output value per head by reengineered its production processes, streamlined its manpower structure, as well as strengthened its manpower training system. Thus, it resulted in a raise in production efficiency as a whole.

The price of steel tends to rebound after a period of price reduction; remarkably, the Group has executed persistently its cost monitoring measures, which offers favorable effects. By reducing expenditure on consumable materials, flexible regulation of stock, strict control on purchasing prices etc, the Group managed to lessen its total operating costs. Apart from monitoring cost closely, the Group also appropriately adjusted its product price to alleviate the heavy burden imposed by the ever-increasing operating costs.

During the period under review, owing to its ample management experience and the adoption of effective pragmatic policy, the Group succeeded in gaining satisfactory results; and managed to surf over the financial crisis; and continued to march towards new development.

## **PROSPECTS**

Following the launch of economic stimulus measures by the Chinese government and the co-operative management introduced by European countries and the United States in stabilizing the economy, the global economy is becoming more stable. As a result, the Group achieves encouraging results under the review period, and anticipates such good impetus can be sustained throughout the year.

The Group expects the Chinese government will continue its current economic stimulus measures in boosting domestic economic development. It is foreseen that the continuous economic improvement of China that will drive the revival of global economy back to the level before the occurrence of financial tsunami. On the other hand, due to the increasing global concern on environmental protection, market demand for low-carbon and energy-saving products increases. Manufacturers of automobile, electrical appliances and office equipments etc are keen to develop new products implementing environment protection elements, in response to the need of modern society. In this connection, consumer products integrated with environmental protection concept will emerge as a new market, which may in turn bring new business opportunities to the Group.

In pursuing a long-term development in the China market, the Group will invest in setting up a new plant in Hangzhou city, Zhejiang Province, China. The new plant is situated in a convenient location which is conveniently accessible within 3 hours transport time to more than 80% of customers dispersed in the Zhejiang and Jiangsu Provinces. It does not only shorten the product delivery time, but also enables the Group to serve its customers more closely by entertaining their needs more effectively. The new investment project further facilitates the business development of the Group in the Southern, Eastern and Northern regions in China that eventually will uplift its production capability and enhance its logistic network, which will in turn strengthen the competitive edge of the Group.

In response to the ever-increasing operating cost and fierce market competitive, the Group continues to strive for higher productivity and product precision. The Group will further enhance its production efficiency and competitiveness by actively ameliorating its production processes, replacing low efficiency equipment, seeking a higher level of automation and reducing the reliance on manpower. Furthermore, the Group will make effort to further alleviate its operating cost and risk, by exercising effective cost analysis and control, in the hope to reduce ineffective expenditure and wastage. Through excelling its internal management, human resources reallocation and manpower training, the Group will build a more effective work team.

Following the gradual improvement in economic situations, the Group expects the prices of steels will gradually adjust upwards. In view of this, the Group will intensely monitor the market situation and steel price changes, and timely regulate its inventory level, with an aim to minimize production cost. Simultaneously, the Group consistently adheres to its prudent financial management principle. Despite the fluctuation of foreign currency, the Group still keeps a relative stable currency policy; and as Renminbi is the dominating trading currency in its business transaction, the Group will maintain an adequate reserve in order to meet various investment and operation needs.

The business-operating environment ahead is not at all predictable. To seek for a continuous and steady growth, the Group will proactively, yet prudently, devise its development strategy, and adopts suitable policy at the right time, in order to preserve its strength for new challenges, and to capitalize new business opportunities.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2010, the Group had a net cash surplus of approximately HK\$538 million. The Group had cash balance of approximately HK\$585 million. The cash balance was placed in short term deposits with major banks in Hong Kong and the PRC.

Total debts of the Group were approximately HK\$47 million, equal to approximately 2% of equity attributable to owners of the Company of approximately HK\$2,039 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th June, 2010, the Group employed a total of approximately 7,200 employees, including approximately 6,800 employees in its PRC production sites and approximately 400 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 AND SPECIAL DIVIDENDS**

The Directors have determined an interim dividend of HK13 cents per share (2009: HK10 cents per share) and a special dividend of HK5 cents per share (2009: Nil) in respect of the six months ended 30th June, 2010 to be payable on or around 21st September, 2010 to shareholders whose names appear in the Register of Members of the Company on 8th September, 2010.

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

The Register of Members of the Company will be closed from 7th September, 2010 to 8th September, 2010, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim and special dividends, 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 6th September, 2010.

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 6th September, 2010 will be entitled to the interim and special dividends.

### **CHANGES IN DIRECTORS' INFORMATION**

Changes in directors' information subsequent to the publication of the 2009 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), are set out below:

#### **Changes in brief details of directors**

Mr. Liu Wing Ting, Stephen has been appointed as a member of the Audit Committee of The University of Hong Kong.

## Non-executive director's and independent non-executive directors' remuneration

1. The non-executive director's fee was increased to HK\$288,000 per annum.
2. Each of the independent non-executive directors' fees was increased to HK\$324,000 per annum.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2010, 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 Part XV 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 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	37,941,444	307,617,187	—	345,558,631	55.01%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,941,444	307,617,187	—	345,558,631	55.01%
Mak Koon Chi	Beneficial owner	3,843,750	—	—	3,843,750	0.61%
Wai Lung Shing	Beneficial owner	3,843,750	—	—	3,843,750	0.61%
Fung Wai Hing	Beneficial owner	2,457,031	—	—	2,457,031	0.39%
Ting Chung Ho	Beneficial owner	620,000	—	100,000	720,000	0.11%
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	—	—	300,000	300,000	0.05%

*Notes:*

- (1) Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 5,310,156 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".

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 Company, 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 as at 30th June, 2010.

## 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, 2010, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 4,354,000, representing about 0.69% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the 2002 Scheme, unless prior approval from the Company’s shareholders is obtained. Without prior approval from the Company’s shareholders, the number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

Options granted must be taken up within a period of 28 days from the date of grant, upon payment of HK\$1 per grant. An option period is a period to be determined by the Board at its absolute discretion and notified by the Board to each Participant who accepts the option offer as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the share option (“Option Period”). Options may be exercised in accordance with the terms of the 2002 Scheme at any time during the Option Period after the option has been granted. The exercise price is determined by the Board, and shall be at least the highest of the nominal value of the Company’s share, the closing price of the Company’s shares on the date of grant and the average closing price of the Company’s shares for the five business days immediately preceding the date of grant.

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

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2010	Lapsed during the period	Exercised during the period	At 30th June, 2010			
<b>Category 1: Directors</b>							
Siu Tit Lung	150,000	—	(150,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Siu Yuk Lung	150,000	—	(150,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Mak Koon Chi	500,000	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Wai Lung Shing	500,000	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Fung Wai Hing	500,000	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Ting Chung Ho	200,000	—	(100,000)	100,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	400,000	—	(400,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Chan Chun Sing, Colin	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Liu Wing Ting, Stephen	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Lee Tat Yee	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Lee Joo Hai	150,000	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
<b>Total</b>	<b>3,600,000</b>	<b>—</b>	<b>(2,300,000)</b>	<b>1,300,000</b>			

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2010	Lapsed during the period	Exercised during the period	At 30th June, 2010			
<b>Category 2: Employees</b>							
	2,966,000	(82,000)	(292,000)	2,592,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	3,378,000	(20,000)	(2,896,000)	462,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Total	<u>6,344,000</u>	<u>(102,000)</u>	<u>(3,188,000)</u>	<u>3,054,000</u>			
Total all categories	<u>9,944,000</u>	<u>(102,000)</u>	<u>(5,488,000)</u>	<u>4,354,000</u>			

The weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$4.30.

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, 2010, 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	39.64%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.33%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.33%
Commonwealth Bank of Australia	Interest of controlled corporation	50,276,108	8.00%
JPMorgan Chase & Co.	Custodian corporation/ approved lending agent	33,284,500	5.30%

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, 2010.

### **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, 2010.

### **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 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, 20th August, 2010