



# LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 255)

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

## FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2006

### RESULTS

The directors (the “Directors”) of Lung Kee (Bermuda) Holdings Limited (the “Company”) have pleasure in submitting the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2006 together with comparative figures for the year ended 31st December, 2005 as follows:

### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Turnover	2	2,135,360	1,899,482
Other income		20,954	25,330
Increase in fair value of investment properties		6,900	7,700
Changes in inventories of finished goods and work in progress		53,086	6,415
Raw materials and consumables used		(1,128,127)	(902,121)
Employee benefits expenses		(371,020)	(308,738)
Depreciation and amortisation of property, plant and equipment		(144,495)	(119,916)
Other expenses		(359,778)	(292,689)
Finance costs	3	(30,791)	(19,245)
Impairment loss recognised in respect of goodwill		–	(9,060)
Impairment loss recognised in respect of patents and trademarks		–	(1,056)
Profit before taxation		182,089	286,102
Taxation	4	(31,021)	(40,185)
Profit for the year		<u>151,068</u>	<u>245,917</u>
Attributable to:			
Equity holders of the Company		150,463	240,861
Minority shareholders		605	5,056
Profit for the year		<u>151,068</u>	<u>245,917</u>
Dividend declared during the year	5	<u>96,080</u>	<u>117,719</u>
Proposed final dividend of HK6.5 cents (2005: HK11 cents) per share		<u>40,300</u>	<u>68,180</u>
Earnings per share			
– Basic	6	<u>24.27 cents</u>	<u>38.88 cents</u>
– Diluted	6	<u>24.27 cents</u>	<u>38.87 cents</u>

**CONSOLIDATED BALANCE SHEET***At 31st December, 2006*

	<i>NOTES</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment properties		<b>38,800</b>	35,700
Property, plant and equipment		<b>846,360</b>	708,280
Prepaid lease payments – non-current portion		<b>42,760</b>	39,313
Deposit paid for acquisition of property, plant and equipment		<b>6,426</b>	16,883
Deferred consideration receivable – non-current portion		<b>7,622</b>	–
		<b>941,968</b>	800,176
Current assets			
Inventories	7	<b>623,680</b>	531,036
Trade and other receivables	8	<b>543,351</b>	469,751
Bills receivable	8	<b>42,242</b>	48,564
Deferred consideration receivable – current portion		<b>5,391</b>	–
Prepaid lease payments – current portion		<b>1,000</b>	914
Taxation recoverable		<b>3,114</b>	4,979
Bank balances and cash		<b>149,938</b>	150,582
		<b>1,368,716</b>	1,205,826
Current liabilities			
Trade and other payables	9	<b>278,105</b>	295,378
Bills payable	9	<b>35,823</b>	40,847
Taxation payable		<b>34,263</b>	46,806
Dividend payable		<b>25</b>	14
Unsecured bank borrowings		<b>480,720</b>	310,206
Bank overdraft		<b>–</b>	1,797
Floating rate notes		<b>–</b>	150,000
		<b>828,936</b>	845,048
Net current assets		<b>539,780</b>	360,778
Total assets less current liabilities		<b>1,481,748</b>	1,160,954
Non-current liability			
Bank loan		<b>240,000</b>	–
		<b>1,241,748</b>	1,160,954
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>62,001</b>	61,968
Reserves		<b>1,182,350</b>	1,074,529
Equity attributable to equity holders of the Company		<b>1,244,351</b>	1,136,497
Minority interests		<b>(2,603)</b>	24,457
		<b>1,241,748</b>	1,160,954

Notes:

**1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)**

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, which are either 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 and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

**2. TURNOVER AND SEGMENT INFORMATION**

Turnover represents the fair value of the net amounts received and receivable for goods sold, less returns and allowances, to outside customers during the year, and is analysed as follows:

**By business segments**

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.

Segmental information about these businesses is presented below.

*For the year ended 31st December, 2006*

	<b>Mould bases</b> <i>HK\$'000</i>	<b>Metal and parts</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>1,962,712</u>	<u>172,648</u>	<u>2,135,360</u>
<b>RESULTS</b>			
Segment results	218,347	18,661	237,008
Increase in fair value of investment properties			6,900
Unallocated corporate income			20,954
Unallocated corporate expenses			(51,537)
Finance costs			(30,791)
Loss on disposal of subsidiaries			(445)
<b>PROFIT BEFORE TAXATION</b>			<u>182,089</u>
Taxation			(31,021)
<b>PROFIT FOR THE YEAR</b>			<u>151,068</u>

For the year ended 31st December, 2005

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
<b>TURNOVER</b>			
External sales	<u>1,718,977</u>	<u>180,505</u>	<u>1,899,482</u>
<b>RESULTS</b>			
Segment results	292,421	34,865	327,286
Increase in fair value of investment properties			7,700
Unallocated corporate income			25,330
Unallocated corporate expenses			(54,969)
Finance costs			<u>(19,245)</u>
<b>PROFIT BEFORE TAXATION</b>			286,102
Taxation			<u>(40,185)</u>
<b>PROFIT FOR THE YEAR</b>			<u><u>245,917</u></u>

### By geographical segments

The Group operates in the following geographical market segments – People's Republic of China (including Hong Kong) and other countries.

The following table shows an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	<b>Turnover</b>	
	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
People's Republic of China	<b>1,789,638</b>	1,560,828
Other countries	<b>345,722</b>	338,654
	<u><b>2,135,360</b></u>	<u>1,899,482</u>

### 3. FINANCE COSTS

	<b>2006</b>	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Arrangement fee for bank loans	<b>300</b>	87
Interest on		
– bank borrowings wholly repayable within five years	<b>29,564</b>	13,964
– floating rate notes	<b>927</b>	5,194
	<u><b>30,791</b></u>	<u>19,245</u>



## 7. INVENTORIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Raw materials	484,919	445,361
Work in progress	122,726	73,303
Finished goods	16,035	12,372
	<u>623,680</u>	<u>531,036</u>

The cost of inventories recognised as an expense during the year of the Group amounted to approximately HK\$1,620 million (2005: HK\$1,326 million).

## 8. TRADE, BILLS AND OTHER RECEIVABLES

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

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 to 60 days	342,926	305,277
61 to 90 days	94,885	92,754
Over 90 days	70,446	82,336
	<u>508,257</u>	<u>480,367</u>

## 9. TRADE, BILLS AND OTHER PAYABLES

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 to 60 days	120,409	137,007
61 to 90 days	29,194	25,483
Over 90 days	19,991	30,213
	<u>169,594</u>	<u>192,703</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

During the year ended 31st December, 2006, the Group continued to focus on the manufacture and marketing of mould bases, metal and parts.

The Group's turnover in the year ended 31st December, 2006 was approximately HK\$2,135 million (2005: approximately HK\$1,899 million). Profit attributable to equity holders of the Company in the year ended 31st December, 2006 was approximately HK\$150 million (2005: approximately HK\$241 million). Basic earnings per share in the year ended 31st December, 2006 was HK24.27 cents (2005: HK38.88 cents).

The Group's profit in the year ended 31st December, 2006 was significantly less than that of 2005. The profit performance falling behind of expectation was mainly due to the slowdown in business growth of the Asian manufacturing sector and the uplift of material and labour costs in China which boosted up the production cost. During the review period, the Group had to continue its expansion and restructuring of plants in China. This further added pressure on the operating cost and profit margin.

The business environment remained uncertain in general. The slowing down of the economy in the United States and Western European countries, coupled with protectionism measures as adopted by some of these countries toward China, had resulted in a sluggish growth in market demand. The appreciation of Renminbi and the retreat of tax rebate on some export commodities in China also slowed down the growth in the manufacturing sector in China. Facing unstable material costs, some customers of the Group held back their decision in placing order and reduced machining jobs previously sub-contracted out. Consequently, there was pressure on the average selling price of the Group's products. On the other hand, the labour cost was continuously uplifted in line with the living standard in China. Furthermore, price fluctuation of raw materials during the review period made it difficult for the Group to exercise cost control efficiently. All these factors led to a drastic increase in the Group's total operating cost eventually.

Throughout the period as reviewed, the Group continued the expansion of plants in Southern China and re-engineered its management and operation processes, thus pushing up its short-term administration and operation cost. In line with its long-term business development, the Group initiated the expansion of its Heyuan plant in Guangdong province. The construction of new plants and acquisition of new machinery and production facilities pushed up the depreciation cost on plant and machinery. It was anticipated that it would take some time to realize return on such capital investment. Furthermore, in order to enhance its competitive edge and productivity, the Group successfully merged the production facilities and manpower of the Dongguan plant into its Heyuan plant, incurring extra relocation cost. After restructuring, it also takes time for both manpower and machineries to be better coordinated, thus productivity was slightly affected during the tuning in period.

As affected by the fluctuation in the cost of alloy material, the price of quality mould steel had surged upward. However, by providing comprehensive value added services to customers, the Group mould steel business still maintained at a similar level as that of last year.

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

### **Liquidity and Capital Resources**

As at 31st December, 2006, the Group had a net cash deficit of approximately HK\$571 million. The Group had cash balance of approximately HK\$150 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

The Group adopted conservative measures to hedge any exchange fluctuation and incurred approximately HK\$6 million losses on foreign exchange during the year ended 31st December, 2006.

The Group continues to incur capital expenditure for the plant expansion and factory construction, which is financed by internal resources.

## **Gearing Ratio**

Total debts of the Group were approximately HK\$721 million, equal to approximately 58% of equity attributable to equity holders of the Company of approximately HK\$1,244 million.

## **Employees and Remuneration Policies**

As at 31st December, 2006, the Group employed a total of approximately 11,240 employees, including approximately 10,900 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 employees with reference to the individual's performance.

## **PROSPECTS**

The Group still holds good confidence in its long-term business development. Looking forward, it is expected to be a year filling with challenges. Despite great pressures from the market and business environment, the Group still holds a cautious, yet optimistic view toward it.

China still experiences a stable economic development and continuous growth in major industrial sectors, including automobile industry. However, significant orders for large-scale automobile moulds can only be expected in the second half of the year. The mould market remains unstable due to the ebb and flow of customers' business, as a consequent, it is difficult for the Group to formulate an optimum and well-coordinated production plan, which may impair its production efficiency. Furthermore, it is expected that the labour and operation cost in China will keep accelerating and it is unlikely that the additional cost can totally levied on customers at this moment. As a result, the Group's operation cost cannot be reduced in the short-term.

In meeting the challenge, the Group will strategically develop its business in China by enlarging its customer base and exploring potential markets. After experiencing rapid development in several years, market growth in the Southern China will gradually slow down. It is anticipated that markets in the Eastern and Northern China will be the focus of the future. In particular, the Eastern China market is bringing a stable increase in turnover for the Group in recent years. The Group will continuously develop its distribution and logistic network with comprehensive coverage over the mould intensive cities, establish partnership with customers in these areas and secure larger market share to further fortify the competitive edge of the Group.

The Group will strive to enhance its product quality and to control cost in securing its competitive advantage for sustaining development. The production capacity of Heyuan plant in Guangdong Province has been much enlarged after expansion and restructuring. The Group will streamline its production processes continuously through automation and re-engineering so as to improve productivity and efficiency. The Group will also upgrade its mode of management and control, and simplify its administrative organizational structure, aiming to establish a highly effective team that can promptly address the need of the fast-changing market situation by formulating appropriate counter policy and optimizing resources. All these measures can reinforce the Group's operation advantage and its solid foundation.

## **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee has reviewed with management and the Group's external auditors, Messrs. 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 consolidated financial statements.

### **Scope of work of Messrs. Deloitte Touche Tohmatsu**

The figures in respect of the Group's consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31st December, 2006 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

### **FINAL DIVIDEND**

The Directors have resolved to recommend to shareholders at the forthcoming Annual General Meeting the payment of a final dividend of HK6.5 cents per share for the year ended 31st December, 2006 to shareholders whose names appear on the Register of Members on 7th May, 2007. Subject to the approval by the shareholders at the forthcoming Annual General Meeting, the proposed final dividend will be despatched to shareholders on or about 17th May, 2007.

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

The Register of Members of the Company will be closed from 2nd May, 2007 to 7th May, 2007, both days inclusive during which period no share transfers will be effected.

In order to qualify for the proposed final dividend, all share certificates accompanied by the completed transfer forms either overleaf or separate or standard transfer forms, 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 4:30 p.m. on 30th April, 2007.

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 30th April, 2007 will be entitled to the proposed final 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 year ended 31st December, 2006.

### **CORPORATE GOVERNANCE**

During the year ended 31st December, 2006, the Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board  
**Siu Tit Lung**  
Chairman

Hong Kong, 30th March, 2007

*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.