



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



Interim Report **2009**

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.

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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 20, which comprises the condensed consolidated statement of financial position of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries as of 30th June, 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and 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 (“HKAS”) 34 “Interim Financial Reporting” 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, 7th September, 2009

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, 2009 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2009

		Six months ended 30th June,	
		2009	2008
		HK\$'000	HK\$'000
Notes		(unaudited)	(unaudited)
		1,032,238	1,554,483
		27,246	13,866
		(10,022)	26,782
		(476,955)	(757,876)
		(174,524)	(256,293)
		(97,177)	(90,321)
		(146,862)	(213,323)
		(1,157)	(9,762)
		152,787	267,556
	4	(50,121)	(88,593)
		102,666	178,963
	5	(2,107)	94,996
		100,559	273,959
		102,803	177,655
		(137)	1,308
		102,666	178,963

		Six months ended 30th June,	
		2009	2008
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
Total comprehensive income for the period attributable to:			
Owners of the Company		100,700	272,520
Minority interests		(141)	1,439
		100,559	273,959
		HK cents	HK cents
Earnings per share	7		
— Basic		16.58	28.65
— Diluted		16.58	28.65

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2009

	Notes	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	33,600	33,600
Property, plant and equipment	8	798,516	851,556
Prepaid lease payments			
— non-current portion		42,757	43,319
Deposits paid for acquisition of property, plant and equipment		2,190	7,382
		877,063	935,857
Current assets			
Inventories		529,545	639,726
Trade and other receivables	9	457,417	526,652
Bills receivable	9	35,708	58,674
Prepaid lease payments			
— current portion		1,047	1,047
Deferred consideration receivable		—	2,483
Taxation recoverable		5,244	5,061
Bank balances and cash		352,131	309,259
		1,381,092	1,542,902
Current liabilities			
Trade and other payables	10	278,138	353,892
Bills payable	10	24,287	53,434
Taxation payable		23,989	26,030
Dividend payable		58	52
Unsecured bank borrowings	11	51,891	203,324
		378,363	636,732

		At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
	<i>Notes</i>		
Net current assets		1,002,729	906,170
Total assets less current liabilities		1,879,792	1,842,027
Non-current liability			
Deferred tax liabilities		18,203	14,048
Net assets		1,861,589	1,827,979
CAPITAL AND RESERVES			
Share capital	12	62,002	62,002
Reserves		1,794,872	1,761,121
Equity attributable to owners of the Company		1,856,874	1,823,123
Minority interests		4,715	4,856
Total equity		1,861,589	1,827,979

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2009

	Equity attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 <i>(note)</i>	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2008 (audited)	62,002	116,067	94,580	189,910	6,607	1,114,931	1,584,097	930	1,585,027
Profit for the period	–	–	–	–	–	177,655	177,655	1,308	178,963
Exchange difference arising on translation	–	–	–	94,865	–	–	94,865	131	94,996
Total comprehensive income for the period	–	–	–	94,865	–	177,655	272,520	1,439	273,959
Recognition of equity-settled share-based payments	–	–	–	–	2,250	–	2,250	–	2,250
Final dividend for the year ended 31st December, 2007	–	–	–	–	–	(93,002)	(93,002)	–	(93,002)
At 30th June, 2008 (unaudited)	62,002	116,067	94,580	284,775	8,857	1,199,584	1,765,865	2,369	1,768,234
Profit for the period	–	–	–	–	–	110,678	110,678	2,647	113,325
Exchange difference arising on translation	–	–	–	12,729	–	–	12,729	(160)	12,569
Total comprehensive income for the period	–	–	–	12,729	–	110,678	123,407	2,487	125,894
Recognition of equity-settled share-based payments	–	–	–	–	2,052	–	2,052	–	2,052
Transfer on forfeiture of share options	–	–	–	–	(428)	428	–	–	–
Interim dividend for the year ended 31st December, 2008	–	–	–	–	–	(68,201)	(68,201)	–	(68,201)
Transfer	–	–	38,557	–	–	(38,557)	–	–	–
At 31st December, 2008 and 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	–	–	–	(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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2009

	Six months ended 30th June,	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash from operating activities	297,948	267,149
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(40,062)	(116,504)
Proceeds on disposal of property, plant and equipment and land use rights	355	28,067
Proceeds on disposal of subsidiaries in 2006	2,483	2,599
Interest received	1,077	1,960
	(36,147)	(83,878)
Net cash used in financing activities		
Repayment of bank borrowings	(174,433)	(188,253)
Dividends paid	(68,196)	(92,993)
Interest paid	(1,157)	(9,762)
New bank borrowings raised	25,758	42,336
	(218,028)	(248,672)
Net increase (decrease) in cash and cash equivalents	43,773	(65,401)
Cash and cash equivalents at beginning of the period	309,259	261,115
Effect of foreign exchange rates changes	(901)	2,040
Cash and cash equivalents at end of the period, represented by bank balances and cash	352,131	197,754



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2009

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 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 annual financial statements of the Group for the year ended 31st December, 2008.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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, which are effective for the Group’s financial year beginning on 1st January, 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “*Segment Reporting*”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments) HKAS 27 (Revised 2008)	Improvements to HKFRSs issued in 2009 ² Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) — Int 18	Transfers of Assets from Customers ⁴

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

² Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate

³ Effective for annual periods beginning on or after 1st January, 2010

⁴ Effective for transfers on or after 1st July, 2009

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1st January, 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary. The Directors 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 has adopted HKFRS 8 "*Operating Segments*" with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Group's board of directors) in order to allocate resources to segments and to assesses its performance. In contrast, the predecessor standard, HKAS 14 "*Segment Reporting*" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financing reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reporting segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, primary segment information was analysed on the basis of two operating divisions:

- i) Mould bases — manufacturing and marketing of mould bases; and
- ii) Metal and parts — manufacturing and marketing of metal and parts.

However, information reported to the Directors for the purposes of resource allocation and performance assessment only focuses on the consolidated results of the two operating divisions, inclusion of any income, expenses and tax charges.

3. SEGMENT INFORMATION (Continued)

As a result, there is only one reportable segment for the Group under HKFRS 8, which is manufacturing and marketing of mould bases, metal and parts. Information regarding this segment can be made reference to the condensed consolidated financial statements as a whole.

4. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in jurisdictions outside Hong Kong	45,966	75,645
Deferred taxation	4,155	12,948
	50,121	88,593

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the six months ended 30th June, 2009. 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 annual tax rate used for the six months ended 30th June, 2009 is ranged from 12.5% to 25% (2008: 14% to 25%).

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), one of the PRC subsidiaries is entitled to an exemption from PRC income tax for two years starting from its first profit-making year, followed by a 50% relief in tax rate for the next three years. 2007 is the first year of tax exemption granted. The basic tax rate for the subsidiary is 25%.

4. INCOME TAX EXPENSE (Continued)

Pursuant to an approval by the relevant PRC tax authority, one of the PRC subsidiaries was granted advanced-technology relief from 50% PRC income tax for three years commenced from the year of grant. The tax relief will end in 2009, in which the subsidiary enjoys the concessionary tax rate of 15%.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	771,386	1,083,852
Loss (gain) on disposal of property, plant and equipment and land use rights	159	(6,831)
Government grants (<i>note</i>)	(20,414)	(1,167)
Interest income	(1,077)	(1,960)

Note: The amount for the six months ended 30th June, 2009 represents an unconditional subsidy received from the local treasury authority in Heyuan City, the PRC as a general support for the Group's advanced technology development.

6. DIVIDENDS

Interim dividend for the current period:

On 7th September, 2009, the Directors determined that an interim dividend of HK10 cents (2008: HK11 cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 25th September, 2009.

Dividend recognised as distribution during the period:

During the current period, a dividend of HK11 cents per share amounting to approximately HK\$68,202,000 (2008: HK\$93,002,000) was declared and paid to the shareholders as final dividend for the year ended 31st December, 2008 (2008: HK15 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:

	Six months ended 30th June,	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	102,803	177,655
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	620,013,303	620,013,303

For six months ended 30th June, 2009 and 2008, 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 both periods.

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, 2009 and 30th June, 2008 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\$64,000 (2008: HK\$6,801,000) on the construction in progress in the PRC.

In addition, the Group spent approximately HK\$34,914,000 (2008: HK\$89,994,000), HK\$4,709,000 (2008: HK\$6,411,000), HK\$2,329,000 (2008: HK\$523,000) and HK\$3,238,000 (2008: HK\$4,032,000) 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\$384,367,000 (31st December, 2008: HK\$478,295,000).

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

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
0 to 60 days	291,278	358,757
61 to 90 days	77,372	130,405
Over 90 days	51,425	47,807
	420,075	536,969

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$95,523,000 (31st December, 2008: HK\$107,691,000).

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

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
0 to 60 days	87,679	124,333
61 to 90 days	18,355	24,641
Over 90 days	13,776	12,151
	119,810	161,125

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$25,758,000 (2008: HK\$42,336,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$174,433,000 (2008: HK\$188,253,000) 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, 2008, 30th June, 2008, 31st December, 2008 and 30th June, 2009	620,013,303	62,002

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, 2009	12,708,000
Granted during the period	6,638,000
Cancelled during the period (<i>note</i>)	(5,624,000)
Forfeited during the period	(266,000)
Lapsed during the period	<u>(238,000)</u>
Outstanding at 30th June, 2009	<u>13,218,000</u>

Note: Pursuant to a resolution passed on 19th January, 2009, the Company cancelled 5,624,000 fully vested share options at an exercise price of HK\$3.82 per share during the period.

In the current period, share options were granted on 14th January, 2009. The fair value of the options determined at the date of grant using the Binominal model was approximately HK\$2,890,000. The closing price of the Company's shares immediately before 14th January, 2009, the date of grant, was HK\$2.11.

The following assumptions were used to calculate the fair values of share options:

Grant date share price	HK\$2.11
Exercise price	HK\$2.27
Average expected life	3.5 years
Expected volatility	40%
Dividend yield	5%
Risk-free interest rate	<u>0.94%</u>

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

13. SHARE-BASED PAYMENTS (Continued)

At end of the reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

The Group recognised an amount of approximately HK\$1,253,000 (2008: HK\$2,250,000) as expenses for the period in relation to the share options granted by the Company.

14. CAPITAL COMMITMENTS

As at 30th June, 2009, the Group had capital expenditures amounting to approximately HK\$3,064,000 (31st December, 2008: HK\$27,660,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

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:

	Six months ended 30th June	
	2009	2008
	HK\$000	HK\$000
	(unaudited)	(unaudited)
Short-term benefits	20,592	27,641
Post-employment benefits	1,110	1,060
Share-based payment expenses	550	1,098
	22,252	29,799

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW


The Group's revenue for the six months ended 30th June, 2009 was approximately HK\$1,032 million (2008: approximately HK\$1,554 million). Profit attributable to owners of the Company for the six months ended 30th June, 2009 was approximately HK\$103 million (2008: approximately HK\$178 million). Basic earnings per share for the six months ended 30th June, 2009 was HK16.58 cents (2008: HK28.65 cents).

The outbreak of financial tsunami in September last year triggered the global economic recession, and it resulted in an unprecedented challenging business operating environment. As a result, the Group's results in the first half year, as compared with that of the same period in 2008, dropped substantially.

As dragged by the credit crisis in finance sector, the global manufacturing industry was pushed to the edge of collapse. The performance of the major export markets of the Group's customers — Japan, Europe and America — was not satisfactory and the business of the Group was adversely affected. As market confidence impaired, investors held back their investment activities. The shrinkage in global consumption spending led to a sharp contraction in demand, as a result, business-operating environment worsened rapidly. The Group, despite its leading position in the industry coupled with a healthy financial status, still unavoidably impacted by a drop in sales order volume owing to the weakening investment confidence prevailed in the market. In response to the sluggish market, a price war was started in the industry in order to scramble for sales orders, thus, selling price of the products continued to drop. The Group's profit performance, as greatly influenced by the fall of both order quantity and product selling price, suffered a notable regression.

To source for more orders, the Group flexibly adjusted its sales strategy to enhance quality services to customers. In addition to direct sales offices set up in the surrounding areas near its factories located in Southern and Eastern regions in China, the Group also worked closely with the local distributors in the more remote areas to formulate suitable and comprehensive sales plans to promote the Group's products and services. Moreover, both sales offices and distributors constantly feedback valuable market information, enabling the Group to timely capture market change signals and to serve customers intimately with the hope to uphold its competitive edge amid the fluctuating market environment.

During the period under review, the Group still encountered the negative effect of surging costs. At the beginning of 2008, the launch of new labor law and regulations, and the Unification of Income Tax Rate for foreign and domestic enterprises in China significantly drove up labor cost and tax burden laid onto enterprises, thus squeezing the profit margin



of the Group. Fortunately, the Group has actively exercised cost control persistently: streamlining organization structure, manpower realignment, restructuring production processes, reducing spending on consumable goods, regulating inventory to reasonable level, strict control on purchasing price, etc, aiming at lowering total operating costs. Yet, some fixed costs such as depreciation costs for machinery and factory could not be reduced. To sum up, the Group achieved a quite satisfactory result in cost control, though more effort would be required to alleviate the strong setback initiated by the volatile economy.

Following the deterioration of external economic situation, the demand for mould base steel relatively declined and its price moved downward persistently, however, the descending rate gradually slowed down recently. The Group, as usual, responding closely to the market change and the steel price fluctuation, suitably regulated its inventory level in reducing its product cost. In addition, the Group adopted a stringent approach to select its customers by evaluating their creditability, thus resulted a low bad debt rate, attributing to a healthy and stable financial position in sustaining its long-term business development.

Resorted to the abundant management experience accumulated throughout the years, the Group still managed to fortify its competitive edge through effective cost control and amelioration of operation management in confronting the financial tsunami crisis. However, as affected by the downturn of global economic condition and the continuous surging of operating cost, the Group's profit in the first half year, as compared with that of last year, experienced a substantial decrease, its performance fell behind expectation.

PROSPECTS

The outburst of financial tsunami has taken place for nearly one year. Despite there are signals showing that in the second half year global economy will revive mildly from its trough, it will still take time for total recovery from its economic downturn. The Group expects that the business environment will still be clouded with uncertainties.

The launch of proactive stimulus measures by the China government, in particular promoting domestic demand as a major economic driver, has produced desirable effects that help local manufacturers to go through their most difficult times. Furthermore, the Group anticipates the export business of China will experience a moderate rebound in the near future. As driven by both domestic demand and export business, the China market will revive gradually. The Group, with its foundation deeply rooted in China for many years, will follow the China recovery pace and finally tide over the present adverse situation.

With a vision to strive for excellence, the Group continues in amplifying its value added machining ability and product precision of its plants in the Southern and Eastern China, with an aim to uplift its product quality and reliability. The Group also persistently meliorates its production processes by discarding low efficient facilities, enlarging its

automation ability and lessening the reliance on manual operations in order to enhance production efficiency. Besides, the Group keeps ameliorating its internal management system and emphasizing manpower training. The Group will stick to its core values for on-going improvement in product quality and customer-centered services, with full confidence to secure trust and support from its customers even during the difficult times. Through continuous cost analysis, monitoring and control, the Group endeavors to further diminish its operating cost that in turn will uplift its operation effectiveness as a whole.

As the global economy is still filled with uncertainties, the Group will re-evaluate and set its future development strategy. At the same time, the Group will intently alert the market change in different sales regions. To match with the long-term direction in developing Eastern and Northern China set by the China government, the Group will timely reallocate its resources in reinforcing the related marketing processes and sales channels, ensuring to satisfy customers' needs in these areas.

With the gradual improvement in economic situations, the Group expects that the prices of its import and China mould steels will follow suit to adjust upwards. In views of this, the Group will revise its procurement and inventory strategy in accordance with the market situation, flexibly regulating its inventory level to suit the requirements.

The Group will adopt a positive attitude in facing the tough market environment. By continuously sticking to its core business, core values and service commitment, seeking for on-going improvement in internal management, formulating marketing strategy flexibly and adhering to consistent financial management principle, the Group assures and equips itself with ample capability to capture new business opportunities brought about by the coming economic revival and prepares to attain excellent results.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2009, the Group had a net cash surplus of approximately HK\$300 million. The Group had cash balance of approximately HK\$352 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$52 million, equal to approximately 3% of equity attributable to owners of the Company of approximately HK\$1,857 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2009, the Group employed a total of approximately 7,700 employees, including approximately 7,300 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 DIVIDEND

The Directors have determined an interim dividend of HK10 cents per share (2008: HK11 cents per share) in respect of the six months ended 30th June, 2009 to be payable on or around 8th October, 2009 to shareholders whose names appear in the Register of Members of the Company on 25th September, 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24th September, 2009 to 25th September, 2009, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office of the Company, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 23rd September, 2009.

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 23rd September, 2009 will be entitled to the interim dividend.

CHANGES IN BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Change in brief details of directors and senior management subsequent to the publication of the 2008 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 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), is set out below:

Mr. Lee Joo Hai has resigned as an independent director of AGVA Corporation Limited.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2009, 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	37,291,444	307,617,187	650,000	345,558,631	55.73%
Siu Yuk Lung (Notes 1, 3 & 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	650,000	345,558,631	55.73%
Mak Koon Chi	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Wai Lung Shing	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Fung Wai Hing	Beneficial owner	1,457,031	—	1,000,000	2,457,031	0.40%
Ting Chung Ho	Beneficial owner	20,000	—	700,000	720,000	0.12%
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 4,660,156 shares in the Company registered in their own names.
- (2) Rickdee Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Tit Lung other than Mr. Siu Tit Lung himself are beneficiaries, held 58,593,750 shares in the Company.
- (3) Robin Hill Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Yuk Lung other than Mr. Siu Yuk Lung himself are beneficiaries, held 58,593,750 shares in the Company.
- (4) Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung other than Messrs. Siu Tit Lung and Siu Yuk Lung themselves are beneficiaries, held 249,023,437 shares in the Company.

Interests in associated corporations of the Company

Name of director	Nature of interests	Name of associated corporation	Number of shares held	Percentage of issued share capital of the class
Siu Tit Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%
Siu Yuk Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company or its associated corporations.

The details of the directors' interests in the share options granted by the Company are stated in the following section "Share Options".

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the 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, 2009.

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.

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.

During the period, 6,638,000 share options with an exercise price of HK\$2.27 per share were granted on 14th January, 2009. The estimated fair value of the options granted was approximately HK\$2,890,000 (HK\$0.4355 per option).

The above fair value was calculated using the Binomial model. The inputs into the model are as follows:

Closing price of the Company's share at the date of grant	HK\$2.11
Exercise price	HK\$2.27
Expected volatility	40% per annum
Average expected life	3.5 years
Risk-free rate of interest	0.94% per annum
Expected dividend yield	5% per annum

Expected volatility was determined by using the historical volatility of the Company's share price over the previous periods. The expected life used in the model has been taken into account the expected employee turnover and probability of early exercise behaviour.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The Group recognised the total expenses of approximately HK\$1,253,000 for the period in relation to the share options granted by the Company.

At 30th June, 2009, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 13,218,000, representing 2.13% of the shares of the Company in issue at that date.

During the period, the total amount of consideration received from the Participants for taking up the options granted was HK\$165.

The closing price of the Company's share immediately before 14th January, 2009, the date of grant of options, was HK\$2.11.

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

	Number of share options				At 30th June, 2009	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2009	Granted during the period	Lapsed during the period	Cancelled/ forfeited during the period				
Category 1: Directors								
Siu Tit Lung	150,000	–	–	(150,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	–	–	–	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Siu Yuk Lung	150,000	–	–	(150,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	–	–	–	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Mak Koon Chi	500,000	–	–	(500,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	–	–	–	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	500,000	–	–	500,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Wai Lung Shing	500,000	–	–	(500,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	–	–	–	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	500,000	–	–	500,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Fung Wai Hing	500,000	–	–	(500,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	500,000	–	–	–	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	500,000	–	–	500,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Ting Chung Ho	180,000	–	–	(180,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	300,000	–	–	–	300,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	400,000	–	–	400,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Chan Chun Sing, Colin	150,000	–	–	(150,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	–	–	–	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27

	Number of share options					Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2009	Granted during the period	Lapsed during the period	Cancelled/ forfeited during the period	At 30th June, 2009			
Liu Wing Ting, Stephen	150,000	–	–	(150,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	–	–	–	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Lee Tat Yee	150,000	–	–	(150,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	–	–	–	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Lee Joo Hai	100,000	–	–	(100,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	150,000	–	–	–	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	150,000	–	–	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Total	5,930,000	2,800,000	–	(2,530,000)	6,200,000			
Category 2: Employees								
	3,212,000	–	(118,000)	(3,094,000)	–	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	3,566,000	–	(120,000)	–	3,446,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	–	3,838,000	–	(266,000)	3,572,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
Total	6,778,000	3,838,000	(238,000)	(3,360,000)	7,018,000			
Total all categories	12,708,000	6,638,000	(238,000)	(5,890,000)	13,218,000			

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, 2009, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	249,023,437	40.16%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.45%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.45%
Commonwealth Bank of Australia	Interest of controlled corporation	49,492,108	7.98%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2009.

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, 2009.

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, 7th September, 2009