



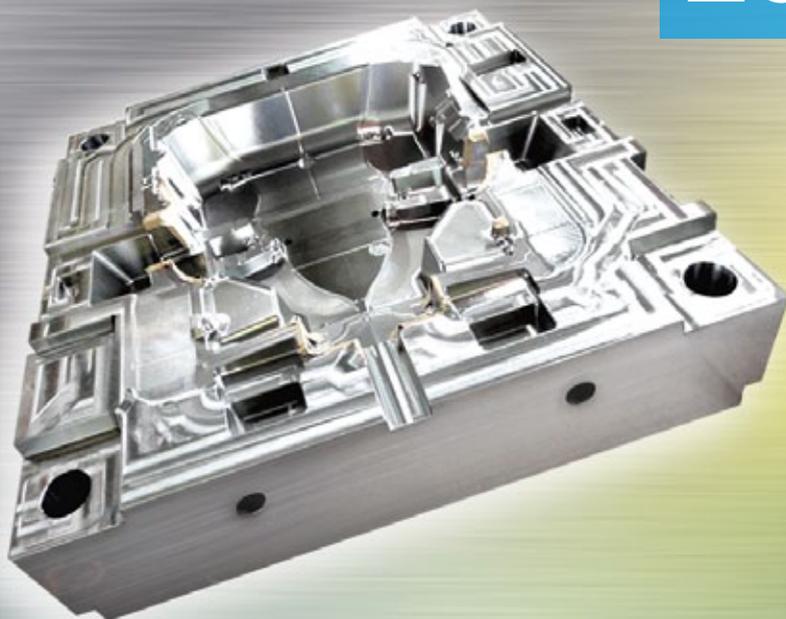
Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



Interim Report

2011





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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 18, which comprises the condensed consolidated statement of financial position of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries as of 30th June, 2011 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” (“HKAS 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, 26th August, 2011

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, 2011 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2011

		Six months ended 30th June,	
		2011	2010
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
	Revenue	1,255,644	1,290,575
	Other income	34,146	6,422
	Changes in inventories of finished goods and work in progress	40,733	3,311
	Raw materials and consumables used	(577,591)	(539,592)
	Employee benefits expenses	(218,292)	(235,344)
	Depreciation of property, plant and equipment	(79,234)	(89,191)
	Other expenses	(225,487)	(226,769)
	Interest on bank borrowings wholly repayable within five years	(1,125)	(445)
	Profit before taxation	228,794	208,967
	Income tax expense	(66,526)	(65,679)
	Profit for the period	162,268	143,288
	Other comprehensive income:		
	Exchange difference arising on translation of foreign operation	21,955	24,632
	Total comprehensive income for the period	184,223	167,920
	Profit for the period attributable to:		
	Owners of the Company	160,438	141,986
	Non-controlling interests	1,830	1,302
		162,268	143,288



		Six months ended 30th June,	
		2011	2010
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
Total comprehensive income for the period attributable to:			
Owners of the Company		182,339	166,840
Non-controlling interests		1,884	1,080
		184,223	167,920
		HK cents	HK cents
Earnings per share			
— Basic	7	25.46	22.64
— Diluted		25.37	22.53

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2011

	Notes	At 30th June, 2011 HK\$'000 (unaudited)	At 31st December, 2010 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	56,500	56,500
Property, plant and equipment	8	910,552	683,834
Prepaid lease payments			
— non-current portion		107,489	105,959
Deposits paid for acquisition of property, plant and equipment		25,198	5,027
		1,099,739	851,320
Current assets			
Inventories		601,955	620,020
Trade and other receivables	9	570,309	580,470
Bills receivable	9	36,935	44,038
Prepaid lease payments			
— current portion		2,445	1,426
Bank balances and cash		693,165	869,956
		1,904,809	2,115,910
Current liabilities			
Trade and other payables	10	361,380	429,706
Bills payable	10	42,104	44,502
Taxation payable		22,228	19,811
Dividend payable		85	72
Embedded derivative		—	50
Unsecured bank borrowings			
— due within one year	11	299,977	258,101
		725,774	752,242



		At 30th June, 2011 HK\$'000 (unaudited)	At 31st December, 2010 HK\$'000 (audited)
	<i>Notes</i>		
Net current assets		1,179,035	1,363,668
Total assets less current liabilities		2,278,774	2,214,988
Non-current liability			
Deferred tax liabilities		51,094	29,620
		2,227,680	2,185,368
CAPITAL AND RESERVES			
Share capital	12	63,045	62,969
Reserves		2,156,704	2,113,434
Equity attributable to owners of the Company		2,219,749	2,176,403
Non-controlling interests		7,931	8,965
Total equity		2,227,680	2,185,368

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2011

	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, 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
Profit for the period	–	–	–	–	–	176,839	176,839	2,361	179,200
Exchange difference arising on translation of foreign operation	–	–	–	65,423	–	–	65,423	534	65,957
Total comprehensive income for the period	–	–	–	65,423	–	176,839	242,262	2,895	245,157
Recognition of equity-settled share-based payments	–	–	–	–	2,923	–	2,923	–	2,923
Transfer on lapse of share options	–	–	–	–	(104)	104	–	–	–
Share issued on exercise of share options	147	5,795	–	–	(973)	–	4,969	–	4,969
Interim dividend for the year ended 31st December, 2010	–	–	–	–	–	(81,684)	(81,684)	–	(81,684)
Interim special dividend for the year ended 31st December, 2010	–	–	–	–	–	(31,417)	(31,417)	–	(31,417)
Transfer	–	–	25,783	–	–	(25,783)	–	–	–
At 31st December, 2010 and 1st January, 2011 (audited)	62,969	148,276	202,055	390,018	4,538	1,368,547	2,176,403	8,965	2,185,368
Profit for the period	–	–	–	–	–	160,438	160,438	1,830	162,268
Exchange difference arising on translation of foreign operation	–	–	–	21,901	–	–	21,901	54	21,955
Total comprehensive income for the period	–	–	–	21,901	–	160,438	182,339	1,884	184,223
Recognition of equity-settled share-based payments	–	–	–	–	3,185	–	3,185	–	3,185
Transfer on lapse of share options	–	–	–	–	(29)	29	–	–	–
Share issued on exercise of share options	76	3,171	–	–	(528)	–	2,719	–	2,719
Final dividend for the year ended 31st December, 2010	–	–	–	–	–	(113,398)	(113,398)	–	(113,398)
Final special dividend for the year ended 31st December, 2010	–	–	–	–	–	(31,499)	(31,499)	–	(31,499)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(2,918)	(2,918)
Transfer	–	–	2,724	–	–	(2,724)	–	–	–
At 30th June, 2011 (unaudited)	63,045	151,447	204,779	411,919	7,166	1,381,393	2,219,749	7,931	2,227,680

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, 2011

	Six months ended 30th June,	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Net cash from operating activities	217,454	81,146
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(321,977)	(68,710)
Deposits paid relating to leasehold land interests	(1,942)	(5,313)
Proceeds on disposal of property, plant and equipment	12,883	2,624
Interest received	8,504	1,430
	(302,532)	(69,969)
Net cash used in financing activities		
Repayment of bank borrowings	(176,162)	(11,028)
Dividends paid	(144,884)	(69,026)
Dividend paid to non-controlling interests	(2,918)	—
Interest paid	(1,125)	(445)
New bank borrowings raised	217,821	10,242
Proceeds from new shares issued	2,719	12,980
	(104,549)	(57,277)
Net decrease in cash and cash equivalents	(189,627)	(46,100)
Cash and cash equivalents at the beginning of the period	869,956	629,746
Effect of foreign exchange rates changes	12,836	1,422
Cash and cash equivalents at the end of the period, represented by bank balances and cash	693,165	585,068

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2011

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2010.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations (“new or revised Hong Kong Financial Reporting Standards (“HKFRSs”)”) issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new or revised standards that have been issued but are not yet effective.

HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (Revised 2011)	Employee Benefits ²
HKAS 27 (Revised 2011)	Separate Financial Statements ²
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1st July, 2011

² Effective for annual periods beginning on or after 1st January, 2013

³ Effective for annual periods beginning on or after 1st July, 2012

⁴ Effective for annual periods beginning on or after 1st January, 2012

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. If the presumption is not rebutted, the directors anticipate that the application of the amendments to HKAS 12 will decrease the deferred tax liability recognised for investment properties.

Except as described above, the directors of the Company anticipate that the application of these new or revised standards 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 condensed consolidated financial statements as a whole.

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

4. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	5,255	—
Taxation in jurisdictions outside Hong Kong	39,802	65,677
Deferred taxation	21,469	2
	66,526	65,679

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period.

No provision for Hong Kong Profits Tax was made for the period ended 30th June, 2010 as there was no assessable profit for the period.

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, 2011 ranged from 12.5% to 25% (2010: 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 two years starting from its 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 relief shall continue and this subsidiary is entitled to a concessionary tax rate of 12.5% for the current period.

In addition, one of the Company's PRC subsidiaries is entitled to a transitional tax rate of 24% (2010: 22%) for the current period.



5. PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	871,852	867,187
Gross foreign exchange loss	5,644	9,539
Gross foreign exchange gain	(21,766)	(478)
(Gain) loss on disposal of property, plant and equipment	(6,052)	4,057
Interest income	(8,504)	(1,430)
Government grants (<i>note</i>)	—	(1,277)

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

6. DIVIDENDS

Interim dividend for the current period:

On 26th August, 2011, the Directors determined that an interim dividend of HK13 cents (2010: interim dividend of HK13 cents and interim special dividend of HK5 cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 16th September, 2011.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK18 cents (2010: HK11 cents) per share amounting to approximately HK\$113,398,000 (2010: HK\$69,043,000) and a final special dividend of HK5 cents (2010: Nil) per share amounting to approximately HK\$31,499,000 (2010: Nil) were declared and paid to the shareholders for the year ended 31st December, 2010.

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,	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	160,438	141,986
	<u>2011</u>	<u>2010</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	630,054,160	627,214,541
Effect of diluted potential ordinary shares on the exercise of shares options	2,447,764	2,942,991
Weighted average number of ordinary shares for the purposes of diluted earnings per share	632,501,924	630,157,532



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, 2011 and 30th June, 2010 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 disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$6,831,000 for cash proceeds of approximately HK\$12,883,000, resulting in a gain on disposal of approximately HK\$6,052,000.

In addition, the Group incurred expenditures of approximately HK\$110,803,000 (2010: HK\$6,107,000) on the construction in progress in the PRC and spent approximately HK\$167,528,000 (2010: HK\$51,467,000), HK\$608,000 (2010: HK\$937,000), HK\$16,179,000 (2010: HK\$566,000) and HK\$6,688,000 (2010: HK\$592,000) 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\$487,468,000 (31st December, 2010: HK\$476,892,000).

The following is an analysis of trade and bills receivables (net of allowance for doubtful debts) by age, presented based on the invoice date.

	At 30th June, 2011 HK\$'000 (unaudited)	At 31st December, 2010 HK\$'000 (audited)
0 to 60 days	381,131	403,311
61 to 90 days	97,184	94,727
Over 90 days	46,088	22,892
	524,403	520,930

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$114,828,000 (31st December, 2010: HK\$131,688,000).

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

	At 30th June, 2011 HK\$'000 (unaudited)	At 31st December, 2010 HK\$'000 (audited)
0 to 60 days	136,351	139,643
61 to 90 days	18,244	27,714
Over 90 days	2,337	8,833
	156,932	176,190

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$217,821,000 (2010: HK\$10,242,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$176,162,000 (2010: HK\$11,028,000) 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, 2010	622,733,303	62,274
Shares issued on exercise of share options	5,488,000	548
At 30th June, 2010	628,221,303	62,822
Shares issued on exercise of share options	1,468,000	147
At 31st December, 2010	629,689,303	62,969
Shares issued on exercise of share options	759,000	76
At 30th June, 2011	630,448,303	63,045

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, 2011	9,480,000
Lapsed during the period	(46,000)
Exercise during the period	(759,000)
Outstanding at 30th June, 2011	8,675,000

The Group recognised an amount of approximately HK\$3,185,000 (2010: HK\$95,000) 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, 2011, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$5.20.

14. CAPITAL COMMITMENTS

	At 30th June, 2011 HK\$'000	At 31st December, 2010 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	168,369	310,556

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	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Short-term benefits	26,107	24,590
Post-employment benefits	1,112	1,110
Share-based payment expenses	1,086	39
	28,305	25,739



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2011 was approximately HK\$1,256 million (2010: approximately HK\$1,291 million). Profit attributable to owners of the Company for the six months ended 30th June, 2011 was approximately HK\$160 million (2010: approximately HK\$142 million). Basic earnings per share for the six months ended 30th June, 2011 was HK25.46 cents (2010: HK22.64 cents).

In the beginning of this year, as the negative impact due to the financial tsunami gradually subsided, the economy in some regions began to recover. In this connection, the Group's performance in the first quarter of 2011 has significantly improved. However, in March, Japan unfortunately suffered a massive earthquake and tsunami, the negative effects of this mishap gradually appeared. Apart from that, the global economy was clouded with uncertainty by the debt crisis surfaced in Europe and the United States; as a result, the Group's turnover in the second quarter recorded a sign of regression. The Group's turnover in the first half year as a whole, when compared with that of the same period in 2010, registered a slight decrease.

The massive earthquake and tsunami occurred in Japan led to ceased operation of some production plants in the affected areas, resulting a serious shortage of supply in machinery and critical parts and components. Owing to this, some of the Group's customers withheld their new projects. Turning to the overseas markets, economic growth has cooled down in Europe and the United States as debt crisis haunted those areas; and the pace of the export business of China was also slowing down. The Group's business was also hindered, and could not achieve the expected growth in revenue and profit. On the other hand, the once positive effect triggered by the domestic economic stimulus measures launched by the Chinese government began to diminish; worse still, the Chinese government has tightened credit control in banks in order to suppress inflation rate, resulting a shortage of cash flow. Such move held back the development of domestic consumer market in China, and the domestic consumption inevitably subsided. In views of the prevailing market situation with reduction of potential orders, the Group could not freely uplift its product price to alleviate the pressure due to the increasing labor and operating costs. As bounded by various unfavorable external factors, the Group's core business performance fell back slightly in the first half year.



During the period under review, the Group continued to enhance its internal management and production system in the various plants located both in the Southern and Eastern regions in order to increase its operation efficiency and at the same time, decrease its operation cost. The Group, through reinforcing its long term production effectiveness and streamlining its whole management system, has gradually merged the production line and facility in Guangzhou factory into the newly established high precision mould base production workshop located in the Heyuan factory, Guangdong Province, China. The new workshop aims at producing high precision mould base for exporting to overseas countries including Europe, United States and Japan. During the merging period, the production efficiency of high precision mould base unavoidably affected, but it is expected that the production will be gradually regain its impetus and the overall efficiency will become better. On the other hand, construction work of the newly invested plant in Hangzhou city, Zhejiang Province, China has progressed smoothly. Owing to its advantageous location, construction work has not been affected by the recent heavy rainfalls occurred in Zhejiang Province, China and it has progressed according to the schedule.

The mould steel price was relatively stable throughout the reviewed period. Though the price increased mildly, range of fluctuation was relatively small. However, operation and labor cost still surges upward, the Group, through persistently strengthening its cost control, restructuring its operation process and reducing unessential cost and wastage, endeavored to lessen the burden imposed by the uplifting cost.

PROSPECTS

Being dimmed by uncertainties caused by the debt crisis in Europe and United States, coupled with the downgrading credit rating of the United States, the Group expects the market of European countries and the United States will still be weak and fragile, as hidden risks perceived in the second half year. In this connection, export business will be hampered. The Group hopes that European countries and the United States can formulate effective economic stimulus measures which can promptly revive their domestic economies, and at the same time alleviates its adverse impact imposed on the global economy.

The Group expects the Chinese domestic market gradually improves after undergoing an adjustment process in the first half year. Apparently, inflation has nearly reached its climax as well as the rise of average income in China; the domestic consumer market is expected to rebound. It is believed that the Chinese government will loosen its credit policy, allowing enterprises to have more funds to invest in new projects; as a result, a favorable turnaround in the manufacturing industry is not far away. Moreover, the Group expects market demand for products integrated with environmental protection concept will be increased and environmentally friendly products will be an upcoming development trend, which opens more market opportunities. In addition, automobile parts and components industry will continue to boom, which in turn offers ample rooms for future business development to the Group.



To pursue its long-term development goal, the Group has set up a new plant in Hangzhou city, Zhejiang Province, China; the construction of infrastructure and plant will be completed by the end of this year. Internal decoration of the plant will start at the beginning of 2012, machineries and other facilities can be installed in mid-2012, and production can be partly started in the third quarter of 2012. Once the new plant completes its construction and operates smoothly, the Group's business development in Eastern and Northern region of China will be enhanced. Turning to the plants in Southern regions of China, the Group has continuously reengineered its production process and reallocated its production facility. The merging of its Guangzhou factory into the high precision mould base production workshop located in Heyuan factory, Guangdong Province, China will be completed at the end of this year. Once production facilities and workforce are fully outfitted, the productivity of high precision mould bases will be substantially uplifted. This further expedites the Group's pace in developing the in-depth machining services for the medium-high end mould industry, further fortifying the Group's competitive edge and sustaining its leading position in the industry.

The Group expects that the cost of both imported and China mould steel will remain stable. The Group will cautiously regulate its inventory level in response to the ever-changing steel market in order to lower its production cost. In light of the ever-rising operation cost, the Group will exert great effort on cost analysis and control, with an aim to further reduce its operation cost and risk.

Looking ahead, the business-operating environment is full of risk and opportunity. The Group will adhere to its positive and pragmatic principles in facing every challenge, and in achieving a steady business development and healthy growth in the coming future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2011, the Group had a net cash surplus of approximately HK\$393 million. The Group had cash balance of approximately HK\$693 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\$300 million, equal to approximately 14% of equity attributable to owners of the Company of approximately HK\$2,220 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2011, the Group employed a total of approximately 6,500 employees, including approximately 6,100 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 HK13 cents per share (2010: interim dividend of HK13 cents per share and interim special dividend of HK5 cents per share) in respect of the six months ended 30th June, 2011 to be payable on or around 28th September, 2011 to shareholders whose names appear in the Register of Members of the Company on 16th September, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th September, 2011 to 16th September, 2011, 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 14th September, 2011.

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 14th September, 2011 will be entitled to the interim dividend.



DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2011, 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 of Hong Kong Limited (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)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.14%
Siu Yuk Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.14%
Mak Koon Chi	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Wai Lung Shing	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Fung Wai Hing	Beneficial owner	2,457,031	—	500,000	2,957,031	0.47%
Ting Chung Ho	Beneficial owner	720,000	—	500,000	1,220,000	0.19%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	450,000	600,000	0.10%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	450,000	600,000	0.10%
Lee Tat Yee	Beneficial owner	150,000	—	450,000	600,000	0.10%
Lee Joo Hai	Beneficial owner	50,000	—	400,000	450,000	0.07%

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) 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 are beneficiaries, held 366,210,937 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, 2011.



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, 2011, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 8,675,000, representing about 1.38% 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, 2011	Lapsed during the period	Exercised during the period	At 30th June, 2011			
Category 1: Directors							
Siu Tit Lung	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Siu Yuk Lung	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Mak Koon Chi	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Wai Lung Shing	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Fung Wai Hing	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Ting Chung Ho	100,000	—	(100,000)	—	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
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
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
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
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
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
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Joo Hai	150,000	—	(50,000)	100,000	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
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	4,200,000	—	(150,000)	4,050,000			



	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2011	Lapsed during the period	Exercised during the period	At 30th June, 2011			
Category 2: Employees							
	1,246,000	(34,000)	(599,000)	613,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	186,000	(12,000)	(10,000)	164,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	3,848,000	—	—	3,848,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	5,280,000	(46,000)	(609,000)	4,625,000			
Total all categories	9,480,000	(46,000)	(759,000)	8,675,000			

The weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$5.20.

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, 2011, 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	366,210,937	58.09%
Commonwealth Bank of Australia	Interest of controlled corporation	50,276,108	7.97%



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, 2011.

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, 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (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, 26th August, 2011