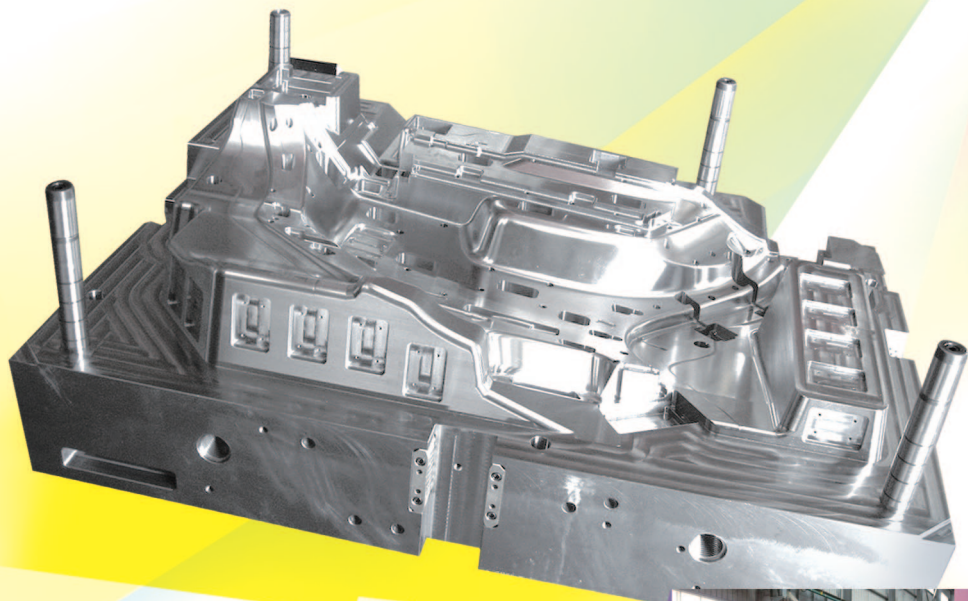




Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



Interim Report
2012

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the Board of Directors of
LUNG KEE (BERMUDA) HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 4 to 19, which comprise the condensed consolidated statement of financial position as of 30th June, 2012 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 28th August, 2012

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, 2012 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2012

		Six months ended 30th June,	
		2012	2011
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
	Revenue	1,178,975	1,255,644
	Other income	21,844	34,146
	Changes in inventories of finished goods and work in progress	(5,124)	40,733
	Raw materials and consumables used	(541,541)	(577,591)
	Employee benefits expenses	(241,088)	(218,292)
	Depreciation of property, plant and equipment	(86,218)	(79,234)
	Other expenses	(227,529)	(225,487)
	Interest on bank borrowings wholly repayable within five years	(2,232)	(1,125)
	Profit before taxation	97,087	228,794
	Income tax expense	(24,006)	(66,526)
	Profit for the period	73,081	162,268
	Other comprehensive income:		
	Exchange difference arising on translation of foreign operation	(26,358)	21,955
	Total comprehensive income for the period	46,723	184,223
	Profit for the period attributable to:		
	Owners of the Company	71,524	160,438
	Non-controlling interests	1,557	1,830
		73,081	162,268

		Six months ended 30th June,	
		2012	2011
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<i>Notes</i>			
Total comprehensive income for the period attributable to:			
Owners of the Company		45,034	182,339
Non-controlling interests		1,689	1,884
		46,723	184,223
		HK cents	HK cents
Earnings per share	7		
— Basic		11.33	25.46
— Diluted		11.32	25.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2012

	Notes	At 30th June, 2012 HK\$'000 (unaudited)	At 31st December, 2011 HK\$'000 (audited and restated)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	8	84,500	84,500
Property, plant and equipment	8	1,133,816	1,091,659
Prepaid lease payments			
— non-current portion		99,506	108,914
Deposits paid for acquisition of property, plant and equipment		1,333	1,493
		1,319,155	1,286,566
Current assets			
Inventories		495,247	628,230
Trade and other receivables	9	476,911	511,996
Bills receivable	9	27,848	38,906
Prepaid lease payments			
— current portion		2,284	2,505
Bank balances and cash		791,030	652,739
		1,793,320	1,834,376
Current liabilities			
Trade and other payables	10	372,858	454,198
Bills payable	10	22,540	38,022
Taxation payable		6,109	694
Dividend payable		104	93
Unsecured bank borrowings			
— due within one year	11	369,150	252,366
		770,761	745,373

		At 30th June, 2012 HK\$'000 (unaudited)	At 31st December, 2011 HK\$'000 (audited and restated)
Net current assets		1,022,559	1,089,003
Total assets less current liabilities		2,341,714	2,375,569
Non-current liability			
Deferred tax liabilities		52,424	51,048
		2,289,290	2,324,521
CAPITAL AND RESERVES			
Share capital	12	63,134	63,129
Reserves		2,215,965	2,252,890
Equity attributable to owners of the Company		2,279,099	2,316,019
Non-controlling interests		10,191	8,502
Total equity		2,289,290	2,324,521

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2012

	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, 2011 (as originally stated)	62,969	148,276	202,055	390,018	4,538	1,368,547	2,176,403	8,965	2,185,368
Adoption of amendments to HKAS 12	—	—	—	—	—	4,226	4,226	—	4,226
At 1st January, 2011 (audited and restated)	62,969	148,276	202,055	390,018	4,538	1,372,773	2,180,629	8,965	2,189,594
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	1,385,619	2,223,975	7,931	2,231,906
Profit for the period	—	—	—	—	—	117,190	117,190	979	118,169
Exchange difference arising on translation of foreign operation	—	—	—	53,699	—	—	53,699	(408)	53,291
Total comprehensive income for the period	—	—	—	53,699	—	117,190	170,889	571	171,460
Transfer on lapse of share options	—	—	—	—	(794)	794	—	—	—
Share issued on exercise of share options	84	3,750	—	—	(655)	—	3,179	—	3,179
Interim dividend for the year ended 31st December, 2011	—	—	—	—	—	(82,024)	(82,024)	—	(82,024)
Transfer	—	—	34,906	—	—	(34,906)	—	—	—
At 31st December, 2011 and 1st January, 2012 (audited and restated)	63,129	155,197	239,685	465,618	5,717	1,386,673	2,316,019	8,502	2,324,521
Profit for the period	—	—	—	—	—	71,524	71,524	1,557	73,081
Exchange difference arising on translation of foreign operation	—	—	—	(26,490)	—	—	(26,490)	132	(26,358)
Total comprehensive income for the period	—	—	—	(26,490)	—	71,524	45,034	1,689	46,723
Transfer on lapse of share options	—	—	—	—	(11)	11	—	—	—
Share issued on exercise of share options	5	131	—	—	(23)	—	113	—	113
Final dividend for the year ended 31st December, 2011	—	—	—	—	—	(82,067)	(82,067)	—	(82,067)
Transfer	—	—	19,820	—	—	(19,820)	—	—	—
At 30th June, 2012 (unaudited)	63,134	155,328	259,505	439,128	5,683	1,356,321	2,279,099	10,191	2,289,290

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 pursuant with the PRC regulations.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2012

	Six months ended 30th June,	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Net cash from operating activities	225,902	217,454
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(161,031)	(321,977)
Deposits paid relating to leasehold land interests	—	(1,942)
Proceeds on disposal of property, plant and equipment	31,287	12,883
Interest received	8,937	8,504
Proceeds on disposal of prepaid lease payments	8,371	—
	(112,436)	(302,532)
Net cash from (used in) financing activities		
Dividends paid	(82,056)	(144,884)
Repayment of bank borrowings	(11,270)	(176,162)
Interest paid	(2,232)	(1,125)
New bank borrowings raised	130,000	217,821
Proceeds from new shares issued	113	2,719
Dividend paid to non-controlling interests	—	(2,918)
	34,555	(104,549)
Net increase (decrease) in cash and cash equivalents	148,021	(189,627)
Cash and cash equivalents at the beginning of the period	652,739	869,956
Effect of foreign exchange rates changes	(9,730)	12,836
Cash and cash equivalents at the end of the period, represented by bank balances and cash	791,030	693,165

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2012

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

Amendments to HKFRS 7	<i>Disclosures — Transfers of Financial Assets</i>
Amendments to HKAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i>

Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK\$7,889,000 as at 31st December, 2011, with the corresponding adjustment being recognised in retained profits.

Summary of the effect of the above change in accounting policy

The effect of the change in accounting policy described above has no effect on the results for the current and preceding interim periods presented in the condensed consolidated statements of comprehensive income.

The effect of the change in accounting policy described above on the financial positions of the Group as at the end of the immediately preceding financial year, that is, 31st December, 2011, is as follows:

	As at 31/12/2011 (originally stated) HK\$'000	Adjustments HK\$'000	As at 31/12/2011 (restated) HK\$'000
Deferred tax liabilities	58,937	(7,889)	51,048
Total effect on net assets	2,316,632	7,889	2,324,521
Retained profits, total effects on equity	1,378,784	7,889	1,386,673

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The effect of the change in accounting policy described above on the financial positions of the Group as at the beginning of the comparative period, that is, 1st January, 2011, is as follows:

	As at 01/01/2011 (originally stated) HK\$'000	Adjustments HK\$'000	As at 01/01/2011 (restated) HK\$'000
Deferred tax liabilities	29,620	(4,226)	25,394
Total effect on net assets	2,185,368	4,226	2,189,594
Retained profits, total effects on equity	1,368,547	4,226	1,372,773

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 operating 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,	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	1,560	5,255
Taxation in jurisdictions outside Hong Kong	21,070	39,802
Deferred taxation	1,376	21,469
	24,006	66,526

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

Under the Law of the People's Republic of China on Enterprise Income Tax ("the EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

During the period ended 30th June, 2011, one of the Company's PRC subsidiaries was 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 EIT Law, the entity was entitled to a concessionary tax rate of 12.5%. The subsidiary was no longer entitled to the relief in tax rate and was subject to a tax rate of 25% since 1st January, 2012.

In addition, during the period ended 30th June, 2011, one of the Company's PRC subsidiaries was entitled to a transitional tax rate of 24%. The subsidiary was no longer entitled to the transitional rate and was subject to a tax rate of 25% since 1st January, 2012.

Taxation in jurisdictions outside Hong Kong and other than the PRC is calculated based on the applicable rates in those jurisdictions.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	918,973	871,852
Gross foreign exchange loss	2,284	5,644
Gross foreign exchange gain	(2,117)	(21,766)
Gain on disposal of property, plant and equipment	(7,908)	(6,052)
Gain on disposal of land lease	(1,091)	—
Release of prepaid lease payments	1,216	1,213
Interest income	(8,937)	(8,504)

6. DIVIDENDS

Interim dividend for the current period:

On 28th August, 2012, the Directors determined that an interim dividend of HK6 cents (2011: HK13 cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 14th September, 2012.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK13 cents (2011: a final dividend of HK18 cents and a final special dividend of HK5 cents) per share amounting to approximately HK\$82,067,000 (2011: final dividend of HK\$113,398,000 and final special dividend of HK\$31,499,000) was declared and paid to the shareholders for the year ended 31st December, 2011.

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,	
	2012	2011
	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	71,524	160,438
	<u>2012</u>	<u>2011</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	631,299,940	630,054,160
Effect of diluted potential ordinary shares on the exercise of shares options	273,409	2,447,764
Weighted average number of ordinary shares for the purposes of diluted earnings per share	631,573,349	632,501,924

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, 2012 and 30th June, 2011 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\$23,379,000 (2011: HK\$6,831,000) for cash proceeds of approximately HK\$31,287,000 (2011: HK\$12,883,000), resulting in a gain on disposal of approximately HK\$7,908,000 (2011: HK\$6,052,000).

In addition, the Group incurred expenditures of approximately HK\$47,048,000 (2011: HK\$110,803,000) on the construction in progress in the PRC and spent approximately HK\$102,453,000 (2011: HK\$167,528,000), HK\$2,379,000 (2011: HK\$608,000), HK\$2,678,000 (2011: HK\$16,179,000) and HK\$6,633,000 (2011: HK\$6,688,000) 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 ranging from 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) of approximately HK\$411,783,000 (31st December, 2011: HK\$420,893,000).

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, 2012 HK\$'000 (unaudited)	At 31st December, 2011 HK\$'000 (audited)
0 to 60 days	324,414	343,905
61 to 90 days	76,179	89,593
Over 90 days	39,038	26,301
	439,631	459,799

10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$122,032,000 (31st December, 2011: HK\$167,230,000).

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

	At 30th June, 2012 HK\$'000 (unaudited)	At 31st December, 2011 HK\$'000 (audited)
0 to 60 days	114,077	125,930
61 to 90 days	18,144	41,422
Over 90 days	12,351	37,900
	144,572	205,252

11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$130,000,000 (2011: HK\$217,821,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$11,270,000 (2011: HK\$176,162,000) 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, 2011	629,689,303	62,969
Shares issued on exercise of share options	<u>759,000</u>	<u>76</u>
At 30th June, 2011	630,448,303	63,045
Shares issued on exercise of share options	<u>839,000</u>	<u>84</u>
At 31st December, 2011	631,287,303	63,129
Shares issued on exercise of share options	<u>50,000</u>	<u>5</u>
At 30th June, 2012	<u><u>631,337,303</u></u>	<u><u>63,134</u></u>

13. SHARE-BASED PAYMENTS

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

	Number of share options
Outstanding at 1st January, 2012	6,832,000
Lapsed during the period	(12,000)
Exercised during the period	<u>(50,000)</u>
Outstanding at 30th June, 2012	<u><u>6,770,000</u></u>

During the period ended 30th June, 2011, the Group recognised an amount of approximately HK\$3,185,000 as employee benefits expenses for the period in relation to the share options granted by the Company. No share option expense was recognised for the period ended 30th June, 2012.

In respect of the share options exercised during the period ended 30th June, 2012, the closing price of the Company's shares immediately before the date of which the options were exercised was HK\$3.02.

14. CAPITAL COMMITMENTS

	At 30th June, 2012 HK\$'000	At 31st December, 2011 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	78,941	71,802

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	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Short-term benefits	17,355	26,107
Post-employment benefits	1,117	1,112
Share-based payment expenses	—	1,086
	18,472	28,305

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2012 was approximately HK\$1,179 million (2011: approximately HK\$1,256 million). Profit attributable to owners of the Company for the six months ended 30th June, 2012 was approximately HK\$72 million (2011: approximately HK\$160 million). Basic earnings per share for the six months ended 30th June, 2012 was HK11.33 cents (2011: HK25.46 cents).

During the period under review, the global economy was being clouded by the debt crisis in Europe and the United States. Bounded by the unfavorable external economic environment, the performance of the Group was inevitably affected. As a result, the Group's result worsened substantially, when compared with that of 2011, for the first half of the year.

The negative impact of the debt crisis in Europe and the United States offered no sign to subside. Distinct from the financial crisis being encountered in the past, the adverse effect did not only confine to a particular region; this time, the negative impact of the debt issues in Europe and the United States has been spreading all over the rest of the world. As confused by uncertainties in the market, investors' faith was weakened, investment for the launching of new products were either withdrawn or withheld. As hindered by the downturn of market in the Europe and the United States, the export business of China has slowed down noticeably and growth pace has significantly dropped. On the other hand, the Chinese government sought to maintain its economic growth by boosting domestic consumption. However, the tightening of credit control in banks led to a shortage of cash flow in market, which suppressed the desire to consume, causing further slowing down of the consumer market; consequently, both the domestic and export markets showed a downward trend at the same time. The reduction of aggregate orders activated fierce competition within the mould industry, and product prices were being compressed. To maintain its sales turnover and production economic scale, the Group had to appropriately adjust its product prices, in line with the prevailing market condition. Thus, the Group's profit margin was temporarily squeezed.

The Group has been keen on monitoring the growth rate of its operation costs. Yet, as influenced by the unfavorable external factors, operation costs surged continuously in view of price hiking in oil, electricity, and transportation. The cost of labor also increased continuously due to the shortage of skilled technical labor. As a result, the Group's performance in profitability was further impeded.

During the period under review, the Group continued to enhance its production and management system in various plants located both in the Southern and the Eastern regions of China, in order to improve its production effectiveness. The Group successfully merged the production line and facilities of the factory in Guangzhou, Guangdong Province of China, into the newly established high precision mould base production workshop located in the Heyuan factory, Guangdong Province of China. The new workshop concentrates in producing high precision mould bases for the overseas markets, including Europe, the United States and Japan, aiming to achieve an optimal scale of production and systemic management control. Starting from the third quarter of last year, the workshop gradually uplifted its productivity in order to meet the needs of the high precision mould customers. During the merging period, the workforce and production facilities demanded time and effort to ameliorate; meanwhile, due to the sluggish market situation in Europe and the United States, the related orders had dropped, the performance of high precision mould base was being affected as well. On the other hand, the construction work of the new plant in Hangzhou city, Zhejiang Province, China has progressed in full swing. The new investment project aims to explore the markets in the Eastern and Northern regions in China in the long run; thus, it is not expected to bring favorable return within the near future.

Turning to the mould steel material, the local mould steel price recorded a noticeable decrease as compared to that of last year. However, as the Group usually maintains a certain level of inventory, the fall of steel price would not be reflected instantly in the cost of materials. Whereas for the imported steel, its price remained relatively stable, and the range of fluctuation was relatively small.

In conclusion, as affected by various unfavorable factors, the Group still maintained a stable business operation. Yet, due to the slump in global economic situation and the uprising operation cost, the Group's profit, as compared with that of last year, showed a substantial drop and its performance fell behind expectation.

PROSPECTS

Until now, European countries and the United States have not yet put forward effective measures to deal with their debt issues comprehensively. Further, there is general doubt of whether the effect of the debt crisis has already been bottomed, and whether new debt problems may appear. If the affected countries cannot put forward effective measures to clear up the debt issues, the confidence of investors can hardly be restored, the adverse impact will continue to afflict the global economy, and recovery will never take place within the foreseeable future. Bounded by all the uncertainties, the Group foresees that all business operators will face an unprecedented challenge.

The Group expects the economic performance of European countries and the United States will stay weak, and the export business of China will continuously be hampered. Moreover, there is no significant sign that the Chinese Government will loosen its control on bank's credit policy; thus, investors will hold a conservative attitude towards new investment. As market confidence impairs, consumption market will gradually be constricted, posing an unprecedented crash to all trades and industries. Orders from customers of the Group will continue to fall, the demand for mould base will decrease correspondingly, and market competition will become fierce. Following the law of nature, "survival of the fittest", some of the customers and competitors with poor competitiveness will have to quit the mould industry; only those companies with solid foundation can stand firm. Equipped with strong financial strength, ample management experience, the Group, as the market leader, will maintain its competitive edge and market position, even in an adverse environment. Nevertheless, the Group's performance will be unavoidably affected under this situation. It is believed that, once the Central Government of China put forward new stimulus measures to loosen its monetary policy, market will gradually turn around. The Group has good faith in its ability to follow closely the economic revival pace of China, and to undergo a breakthrough when the time comes. The Group will monitor closely the ever-changing market situation and customer demands, flexibly devise its market strategy and set its long-term development direction, in order to maintain a stable business growth.

The Group will continue to restructure its various plants located both in the Southern and the Eastern regions of China, in order to uplift its product quality and capture the faith and support of customers. Regarding the production in the Heyuan factory, Guangdong Provinces of China, through streamlining its production flow, replacing low efficient machineries, achieving a higher level of automation, reducing reliance on manpower and adopting new production concept, the Group aims at uplifting its machining ability and enhancing product precision. The newly established precision mould base production workshop will continue to meliorate its production efficiency and will become more sophisticated by the year end. Eventually, production capacity will be uplifted, which will in turn reduce the operation cost, allowing promising business development in the high level machining services, for the medium to high-end quality mould making industries. Regarding the new plant in Hangzhou city, Zhejiang Province of China, it is expected that the operation of the mould steel distribution can be started by the end of 2012; and the production of mould bases will partly commence in the first half year of 2013. Once the construction of the new plant is completed, and the production line begins to run, the Group will further expand its market share in the Eastern and the Northern regions of China.

The operation cost is still expected to follow an upward trend. Owing to the skilled labor serious shortage, labor cost will be unavoidably increased. Thanks to the continuous effort in the past years, the Group basically manages to control the growth rate of its labor

cost. In response to the increasing price of energy and transportation cost which will in turn pushing up the operation cost, the Group exerts great effort in advocating “green production”, which integrates the concept of both environment protection and energy saving. Moreover, the Group promotes effective resources utilization and waste reduction, seeking to lower its operating cost and to uplift operating effectiveness. In addition, the Group has always been putting great emphasis on its credit risk management, attributing to a healthy and stable financial position, which will not be shaken under the fluctuating economic situation.

Due to the slowing down of global economy, the Group expects that the cost of both imported and local mould steel will be adjusted downward, but tends to be stable gradually. The Group will cautiously regulate its inventory level, in response to the ever-changing steel market, in order to lower its material cost.

Facing the difficult and complicated market situation, the Group will continue to uphold its positive attitude and principle, to seek for long-term and stable business growth. The Group will adopt flexible, yet stable business development strategies, to adapt to the ever-changing market environment, with an aim to overcome the depression skillfully, and to capture the new opportunity eventually.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2012, the Group had a net cash surplus of approximately HK\$422 million. The Group had cash balance of approximately HK\$791 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\$369 million, equal to approximately 16% of equity attributable to owners of the Company of approximately HK\$2,279 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2012, the Group employed a total of approximately 5,800 employees, including approximately 5,400 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 HK6 cents per share (2011: interim dividend of HK13 cents per share) in respect of the six months ended 30th June, 2012 to be payable on or around 27th September, 2012 to shareholders whose names appear in the Register of Members of the Company on 14th September, 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13th September, 2012 to 14th September, 2012, 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 12th September, 2012.

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 12th September, 2012 will be entitled to the interim dividend.

CHANGES IN DIRECTORS’ INFORMATION

In accordance with Rule 13.51B(1) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), the changes in directors’ information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the 2011 annual report of the Company are set out below:

Changes in experience including other directorships

Mr. Lee Joo Hai ceased to be an independent director of Asiasons WFG Financial Ltd., which is listed on the main board of The Singapore Exchange Securities Trading Limited (“SGX-ST”). Mr. Lee also ceased to be an independent director of Adampak Limited subsequent to the delisting of Adampak Limited from the main board of SGX-ST.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2012, 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)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.04%
Siu Yuk Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.04%
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%
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	200,000	—	250,000	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, 2012.

SHARE OPTIONS

At the annual general meeting of the Company held on 7th May, 2012, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the “2012 Scheme”) and the termination of the share option scheme of the Company which was adopted by the shareholders of the Company on 9th September, 2002 (the “2002 Scheme”). Thereafter, no option will be granted under the 2002 Scheme but the subsisting options granted prior to the termination of the 2002 Scheme will continue to be valid and exercisable in accordance with the terms of the 2002 Scheme.

Under the 2012 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 2012 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 6th May, 2022.

At 30th June, 2012, no option was granted under the 2012 Scheme but the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 6,770,000, representing about 1.07% 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 2012 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the 2012 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 exercise 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 (“Exercise Period”). Options may be exercised in accordance with the terms of the 2012 Scheme at any time during the Exercise 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, 2012	Lapsed during the period	Exercised during the period	At 30th June, 2012			
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	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Liu Wing Ting, Stephen	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 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 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	3,200,000	—	(50,000)	3,150,000			

	Number of share options			At 30th June, 2012	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2012	Lapsed during the period	Exercised during the period				
Category 2: Employees							
	314,000 <i>(Note)</i>	–	–	314,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	3,318,000 <i>(Note)</i>	(12,000)	–	3,306,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	3,632,000	(12,000)	–	3,620,000			
Total all categories	6,832,000	(12,000)	(50,000)	6,770,000			

Note: The amount was reclassified from category 1 to account for those options granted to Mr. Chan Chun Sing, Colin who ceased to be a non-executive director of the Company since 1st January, 2012.

The closing price of the Company's shares immediately before the date of which the options were exercised was HK\$3.02.

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, 2012, 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	58.01%
Commonwealth Bank of Australia	Interest of controlled corporation	50,276,108	7.96%

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, 2012.

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, 2012.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1st April, 2012) 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, 28th August, 2012