



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

# *Interim Report* **2013**



## **CONTENTS**

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	2
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	9
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	10
MANAGEMENT DISCUSSION AND ANALYSIS	20
OTHER INFORMATION	24



# 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, 2013 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, 23rd August, 2013

## 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, 2013 together with the comparative figures as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

		<b>Six months ended 30th June,</b>	
		<b>2013</b>	2012
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Revenue	3	<b>1,067,571</b>	1,178,975
Other income		<b>17,116</b>	21,844
Changes in inventories of finished goods and work in progress		<b>3,791</b>	(5,124)
Raw materials and consumables used		<b>(442,607)</b>	(541,541)
Employee benefits expenses		<b>(241,460)</b>	(241,088)
Depreciation of property, plant and equipment		<b>(98,483)</b>	(86,218)
Other expenses		<b>(201,380)</b>	(227,529)
Interest on bank borrowings wholly repayable within five years		<b>(2,167)</b>	(2,232)
Profit before taxation		<b>102,381</b>	97,087
Income tax expense	4	<b>(30,110)</b>	(24,006)
Profit for the period	5	<b>72,271</b>	73,081
Other comprehensive income (expense):			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operation		<b>40,024</b>	(26,358)
Total comprehensive income for the period		<b>112,295</b>	46,723

		<b>Six months ended 30th June,</b>	
		<b>2013</b>	2012
		<b>HK\$'000</b>	HK\$'000
<i>Notes</i>		<b>(unaudited)</b>	(unaudited)
Profit for the period attributable to:			
	Owners of the Company	<b>70,758</b>	71,524
	Non-controlling interests	<b>1,513</b>	1,557
		<b>72,271</b>	73,081
Total comprehensive income for the period attributable to:			
	Owners of the Company	<b>111,136</b>	45,034
	Non-controlling interests	<b>1,159</b>	1,689
		<b>112,295</b>	46,723
		<b>HK cents</b>	HK cents
Earnings per share			
	— Basic	<b>11.20</b>	11.33
	— Diluted	<b>11.20</b>	11.32

7

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

		At 30th June, 2013 HK\$'000 (unaudited)	At 31st December, 2012 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment properties	8	121,500	121,500
Property, plant and equipment	8	1,135,780	1,176,509
Prepaid lease payments			
— non-current portion		100,574	100,155
Deposits paid for acquisition of property, plant and equipment		1,398	2,120
		<b>1,359,252</b>	1,400,284
Current assets			
Inventories		490,505	410,497
Trade and other receivables	9	469,579	447,067
Bills receivable	9	24,200	30,523
Prepaid lease payments			
— current portion		2,362	2,325
Bank balances and cash		976,798	805,044
		<b>1,963,444</b>	1,695,456
Current liabilities			
Trade and other payables	10	320,191	362,797
Bills payable	10	38,186	31,728
Taxation payable		12,383	6,787
Dividend payable		1,629	103
Unsecured bank borrowings			
— due within one year	11	366,380	221,072
		<b>738,769</b>	622,487

		At 30th June, 2013 HK\$'000 (unaudited)	At 31st December, 2012 HK\$'000 (audited)
Net current assets		<b>1,224,675</b>	1,072,969
Total assets less current liabilities		<b>2,583,927</b>	2,473,253
Non-current liabilities			
Deferred tax liabilities		<b>50,408</b>	49,021
Other payables	12	<b>72,679</b>	—
		<b>123,087</b>	49,021
		<b>2,460,840</b>	2,424,232
<b>CAPITAL AND RESERVES</b>			
Share capital	13	<b>63,168</b>	63,163
Reserves		<b>2,385,355</b>	2,349,911
Equity attributable to owners of the Company		<b>2,448,523</b>	2,413,074
Non-controlling interests		<b>12,317</b>	11,158
Total equity		<b>2,460,840</b>	2,424,232



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2013

	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 <i>(note)</i>	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000			Sub-total HK\$'000
At 1st January, 2012 (audited)	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 (expense) 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 (note 6)	–	–	–	–	–	(82,068)	(82,068)	–	(82,068)
Transfer	–	–	19,819	–	–	(19,819)	–	–	–
At 30th June, 2012 (unaudited)	63,134	155,328	259,504	439,128	5,683	1,356,321	2,279,098	10,191	2,289,289
Profit for the period	–	–	–	–	–	125,005	125,005	701	125,706
Exchange difference arising on translation of foreign operation	–	–	–	46,196	–	–	46,196	266	46,462
Total comprehensive income for the period	–	–	–	46,196	–	125,005	171,201	967	172,168
Transfer on lapse of share options	–	–	–	–	(146)	146	–	–	–
Share issued on exercise of share options	29	755	–	–	(126)	–	658	–	658
Interim dividend for the year ended 31st December, 2012	–	–	–	–	–	(37,883)	(37,883)	–	(37,883)
Transfer	–	–	7,463	–	–	(7,463)	–	–	–
At 31st December, 2012 and 1st January, 2013 (audited)	63,163	156,083	266,967	485,324	5,411	1,436,126	2,413,074	11,158	2,424,232
Profit for the period	–	–	–	–	–	70,758	70,758	1,513	72,271
Exchange difference arising on translation of foreign operation	–	–	–	40,378	–	–	40,378	(354)	40,024
Total comprehensive income for the period	–	–	–	40,378	–	70,758	111,136	1,159	112,295
Transfer on lapse of share options	–	–	–	–	(216)	216	–	–	–
Share issued on exercise of share options	5	130	–	–	(21)	–	114	–	114
Final dividend for the year ended 31st December, 2012 (note 6)	–	–	–	–	–	(75,801)	(75,801)	–	(75,801)
At 30th June, 2013 (unaudited)	63,168	156,213	266,967	525,702	5,174	1,431,299	2,448,523	12,317	2,460,840

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, 2013

	Six months ended 30th June,	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Net cash from operating activities	109,856	225,902
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(51,006)	(161,031)
Interest received	9,935	8,937
Proceeds on disposal of property, plant and equipment	4,466	31,287
Proceeds on disposal of prepaid lease payments	—	8,371
	(36,605)	(112,436)
Net cash from financing activities		
New bank borrowings raised	162,000	130,000
Proceeds from new shares issued	114	113
Dividends paid	(74,275)	(82,056)
Repayment of bank borrowings	(11,448)	(11,270)
Interest paid	(2,167)	(2,232)
	74,224	34,555
Net increase in cash and cash equivalents	147,475	148,021
Cash and cash equivalents at the beginning of the period	805,044	652,739
Effect of foreign exchange rates changes	24,279	(9,730)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	976,798	791,030

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

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

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, 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2012.

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

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

### ***Amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”***

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” may be renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. However, since the new terminology under amendments to HKAS 1 is not mandatory and the directors of the Company opt to remain the title of “statement of comprehensive income” unchanged.

In addition, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### ***Amendments to HKAS 34 “Interim Financial Reporting” (as part of the Annual Improvements to HKFRSs 2009–2011 Cycle)***

The Group has applied the amendments to HKAS 34 “Interim Financial Reporting” as part of the Annual Improvements to HKFRSs 2009–2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (“CODM”) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review assets and liabilities of the Group’s reportable segments for performance assessment and resource allocation purposes, the Group has not included total asset and total liabilities information as part of segment information.

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

### ***HKFRS 10 “Consolidated Financial Statements”***

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC)-Int 12 “Consolidation — Special Purpose Entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1st January, 2013) as to whether or not the Group has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that it has had control over the investees which are consolidated into the condensed consolidated financial statements before the application of HKFRS 10. The adoption of HKFRS 10 has therefore had no material effect on the amounts reported in this condensed consolidated financial statements.

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

## 3. SEGMENT INFORMATION

The Group has only one operating segment. The information reported to the CODM (the Group’s board of directors) for the purposes of resources allocation and performance assessment 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 revenue and segment result of the Group represents revenue and profit after taxation set out in the condensed consolidated statement of comprehensive income respectively.

### 3. SEGMENT INFORMATION *(Continued)*

#### Entity-wide disclosures

As at 30th June, 2013 and 31st December, 2012, substantially all of the Group's non-current assets are located in the place of domicile of the relevant group entities, namely the PRC.

The following is an analysis of the Group's revenue based on location of customers:

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC (excluding Hong Kong)	914,614	996,090
Hong Kong	2,049	2,173
Others	150,908	180,712
	<b>1,067,571</b>	<b>1,178,975</b>

The Group has a very wide customer base covering Europe, America and Asia. No single customer contributed more than 10% of the Group's revenue for each of the six months ended 30th June, 2013 and 2012.

### 4. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	48	1,560
Taxation in jurisdictions outside Hong Kong	28,658	21,070
Deferred taxation	1,404	1,376
	<b>30,110</b>	<b>24,006</b>

#### 4. INCOME TAX EXPENSE *(Continued)*

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.

Taxation in other jurisdictions 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):

	<b>Six months ended 30th June,</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Cost of inventories recognised as an expense	<b>804,180</b>	918,973
Gross foreign exchange loss	<b>5,613</b>	2,284
Gross foreign exchange gain	<b>(4,026)</b>	(2,117)
Gain on disposal of property, plant and equipment	<b>(1,976)</b>	(7,908)
Gain on disposal of prepaid lease payments	<b>—</b>	(1,091)
Release of prepaid lease payments	<b>1,168</b>	1,216
Interest income	<b>(9,935)</b>	(8,937)

## 6. DIVIDENDS

Interim and special dividends for the current period:

On 23rd August, 2013, the Directors determined that an interim dividend of HK6 cents (2012: HK6 cents) per share amounting to approximately HK\$37,901,000 (2012: HK\$37,883,000) and a special dividend of HK6 cents per share (2012: Nil) amounting to approximately HK\$37,901,000 (2012: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 11th September, 2013.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK12 cents (2012: HK13 cents) per share amounting to approximately HK\$75,801,000 (2012: HK\$82,068,000) in aggregate was declared and paid to the shareholders for the year ended 31st December, 2012.

## 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,	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<b>70,758</b>	71,524
	<b>2013</b>	<b>2012</b>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>631,674,541</b>	631,299,940
Effect of diluted potential ordinary shares on the exercise of shares options	<b>8,649</b>	273,409
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>631,683,190</b>	631,573,349



## 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, 2013 and 30th June, 2012 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\$2,490,000 (2012: HK\$23,379,000) for cash proceeds of approximately HK\$4,466,000 (2012: HK\$31,287,000), resulting in a gain on disposal of approximately HK\$1,976,000 (2012: HK\$7,908,000).

In addition, the Group incurred expenditures of approximately HK\$29,961,000 (2012: HK\$47,048,000) on the construction in progress in the PRC and spent approximately HK\$17,818,000 (2012: HK\$102,453,000), HK\$907,000 (2012: HK\$2,379,000), HK\$1,371,000 (2012: HK\$2,678,000) and HK\$1,670,000 (2012: HK\$6,633,000) 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 days 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\$394,211,000 (31st December, 2012: HK\$401,250,000).

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

	<b>At 30th June, 2013 HK\$'000 (unaudited)</b>	<b>At 31st December, 2012 HK\$'000 (audited)</b>
0 to 60 days	<b>313,615</b>	316,887
61 to 90 days	<b>68,671</b>	84,835
Over 90 days	<b>36,125</b>	30,051
	<b>418,411</b>	431,773

## 10. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Included in trade and other payables are trade payables of approximately HK\$123,037,000 (31st December, 2012: HK\$75,513,000).

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

	<b>At 30th June, 2013 HK\$'000 (unaudited)</b>	<b>At 31st December, 2012 HK\$'000 (audited)</b>
0 to 60 days	<b>116,079</b>	76,010
61 to 90 days	<b>21,643</b>	18,178
Over 90 days	<b>23,501</b>	13,053
	<b>161,223</b>	107,241

## 11. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$162,000,000 (2012: HK\$130,000,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$11,448,000 (2012: HK\$11,270,000) during the period using the funds generated from operations.

## 12. OTHER PAYABLES

The amounts represented employee economic compensation of HK\$109,899,000 (31st December, 2012: HK\$102,545,000) which was provided according to PRC Labour Law. As at 30th June, 2013, after reassessment by the management, provision of employee economic compensation of HK\$72,679,000 (2012: Nil) would be settled after twelve months from the end of the reporting period and is classified as a non-current liability.

### 13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Issued and fully paid ordinary shares of HK\$0.1 each:		
At 1st January, 2012	631,287,303	63,129
Shares issued on exercise of share options	<u>50,000</u>	<u>5</u>
At 30th June, 2012	631,337,303	63,134
Shares issued on exercise of share options	<u>290,000</u>	<u>29</u>
At 31st December, 2012	631,627,303	63,163
Shares issued on exercise of share options	<u>50,000</u>	<u>5</u>
At 30th June, 2013	<u><u>631,677,303</u></u>	<u><u>63,168</u></u>

### 14. 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, 2013	6,320,000
Lapsed during the period	(428,000)
Exercised during the period	<u>(50,000)</u>
Outstanding at 30th June, 2013	<u><u>5,842,000</u></u>

No share option expense was recognised for the period ended 30th June, 2013 and 2012.

In respect of the share options exercised during the period ended 30th June, 2013, the weighted average closing price of the Company's shares immediately before the date of which the options were exercised was HK\$2.98.

## 15. CAPITAL COMMITMENTS

	<b>At 30th June, 2013 HK\$'000</b>	At 31st December, 2012 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	<b>44,171</b>	69,150

## 16. RELATED PARTY TRANSACTIONS

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

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

	<b>Six months ended 30th June</b>	
	<b>2013 HK\$'000 (unaudited)</b>	2012 HK\$'000 (unaudited)
Short-term benefits	<b>17,283</b>	17,355
Post-employment benefits	<b>1,118</b>	1,117
	<b>18,401</b>	18,472

## 17. EVENT AFTER THE END OF THE REPORTING PERIOD

On 6th July, 2013, 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, had entered into an agreement with an independent third party in relation to the disposal of the land use right of the land situated at No. 68 Min Yi Road, Songjiang District, Shanghai, the PRC, and all premises erected on the land and complementary facilities at an aggregate consideration of RMB109,000,000 (equivalent to approximately HK\$137,792,000). Details of the transaction are included in the announcement of the Company dated 8th July, 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2013 was approximately HK\$1,068 million (2012: approximately HK\$1,179 million). Profit attributable to owners of the Company for the six months ended 30th June, 2013 was approximately HK\$71 million (2012: approximately HK\$72 million). Basic earnings per share for the six months ended 30th June, 2013 was HK11.20 cents (2012: HK11.33 cents).

During the period under review, the global economy remained in a vulnerable state, and the business environment was challenging. As influenced by the debt crisis in Europe and the slow recovery of the global economy, the turnover of the Group for the first half of the year, was similar to that of the same period in 2012, and maintained a quite stable performance.

The negative impact of the debt crisis in Europe on the global economy was not completely subsided, and the global economic outlook still clouded with uncertainties. The European economy was still weak, without notable sign of recovery. The United States market showed a sign of improvement, yet still in a slow pace toward recovery. As hindered by the sluggish economic growth in global economy, demand for goods decreased. Coupled with the appreciation of Renminbi, the growth of export business of China began to slow down. Due to the shortage of cash flow in the market, the increase of wage level lagging behind the inflation growth rate, and the lack of Government subsidized measures in stimulating the economy, consumption desire was suppressed consequently. Facing the reduction of aggregate orders, demand for mould products lessened and its price was further pressed down. However, with its long established brand name and its market leading position, the Group succeeded in scrambling orders at a reasonable sales price and consolidating its market shares since customers have faith on the Group's products and its brand reputation. Thus, the Group's profit margin can be maintained at a certain level.

During the period under review, following the gradual uplifting of labor skills in production and better co-ordination in running precision machineries, production of the high precision mould base production workshop, located in the Heyuan factory, Guangdong Province, China, has progressed smoothly with gradual increase in production capacity. Nevertheless, due to the relatively low order situation, the present workshop facility and production capacity has not been fully utilized, thus, leaving plenty of rooms for development.

For the new plant in Hangzhou city, Zhejiang Province, China, the newly developed mould steel business has been advanced gradually towards a right direction, further helps to explore the steel business in Eastern regions in China. In addition, preliminary mould base production has been operated quite smoothly and it reached the Group's expectation. At the same time, the Group has actively improved the living environment and related facilities, whilst recruitment and training of manpower to proceed simultaneously.

Turning to the supply of mould steel material, the local mould steel price remained quite stable. For the imported steel, the range of price fluctuation was also relatively small.

The Group has endeavored in monitoring the growth rate of its operation costs. However, in view of the spiral rise of oil, electricity, and transportation cost as well as the constant increase of labor cost due to the shortage of skilled technical labor, the Group's profit performance was hindered.

In conclusion, despite of various unfavorable conditions, the Group's performance managed to reach expectation.

## **EVENT SINCE THE END OF THE FINANCIAL PERIOD**

As announced on 8th July, 2013, 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, had entered into an agreement with an independent third party in relation to the disposal of the land use right of the land situated at No. 68 Min Yi Road, Songjiang District, Shanghai, the PRC, and all premises erected on the land and complementary facilities at an aggregate consideration of RMB109,000,000 (equivalent to approximately HK\$137,792,000).

## **PROSPECTS**

Economic situation facing the Euro zone is still tough and challenging, however, further substantial adverse impact on the global economy as initiated by the European countries is not expected. The United States economy shows continuous improvement, which should help the global economy to step on the recovery road. The Group foresees that while the global economy may fluctuate constantly, it will turn around in the long run.

The export business of China is rather sluggish in the short term. However, once the economic performance of European countries and the United States revives, and the appreciation rate of Renminbi decelerates, its export business will gradually improves. In views of the lack of new economic stimulus measures put forward by the Chinese Government, market consumption desire has declined. Besides daily necessity, demand for other consumption items has been cooling down. Consumption market in China is undergoing a transitional and structural change. In the long run, policy executed by the Chinese government in boosting up its Gross Domestic Product (GDP) growth will drive



up the need for quality products and services in all industry, which in turn will promote a more healthy and balanced development of the economy as a whole. Despite the economic growth pace slows down, China is still the country experiencing the highest economic growth in the world; therefore, its market potential remains enormous. The Group will monitor the market situation and customers' needs in devising its market strategy, and will follow closely the economic development pace of China, in order to fortify a stable business development.

Turning to the production in the Heyuan factory, Guangdong Province, China, the Group strives to enhance its productivity and its product precision through continuously streamlining its production flow and management modes, such as replacing low efficient machineries, adopting a more automated production processes to reduce the reliance on manpower and adopting new production concept, in order to support the regional production need of the Group. It is foreseen that the precision mould base production workshop will be becoming more sophisticated in its production skills, eventually, production efficiency and capacity will be raised, which will in turn further reinforce its development into the in-depth machining services for the medium to high-end quality mould making industries, which helps to sustain the Group's competitiveness.

Regarding the new plant in Hangzhou city, Zhejiang Province, China, the Group keeps further promoting its steel distribution business. For the production of mould bases, the Group will strategically implement the production in phases, considering the factors relating to the market, manpower, machinery and equipment, in order to extend its market shares in the Eastern, Central and Northern regions of China successfully.

As affected by the external market environment, the operation cost of the Group is still in an upward trend. Owing to the skilled labor shortage, labor cost will be unavoidably increased. Resorted to the time and labor saving production process as explored by the Group, the growth rate of its labor cost is basically under control. Facing the rising price of energy and transportation cost, the Group endeavors in monitoring its operation cost, so as to elevate operating effectiveness.

Due to the slow down of global economy, the Group expects that the price of both imported and local mould steel tends to be stable and the range of fluctuation narrows. The Group will cautiously regulate its inventory level in order to restrain its material cost.

Looking ahead, the business-operating environment remains challenging, the Group still upholds a positive attitude and pragmatic principle in seeking for stable and healthy business growth.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2013, the Group had a net cash surplus of approximately HK\$611 million. The Group had cash balance of approximately HK\$977 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\$366 million, equal to approximately 15% of equity attributable to owners of the Company of approximately HK\$2,449 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th June, 2013, the Group employed a total of approximately 5,500 employees, including approximately 5,100 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 AND SPECIAL DIVIDENDS**

The Directors have determined an interim dividend of HK6 cents per share (2012: HK6 cents per share) and a special dividend of HK6 cents per share (2012: Nil) in respect of the six months ended 30th June, 2013 to be payable on or around 25th September, 2013 to shareholders whose names appear in the Register of Members of the Company on 11th September, 2013.

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

The Register of Members of the Company will be closed from 10th September, 2013 to 11th September, 2013, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim and special dividends, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office of the Company, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 9th September, 2013.

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 9th September, 2013 will be entitled to the interim and special dividends.

### **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 2012 annual report of the Company are set out below:

#### **Changes in experience including other major appointments**

Mr. Liu Wing Ting, Stephen ceased to be a member of the Hospital Governing Committee of Prince of Wales Hospital on 31st March, 2013. Mr. Liu has been appointed as member of the Hospital Governing Committees of Kwai Chung Hospital, Princess Margaret Hospital and Tseung Kwan O Hospital with effect from 1st April, 2013.

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, 2013, 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	64.00%
Siu Yuk Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.00%
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	—	150,000	300,000	0.05%
Lee Tat Yee	Beneficial owner	150,000	—	150,000	300,000	0.05%
Lee Joo Hai	Beneficial owner	300,000	—	150,000	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**

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

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

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

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2013.

## 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, 2013, 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 5,842,000, representing about 0.92% 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, 2013	Lapsed during the period	Exercised during the period	At 30th June, 2013			
<b>Category 1: Directors</b>							
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	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
<b>Total</b>	<b>3,050,000</b>	<b>(300,000)</b>	<b>—</b>	<b>2,750,000</b>			

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2013	Lapsed during the period	Exercised during the period	At 30th June, 2013			
<b>Category 2: Employees</b>							
	124,000	(74,000)	(50,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	3,146,000	(54,000)	—	3,092,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	3,270,000	(128,000)	(50,000)	3,092,000			
Total all categories	6,320,000	(428,000)	(50,000)	5,842,000			

The weighted average closing price of the Company's shares immediately before the date of which the options were exercised was HK\$2.98.

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, 2013, 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	57.97%
Commonwealth Bank of Australia	Interest of controlled corporation	50,378,108	7.98%
Schroders Plc	Investment manager	37,787,500	5.98%

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

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2013.

#### **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, 2013.

#### **CORPORATE GOVERNANCE**

The Company has complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the review period.

#### **MODEL CODE**

The Company has adopted the Model Code 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, 23rd August, 2013