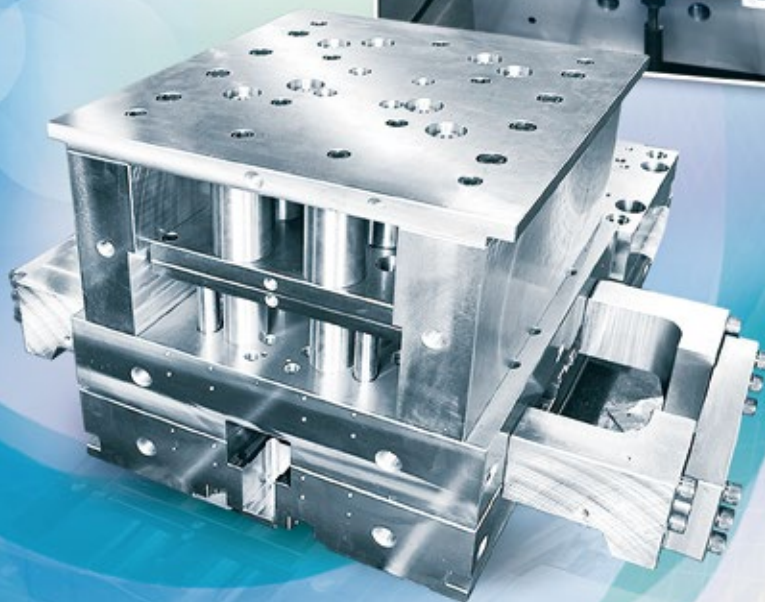




Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



2014
Interim Report

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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 18, which comprise the condensed consolidated statement of financial position as of 30th June, 2014 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, 18th August, 2014

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, 2014 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2014

		Six months ended 30th June,	
		2014	2013
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	1,146,741	1,067,571
Other income	4	47,013	17,116
Changes in inventories of finished goods and work in progress		9,282	3,791
Raw materials and consumables used		(512,986)	(442,607)
Employee benefits expenses		(273,910)	(241,460)
Depreciation of property, plant and equipment		(91,480)	(98,483)
Other expenses		(230,745)	(201,380)
Interest on bank borrowings wholly repayable within five years		(1,990)	(2,167)
Profit before taxation		91,925	102,381
Income tax expense	5	(27,120)	(30,110)
Profit for the period	6	64,805	72,271
Other comprehensive (expense) income:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Reclassification adjustment of translation reserve upon deregistration of a subsidiary		(31,190)	—
Exchange difference arising on translation of foreign operations		(64,207)	40,024

		Six months ended 30th June,	
		2014	2013
		HK\$'000	HK\$'000
<i>Notes</i>		(unaudited)	(unaudited)
Other comprehensive (expense) income for the period		(95,397)	40,024
Total comprehensive (expense) income for the period		(30,592)	112,295
Profit for the period attributable to:			
Owners of the Company		63,858	70,758
Non-controlling interests		947	1,513
		64,805	72,271
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(31,569)	111,136
Non-controlling interests		977	1,159
		(30,592)	112,295
		HK cents	HK cents
Earnings per share	8		
— Basic		10.11	11.20
— Diluted		10.11	11.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2014

	Notes	At 30th June, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	151,500	151,500
Property, plant and equipment	9	1,117,574	1,137,129
Prepaid lease payments			
— non-current portion		96,972	100,608
Deposits paid for acquisition of property, plant and equipment		106,903	79,163
Deferred tax assets		16,100	—
		1,489,049	1,468,400
Current assets			
Inventories		568,087	528,927
Trade, bills and other receivables	10	494,344	472,628
Prepaid lease payments			
— current portion		2,332	2,391
Bank balances and cash		528,476	737,441
		1,593,239	1,741,387
Current liabilities			
Trade, bills and other payables	11	409,401	401,069
Taxation payable		13,085	4,676
Dividend payable		182	124
Unsecured bank borrowings			
— due within one year	12	175,042	193,809
		597,710	599,678

		At 30th June, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
Net current assets		995,529	1,141,709
Total assets less current liabilities		2,484,578	2,610,109
Non-current liabilities			
Deferred tax liabilities		48,579	38,480
Other payables	11	77,356	81,326
		125,935	119,806
		2,358,643	2,490,303
CAPITAL AND RESERVES			
Share capital	13	63,168	63,168
Reserves		2,282,011	2,414,648
Equity attributable to owners of the Company		2,345,179	2,477,816
Non-controlling interests		13,464	12,487
Total equity		2,358,643	2,490,303

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2014

	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, 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
Other comprehensive income for the period									
Exchange difference arising on translation of foreign operation	–	–	–	40,378	–	–	40,378	(354)	40,024
	–	–	–	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 7)	–	–	–	–	–	(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
Profit for the period	–	–	–	–	–	74,439	74,439	173	74,612
Other comprehensive income for the period									
Exchange difference arising on translation of foreign operations	–	–	–	30,656	–	–	30,656	(3)	30,653
	–	–	–	30,656	–	–	30,656	(3)	30,653
Total comprehensive income for the period	–	–	–	30,656	–	74,439	105,095	170	105,265
Transfer on lapse of share options	–	–	–	–	(361)	361	–	–	–
Interim dividend for the year ended 31st December, 2013 (note 7)	–	–	–	–	–	(37,901)	(37,901)	–	(37,901)
Interim special dividend for the year ended 31st December, 2013 (note 7)	–	–	–	–	–	(37,901)	(37,901)	–	(37,901)
Transfer	–	–	(105)	–	–	105	–	–	–
At 31st December, 2013 and 1st January, 2014 (audited)	63,168	156,213	266,862	556,358	4,813	1,430,402	2,477,816	12,487	2,490,303
Profit for the period	–	–	–	–	–	63,858	63,858	947	64,805
Other comprehensive expense for the period									
Reclassification adjustment of translation reserve upon deregistration of a subsidiary	–	–	–	(31,190)	–	–	(31,190)	–	(31,190)
Exchange difference arising on translation of foreign operations	–	–	–	(64,237)	–	–	(64,237)	30	(64,207)
	–	–	–	(95,427)	–	–	(95,427)	30	(95,397)
Total comprehensive expense for the period	–	–	–	(95,427)	–	63,858	(31,569)	977	(30,592)
Transfer on lapse of share options	–	–	–	–	(70)	70	–	–	–
Final dividend for the year ended 31st December, 2013 (note 7)	–	–	–	–	–	(50,534)	(50,534)	–	(50,534)
Final special dividend for the year ended 31st December, 2013 (note 7)	–	–	–	–	–	(50,534)	(50,534)	–	(50,534)
At 30th June, 2014 (unaudited)	63,168	156,213	266,862	460,931	4,743	1,393,262	2,345,179	13,464	2,358,643

Note: The statutory reserve represents the appropriation of certain percentages of profit after taxation of subsidiaries established 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, 2014

	Six months ended 30th June,	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash from operating activities	48,277	109,856
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(124,660)	(51,006)
Interest received	9,113	9,935
Proceeds on disposal of property, plant and equipment	2,629	4,466
	(112,918)	(36,605)
Net cash (used in) from financing activities		
Dividends paid	(101,010)	(74,275)
Repayment of bank borrowings	(99,556)	(11,448)
Interest paid	(1,990)	(2,167)
New bank borrowings raised	80,000	162,000
Proceeds from new shares issued	—	114
	(122,556)	74,224
Net (decrease) increase in cash and cash equivalents	(187,197)	147,475
Cash and cash equivalents at the beginning of the period	737,441	805,044
Effect of foreign exchange rates changes	(21,768)	24,279
Cash and cash equivalents at the end of the period, represented by bank balances and cash	528,476	976,798

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2014

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, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

The application of these amendments to HKFRSs and Interpretation 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 chief operating decision maker (the Company'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.

Entity-wide disclosures

As at 30th June, 2014 and 31st December, 2013, 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,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC (excluding Hong Kong)	988,090	914,614
Hong Kong	2,547	2,049
Others	156,104	150,908
	1,146,741	1,067,571

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, 2014 and 2013.

4. OTHER INCOME

	Six months ended 30th June,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest Income	9,113	9,935
Rental income, net of direct outgoings to approximately HK\$211,000 (2013: HK\$188,000)	1,436	1,593
Gain on disposal of property, plant and equipment	2,571	1,976
Exchange gain on deregistration of a subsidiary	31,190	—
Net foreign exchange gain	669	—
Sundry income	2,034	3,612
	47,013	17,116

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	47	48
Taxation in jurisdictions outside Hong Kong	33,000	28,658
Deferred taxation	(5,927)	1,404
	27,120	30,110

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%.

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

6. PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	917,865	804,180
Gross foreign exchange loss	3,376	5,613
Gross foreign exchange gain	(4,045)	(4,026)
Release of prepaid lease payments	1,183	1,168

7. DIVIDENDS

Interim dividend for the current period:

On 18th August, 2014, the Directors determined that an interim dividend of HK6 cents (2013: interim dividend of HK6 cents and interim special dividend of HK6 cents) per share amounting to approximately HK\$37,901,000 (2013: interim dividend of HK\$37,901,000 and interim special dividend of HK\$37,901,000) should be paid to the shareholders of the Company whose names appear in the Register of Members on 4th September, 2014.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK8 cents (2013: HK12 cents) per share amounting to approximately HK\$50,534,000 (2013: HK\$75,801,000) in aggregate and a final special dividend of HK8 cents (2013: Nil) per share amounting to approximately HK\$50,534,000 (2013: Nil) in aggregate were declared and paid to the shareholders in respect of the year ended 31st December, 2013.

8. 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,	
	2014	2013
	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	63,858	70,758
	<u>2014</u>	<u>2013</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	631,677,303	631,674,541
Effect of diluted potential ordinary shares on the exercise of shares options	—	8,649
Weighted average number of ordinary shares for the purposes of diluted earnings per share	631,677,303	631,683,190

The computation of diluted earnings per share for the current period does not assume the exercise of the Company's outstanding share options because the exercise price of these options was higher than the average market price for shares for the period.

9. 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, 2014 and 30th June, 2013 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\$58,000 (2013: HK\$2,490,000) for cash proceeds of approximately HK\$2,629,000 (2013: HK\$4,466,000), resulting in a gain on disposal of approximately HK\$2,571,000 (2013: HK\$1,976,000).

In addition, the Group incurred expenditures of approximately HK\$14,644,000 (2013: HK\$29,961,000) on the construction in progress in the PRC and spent approximately HK\$76,707,000 (2013: HK\$17,818,000), HK\$1,582,000 (2013: HK\$907,000), HK\$72,000 (2013: HK\$1,371,000) and HK\$3,915,000 (2013: HK\$1,670,000) 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.

10. TRADE, BILLS AND OTHER RECEIVABLES

	At 30th June, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
Trade receivables	448,604	426,979
Bills receivables	35,944	27,244
Less: allowance for doubtful debts	(34,147)	(31,928)
	450,401	422,295
Other receivables, deposits and prepayments	43,943	50,333
Total trade, bills and other receivables	494,344	472,628

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

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, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
0 to 60 days	331,275	318,723
61 to 90 days	54,275	87,222
Over 90 days	64,851	16,350
	450,401	422,295

11. TRADE, BILLS AND OTHER PAYABLES

	At 30th June, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
Trade payables	161,879	145,130
Bills payables	42,357	30,013
Advance receipt from customers	37,885	29,112
Deposits received in respect of disposal of a land lease	6,238	6,395
VAT payables	—	5,408
Provision of employee economic compensation	116,970	122,975
Payables for salaries and bonuses	52,264	62,872
Other payables	69,164	80,490
Total	486,757	482,395
Less: Amount due within one year shown under current liabilities	(409,401)	(401,069)
Amount due after one year	77,356	81,326

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

	At 30th June, 2014 HK\$'000 (unaudited)	At 31st December, 2013 HK\$'000 (audited)
0 to 60 days	135,862	125,513
61 to 90 days	50,921	20,960
Over 90 days	17,453	28,670
	204,236	175,143

12. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of approximately HK\$80,000,000 (2013: HK\$162,000,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK\$99,556,000 (2013: HK\$11,448,000) during the period using the funds generated from operations.

13. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Issued and fully paid ordinary shares of HK\$0.1 each:		
At 1st January, 2013	631,627,303	63,163
Shares issued on exercise of share options	50,000	5
At 30th June, 2013, 31st December, 2013 and 30th June, 2014	631,677,303	63,168

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	(822,000)
Exercised during the period	(50,000)
Outstanding at 31st December, 2013 and 1st January, 2014	5,448,000
Lapsed during the period	(76,000)
Outstanding at 30th June, 2014	5,372,000

No share option expense was recognised for the period ended 30th June, 2014 and 2013.

15. CAPITAL COMMITMENTS

	At 30th June, 2014 HK\$'000	At 31st December, 2013 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	132,873	97,776

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:

	Six months ended 30th June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short-term benefits	16,215	17,283
Post-employment benefits	1,035	1,118
	17,250	18,401

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2014 was approximately HK\$1,147 million (2013: approximately HK\$1,068 million). Profit attributable to owners of the Company for the six months ended 30th June, 2014 was approximately HK\$64 million (2013: approximately HK\$71 million). Basic earnings per share for the six months ended 30th June, 2014 was HK10.11 cents (2013: HK11.20 cents).

During the period under review, the global economic performance remained quite stable, yet without a notable sign of economic recovery. The business operating environment was still clouded with uncertainties. Despite the Group recorded a profit in the first half of the year, as dragged by the expenditure required in the initial implementation phase of the new plant in Hangzhou city, Zhejiang Province, China, the Group's performance was not satisfactory when compared with that of the same period in 2013. However, as benefited from the exchange gain contributed by the deregistration of the subsidiary located in Guangzhou, Guangdong Province, China, the aggregate drop of profit rate was decelerated.

The European economy gradually tended to be stable, yet its consumption market was still weak. Though the United States market showed a positive development, its growth speed still fell behind expectation. Influenced by the sluggish economic growth in global economy, the global consumption and capital investment desire was not be significantly boosted. Consequently, the growth of export business of China was still greatly impeded. On the other hand, the economy in China underwent restructuring, cash flow in the market was tightened. As a result, consumption desire was suppressed, lacking motive force to push up the domestic consumption of China. Hindered by the slow growth pace of both export and domestic consumption business in China, the aggregate mould orders reduced and thus triggered off a severe competition within the mould industry. Hence the mould product price was further pressed down and the Group's profit margin lowered.

During the period under review, the Heyuan factory, Guangdong Province, China, registered a steady development. Gradual improvement was achieved with the continuing effort made by the Group in enhancing its plant's operation and equipment. By adopting automated production equipment and processes in replacing low efficient machineries and reducing the manpower, the Group succeeded in uplifting its productivity and product quality.

For the new plant in Hangzhou city, Zhejiang Province, China, through reinforcing communication with customers and expediting the delivery service, the mould steel business was gradually expanding that also facilitating the exploration of steel business in Eastern region in China. However, the development of mould base production was

not up to the Group's expectation. The mould base equipment and facilities were not yet completely installed, coupled with the shortage of skilled technical labor and the time required for recruiting and training new staff, the economy of scale of production could not be achieved as expected. On the other hand, mould base business mainly targeted at the automobile industry located in the Eastern, Central and Northern regions of China, which demanded large sized mould bases. To explore the target customers, it requires long time for communication and cooperation with customers in order to suit the customers' needs and establish long-term relationship with them. In this relation, during its initial implementation stage, its business performance as a whole, not only could not bring effectual results yet had negative impact on the Group's aggregate profit.

Turning to the supply of mould steel material, the local mould steel price decreased in general. For the imported steel, the price remained stable and its range of fluctuation was also relatively small.

In the reviewed period, in view of the spiral rise of operation cost, though the Group achieved improvement in its productivity and turnover, its performance was hampered. The constant increase of wages due to the prolonged shortage of skilled technical labor aggravated the labor cost of the Group. Moreover, the initial operation costs of the new plant in Hangzhou city, Zhejiang Province, China, was high, thus its revenue and expenditure could not be balanced, further intensified the operation burden of the Group.

PROSPECTS

Though the European and the United States markets are improved, the global business operating environment is still clouded with uncertainties. Factors such as regional political instability, the occurrence of localized war, natural disaster and earthquake etc have adverse impact on the global economy. The Group foresees, in the second half year, the global economic situation will still face constant fluctuation and the business operating environment will not turn around remarkably.

As the United States economy develops comparatively well and the appreciation rate of Renminbi decelerates, the export business is expected to improve. Following the adjustments and restructuring of the consumption market in China, there is a sign that the Chinese Government will gradually loosen its economic control over the market that has positive effect on the domestic consumption market. In light of the recent partial relaxation on the purchase restriction order imposed on the property markets, the consumption desire for the electrical appliance and electronic products will be stimulated. Furthermore, the Chinese Government has secured a stable growth in its Gross Domestic Product (GDP), it will help all industries to step toward recovery. The Group will follow closely the economic development pace of China in suitably devising its development strategy.

The Heyuan factory, Guangdong Province, China, still has room for enhancing its aggregate production effectiveness. The Group strives to streamline its production

process and adopt a time and manpower saving work flow aiming at relieving the pressure imposed by the labor shortage and rising labor cost. In addition, the Group continues to meliorate the plant's equipment by adding precision and automated equipments in order to raise its efficiency and production capacity, which further support the regional production need of the Group.

Turning to the new plant in Hangzhou city, Zhejiang Province, China, the Group keeps exploring new markets with an aim to promote its mould steel distribution and mould base production business. The Group devises its marketing strategy, including order coordination and logistic aspects, based on the characteristic of local customers especially the automobile industry, aiming to provide quality services to customers. At the same time, the Group continues to reinforce its contact with customers in order to monitor the ever-changing market situation and tailor its services to meet the customers' needs in order to obtain their faith and support. Eventually, it will help the Group to extend its market share in the Eastern, Central and Northern regions of China. Furthermore, it is expected the required production equipments and facilities will be in place successively. However, due to the shortage of skilled technical labor, the Group will put effort in recruiting and training the manpower, ensuring that manpower, machinery and equipment can be perfectly coordinated so as to enlarge its production capacity and achieve economy of scale, ultimately making positive contribution to the Group's turnover.

The Group expects that the price of both imported and local mould steel remains stable and the range of fluctuation narrows. The Group will prudently regulate its inventory level in order to reduce its material cost. Facing the rising price of energy, transportation cost and other costs, the Group endeavors to monitor its operation cost, with an aim to uplift its operating effectiveness and sustain its competitiveness.

Looking ahead, the Group strives to develop its core business and continues to enhance its management and production mode as well as its service quality in seeking for steady business growth and consolidating its continuous leading position in the industry.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2014, the Group had a net cash surplus of approximately HK\$353 million. The Group had cash balance of approximately HK\$528 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\$175 million, equal to approximately 7% of equity attributable to owners of the Company of approximately HK\$2,345 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2014, the Group employed a total of approximately 6,100 employees, including approximately 5,700 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 (2013: interim dividend of HK6 cents per share and interim special dividend of HK6 cents per share) in respect of the six months ended 30th June, 2014 to be payable on or around 17th September, 2014 to shareholders whose names appear in the Register of Members of the Company on 4th September, 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3rd September, 2014 to 4th September, 2014, 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 2nd September, 2014.

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 2nd September, 2014 will be entitled to the interim dividend.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2014, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”).

Interests in the Company

Name of director	Capacity	Number of shares held		Number of share options and corresponding number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.00%
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%
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:

- 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.
- 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, 2014.

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, 2014, 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 5,372,000, representing about 0.85% 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, 2014	Lapsed during the period	At 30th June, 2014			
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
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	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Tat Yee	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
Total	<u>2,250,000</u>	<u>—</u>	<u>2,250,000</u>			
Category 2: Employees						
Total	3,198,000 (Note)	(76,000)	3,122,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total all categories	<u>5,448,000</u>	<u>(76,000)</u>	<u>5,372,000</u>			

Note: The amount was reclassified from category 1 to account for those options granted to Mr. Fung Wai Hing who ceased to be a director of the Company since 1st January, 2014.

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, 2014, 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	37,805,000	5.98%
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, 2014.

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, 2014.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the review period.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of 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, 18th August, 2014