



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



INTERIM REPORT
2018



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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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

Introduction

We have reviewed the condensed consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries set out on pages 4 to 28, which comprise the condensed consolidated statement of financial position as of 30th June, 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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, 17th August, 2018

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, 2018 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2018

		Six months ended 30th June,	
	<i>Notes</i>	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	3	1,366,392	1,201,807
Other income, gains and losses	4	3,681	7,647
Gain on disposal of non-current asset classified as held for sale	5	—	67,149
Increase in fair value of investment properties		10,000	2,500
Changes in inventories of finished goods and work in progress		3,350	5,736
Raw materials and consumables used		(571,022)	(468,907)
Employee benefits expenses		(302,321)	(272,493)
Depreciation of property, plant and equipment		(91,740)	(90,402)
Other expenses		(256,833)	(239,860)
Profit before taxation		161,507	213,177
Income tax expense	6	(37,642)	(63,199)
Profit for the period	7	123,865	149,978
Other comprehensive (expense) income: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		(25,348)	59,555

		Six months ended 30th June,	
		2018	2017
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<i>Note</i>			
Other comprehensive (expense) income for the period		(25,348)	59,555
Total comprehensive income for the period		98,517	209,533
Profit for the period attributable to:			
Owners of the Company		123,865	151,337
Non-controlling interests		—	(1,359)
		123,865	149,978
Total comprehensive income for the period attributable to:			
Owners of the Company		98,517	209,818
Non-controlling interests		—	(285)
		98,517	209,533
Basic earnings per share	9	HK19.61 cents	HK23.96 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2018

		At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	10	200,000	190,000
Property, plant and equipment	10	824,466	861,407
Prepaid lease payments			
— non-current portion		74,303	76,290
Deposits paid for acquisition of property, plant and equipment		39,872	54,957
Deferred tax assets		19,816	21,628
		1,158,457	1,204,282
Current assets			
Inventories		536,834	529,737
Trade, bills and other receivables	11	458,390	441,939
Prepaid lease payments			
— current portion		1,912	1,938
Bank balances and cash		572,927	673,912
		1,570,063	1,647,526
Current liabilities			
Trade, bills and other payables	12	297,491	356,444
Contract liabilities		11,719	—
Taxation payable		23,192	17,260
Dividend payable		241	192
		332,643	373,896

		At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
Net current assets		1,237,420	1,273,630
Total assets less current liabilities		2,395,877	2,477,912
Non-current liabilities			
Deferred tax liabilities		28,596	26,102
Other payables	12	103,477	109,653
		132,073	135,755
Net assets		2,263,804	2,342,157
CAPITAL AND RESERVES			
Share capital	13	63,168	63,168
Reserves		2,200,636	2,278,989
Total equity		2,263,804	2,342,157

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2018

	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 i)	Translation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		
At 1st January, 2017 (audited)	63,168	156,213	295,214	215,422	1,476,741	2,206,758	15,363	2,222,121
Profit (loss) for the period	—	—	—	—	151,337	151,337	(1,359)	149,978
Other comprehensive income for the period								
Exchange difference arising on translation of foreign operations	—	—	—	58,481	—	58,481	1,074	59,555
Total comprehensive income (expense) for the period	—	—	—	58,481	151,337	209,818	(285)	209,533
Acquisition of additional interest of subsidiary (note ii)	—	—	—	—	—	—	(15,078)	(15,078)
Final dividend for the year ended 31st December, 2016 (note 8)	—	—	—	—	(75,801)	(75,801)	—	(75,801)
Final special dividend for the year ended 31st December, 2016 (note 8)	—	—	—	—	(75,801)	(75,801)	—	(75,801)
Transfer	—	—	22,547	—	(22,547)	—	—	—
At 30th June, 2017 (unaudited)	63,168	156,213	317,761	273,903	1,453,929	2,264,974	—	2,264,974
Profit for the period	—	—	—	—	126,939	126,939	—	126,939
Other comprehensive income for the period								
Exchange difference arising on translation of foreign operations	—	—	—	76,579	—	76,579	—	76,579
Total comprehensive income for the period	—	—	—	76,579	126,939	203,518	—	203,518
Interim dividend for the year ended 31st December, 2017 (note 8)	—	—	—	—	(75,801)	(75,801)	—	(75,801)
Interim special dividend for the year ended 31st December, 2017 (note 8)	—	—	—	—	(50,534)	(50,534)	—	(50,534)
At 31st December, 2017 and 1st January, 2018 (audited)	63,168	156,213	317,761	350,482	1,454,533	2,342,157	—	2,342,157
Profit for the period	—	—	—	—	123,865	123,865	—	123,865
Other comprehensive expense for the period								
Exchange difference arising on translation of foreign operations	—	—	—	(25,348)	—	(25,348)	—	(25,348)
Total comprehensive (expense) income for the period	—	—	—	(25,348)	123,865	98,517	—	98,517
Final dividend for the year ended 31st December, 2017 (note 8)	—	—	—	—	(101,069)	(101,069)	—	(101,069)
Final special dividend for the year ended 31st December, 2017 (note 8)	—	—	—	—	(75,801)	(75,801)	—	(75,801)
Transfer	—	—	25,060	—	(25,060)	—	—	—
At 30th June, 2018 (unaudited)	63,168	156,213	342,821	325,134	1,376,468	2,263,804	—	2,263,804

Notes: i. 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.

ii. During the period ended 30th June, 2017, the Group acquired the remaining 30% equity interest in a non-wholly owned subsidiary for a consideration of New Taiwan Dollar 60,000,000 (equivalent to approximately HK\$15,078,000). The transaction is accounted for as an equity transaction.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2018

	Six months ended 30th June,	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Net cash from operating activities	125,437	111,408
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(48,047)	(73,088)
Proceeds on disposal of property, plant and equipment	2,027	11,249
Interest received	5,501	3,634
Disposal of non-current asset classified as held for sale	—	49,688
	(40,519)	(8,517)
Cash used in financing activities		
Dividends paid	(176,821)	(150,579)
Payment for acquisition of additional interest in a subsidiary	—	(15,078)
	(176,821)	(165,657)
Net decrease in cash and cash equivalents	(91,903)	(62,766)
Cash and cash equivalents at the beginning of the period	673,912	745,111
Effect of foreign exchange rate changes	(9,082)	14,952
Cash and cash equivalents at the end of the period, represented by bank balances and cash	572,927	697,297

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2018

1. BASIS OF PREPARATION

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

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Application of new and amendments to HKFRSs *(continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- manufacturing and marketing of mould bases and related products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply this standard retrospectively only to contracts that are not completed at 1st January, 2018.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material financial impact on the timing and amounts of revenue recognised in prior and current periods.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers (continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained profits as of 1st January, 2018 and that comparatives will not be restated.

By adopting HKFRS 15, there is no impact on the statement of profit or loss and other comprehensive income recognised by the Group as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 18.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31st December, 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1st January, 2018* HK\$'000
Trade, bills and other payables	356,444	(39,223)	317,221
Contract liabilities	—	39,223	39,223

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note: As at 1st January, 2018, advances from customers of HK\$39,223,000 included in trade, bills and other payables were reclassified to contract liabilities for HK\$39,223,000.

Without application of HKFRS 15, as at 30th June, 2018, the contract liabilities of HK\$11,719,000 would be included in trade, bills and other payables.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments (continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(continued)*

Classification and measurement of financial assets *(continued)*

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”).

The directors of the Company reviewed and assessed the Group’s financial assets as at 1st January, 2018 based on the facts and circumstances that existed at that date and concluded that the Group’s financial assets are continue to be measured at amortised cost upon adoption of HKFRS 9 which is the same as measured under HKAS 39.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments (continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(continued)*

Impairment under ECL model *(continued)*

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments (continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(continued)*

Impairment under ECL model *(continued)*

Significant increase in credit risk (continued)

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model *(continued)*

Measurement and recognition of ECL (continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1st January, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1st January, 2018 was recognised.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and marketing of mould bases and related products. Revenue represents the invoiced value of goods sold to external customers during the period, after allowances for returns and trade discounts. The Group recognised revenue at a point in time.

The Group has only one operating segment. The information reported to the chief operating decision maker (the Company's executive directors) for the purposes of resources allocation and performance assessment, which is the aggregated results of the Group, including all income, expenses and tax charges.

As a result, there is only one reportable segment for the Group. For information regarding this segment, reference can be made to the condensed consolidated financial statements as a whole.

The segment revenue and segment result of the Group represents revenue and profit after taxation set out in the condensed consolidated statement of profit or loss and other comprehensive income respectively.

Entity-wide disclosures

As at 30th June, 2018 and 31st December, 2017, substantially all of the Group's non-current assets are located in the place of domicile of the relevant group entities, namely the People's Republic of China (the "PRC").

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

	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC (excluding Hong Kong)	1,161,228	1,051,500
Hong Kong	2,883	1,719
Others	202,281	148,588
	1,366,392	1,201,807

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, 2018 and 2017.

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30th June,	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Interest Income	5,501	3,634
Rental income, net of direct outgoings of approximately HK\$274,000 (2017: HK\$267,000)	1,467	1,479
Sundry income	1,482	1,046
Impairment loss reversed in respect of trade receivables, net	(2,138)	—
Gain on disposal of property, plant and equipment	1,750	163
Net foreign exchange (loss) gain	(4,381)	1,325
	3,681	7,647

5. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

On 4th July, 2016, 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 in Shanghai, the PRC and the related assets at a consideration of RMB90,000,000 (equivalent to approximately HK\$100,044,000) (the "Disposal"). Deposit received in respect of the Disposal amounted to approximately HK\$33,348,000 was included in trade, bills and other payables as at 31st December, 2016. The rights of the land has been transferred during the six months ended 30th June, 2017 and the related non-current asset has been derecognised from the consolidated statement of financial position. As a result, a before income tax disposal gain of approximately RMB59,561,000 (equivalent to approximately HK\$67,149,000) was recognised. The after income tax gain attributable to the owners of the Company was approximately RMB49,703,000 (equivalent to approximately HK\$56,035,000).

6. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
The charge (credit) comprises:		
Taxation in Hong Kong	1,137	229
Taxation in jurisdictions outside Hong Kong	31,960	63,623
Deferred taxation	4,545	(653)
	37,642	63,199

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

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

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30th June,	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Cost of inventories recognised as an expense	1,022,759	875,486
Impairment loss recognised in respect of trade receivables, net	—	10,224
Release of prepaid lease payments	992	911
Allowance recognised for inventories	4,985	3,158

8. DIVIDENDS

Interim dividend for the current period:

On 17th August, 2018, the Directors determined that an interim dividend of HK12 cents (2017: interim dividend of HK12 cents and interim special dividend of HK8 cents) per share amounting to approximately HK\$75,801,000 (2017: interim dividend of HK\$75,801,000 and interim special dividend of HK\$50,534,000) should be paid to the shareholders of the Company whose names appear in the Register of Members on 5th September, 2018.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK16 cents (2017: HK12 cents) per share amounting to approximately HK\$101,069,000 (2017: HK\$75,801,000) and a final special dividend of HK12 cents (2017: HK12 cents) per share amounting to approximately HK\$75,801,000 (2017: HK\$75,801,000) were declared and paid to the shareholders in respect of the year ended 31st December, 2017.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months period ended 30th June, 2018 is based on the profit attributable to the owners of the Company of approximately HK\$123,865,000 (six months ended 30th June, 2017: HK\$151,337,000) and the number of 631,677,303 (2017: 631,677,303) ordinary shares in issue during the period.

Diluted earnings per share is not presented for both periods as there is no potential ordinary shares outstanding during the period or at the end of the reporting period.

10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's investment properties as at the end of the current interim period were fair valued by C S Surveyors Limited, independent qualified professional valuers not connected to the Group.

The fair value was determined based on market comparable approach, where the prices per square feet of the properties are assessed by reference to market evidence of transaction provided for similar use of properties in the similar locations and conditions in Hong Kong. There has been no change from the valuation technique used in the prior year and it is classified as Level 3 Hierarchy.

10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT *(continued)*

The resulting increase in fair value of investment properties of HK\$10,000,000 has been recognised directly in profit or loss for the six months ended 30th June, 2018 (2017: HK\$2,500,000).

During the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$277,000 (six months ended 30th June, 2017: HK\$11,086,000) for cash proceeds of approximately HK\$2,027,000 (six months ended 30th June, 2017: HK\$11,249,000), resulting in a gain on disposal of approximately HK\$1,750,000 (six months ended 30th June, 2017: HK\$163,000).

In addition, the Group incurred expenditures of nil (six months ended 30th June, 2017: approximately HK\$1,920,000) on the construction in progress in the PRC and spent approximately HK\$60,477,000 (six months ended 30th June, 2017: approximately HK\$56,301,000), HK\$334,000 (six months ended 30th June, 2017: approximately HK\$378,000), nil (six months ended 30th June, 2017: approximately HK\$118,000) and HK\$2,321,000 (six months ended 30th June, 2017: approximately HK\$1,291,000) 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.

11. TRADE, BILLS AND OTHER RECEIVABLES

	At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
Trade receivables	336,065	327,579
Bills receivables	31,172	29,183
Less: allowance for doubtful debts	(18,719)	(22,327)
	348,518	334,435
Other receivables	2,184	2,510
Deposits and prepayments	107,688	104,994
Total trade, bills and other receivables	458,390	441,939

11. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

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, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
0 to 60 days	229,756	254,824
61 to 90 days	77,190	53,918
Over 90 days	41,572	25,693
	348,518	334,435

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30th June, 2018.

Internal credit rating	Average loss rate	Gross carrying amount HK\$'000	Impairment loss allowance HK\$'000
Grade A: Totally secure	0.0%	26,600	—
Grade B: Above average secure	1.0%	87,107	871
Grade C: Average secure	2.0%	91,258	1,825
Grade D: Below average secure	3.5%	63,279	2,215
Grade E: With moderate risk	12.0%	61,378	7,365
		329,622	12,276
Specific provision	100.00%	6,443	6,443
		336,065	18,719

11. TRADE, BILLS AND OTHER RECEIVABLES (continued)

Provision matrix – internal credit rating (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

Allowance for impairment

The movement in the allowance for impairment in respect of trade receivables during the current interim period was as follows.

	HK\$'000
Balance at 1st January, 2018*	22,327
Impairment loss reversed during the period	(2,138)
Amounts written off as uncollectible	(1,120)
Net remeasurement of loss allowance*	—
Currency realignment	(350)
	<hr/>
Balance at 30th June, 2018	<u>18,719</u>

- * The Group has initially applied HKFRS 9 at 1st January, 2018. Under the transition method chosen, comparative information is not restated. Based on the assessment by the directors of the Company, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 39.

12. TRADE, BILLS AND OTHER PAYABLES

	Note	At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
Trade payables		83,495	97,537
Bills payables		16,925	15,723
Advance receipt from customers	2.1.2	—	39,223
Provision of employee economic compensation		161,556	171,071
Payables for salaries and bonuses		56,116	78,673
Deposits and accruals		25,788	27,847
Value-added tax payables		37,030	16,027
Other payables		20,058	19,996
Total amounts		400,968	466,097
Less: Amount due within one year shown under current liabilities		(297,491)	(356,444)
Amount due after one year		103,477	109,653

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

	At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
0 to 60 days	77,561	78,993
61 to 90 days	13,046	22,323
Over 90 days	9,813	11,944
	100,420	113,260

13. SHARE CAPITAL

The Company has 631,677,303 ordinary shares of HK\$0.1 each in issue throughout both periods.

14. CAPITAL COMMITMENTS

	At 30th June, 2018 HK\$'000 (unaudited)	At 31st December, 2017 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	47,860	14,351

15. RELATED PARTY TRANSACTIONS

The Group had the following material transactions and balance with related parties during the period:

	Six months ended 30th June,	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Rental expenses:		
– Silver Aim Limited and Triplefull Company Limited collectively	982	910
	At	At
	30th June,	31st December,
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Rental deposit paid:		
– Silver Aim Limited and Triplefull Company Limited collectively	556	556

Note: The directors of Silver Aim Limited and Triplefull Company Limited are two directors of the Company and one of them is also the beneficial shareholder of both companies.

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

	Six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	25,718	28,285
Post-employment benefits	1,323	1,321
	27,041	29,606

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2018 was approximately HK\$1,366 million (2017: approximately HK\$1,202 million). Profit attributable to owners of the Company for the six months ended 30th June, 2018 was approximately HK\$124 million (2017: approximately HK\$151 million). Basic earnings per share for the six months ended 30th June, 2018 was HK19.61 cents (2017: HK23.96 cents).

Following the global economy tended to be stable, the Group's sales turnover in the first half year, as compared with the same period in 2017, recorded a positive growth. However, during the period under review, the raw material price and the labor cost comparing with that in last year, witnessed a substantial increase simultaneously. As a result, the operating cost of the Group correspondingly escalated. Excluding the one-off profit from the disposal of the factory property of 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co. Ltd., the Group's operating profit registered a similar performance with mild growth as compared with the same period in the previous year.

Attributed to the economic performance of the United States and Europe turning better, the Group's export business to the United States and European countries improved slightly. Turning to the China market, domestic demand for consumption of automobile and its components, intelligent household appliances and latest high-tech electronic products continued to boom. In addition, the effective marketing strategy and online ordering business launched by the Group further promoted the sales growth of mould products. Eventually, the business in both Southern and Eastern regions of China progressed steadily, enhancing the Group's income.

Moreover, the plant situated at Zhejiang Province of China experienced a continuous progress in its production skills and machining capability, further improved its production effectiveness and brought positive contribution to the Group. Facing a spiral increase in labor and production cost, the Group put sustainable efforts in improving its production skills and deployed effective equipment and robotic arm to lessen manual operations. It helped not only to uplift production efficiency and productivity per capita, but also ease the burden of rising production cost.

During the review period, the price of local mould steel moved up continuously. Despite the price of the imported steel still remained quite stable, the aggregate material cost of the Group, relative to the same period in last year, recorded an increase.

In conclusion, the Group achieved a reasonable growth in sales turnover. However, its raw material and labor costs rose up simultaneously that led to a surge of its operating costs, offsetting part of its sales revenue. Nevertheless, the Group still maintained a steady business development in aggregate.

PROSPECTS

Looking ahead for the second half year, tension on trade between China and the United States brings uncertainty on the global business operating environment and political situation. The influence of the trade war between China and the United States on the global economy still cannot be predicted at the present stage, but it will become apparent gradually at the second half year. Although the global economic performance fluctuates constantly, the Group will strive to adopt effective measures to face the future challenge in a positive manner.

Trade war between China and the United States by mutually enlarging its tariff imposed on counterparts' products that poses a certain degree of threat to those USA export-oriented enterprises in China. In this relation, the Group foresees that some China customers with main export market to the United States will resort to a wait-and-see attitude and become more conservative and prudent in making investment decision. Fortunately, the Group has diverse customers base with diversified industry and market. The Group expects China market and overseas markets such as Europe, Japan and South East Asia will not be affected too much and will experience mild growth, contributing a balanced development to the Group's business.

Owing to the rise of living standard of Chinese citizens, demand for high end products remains flourishing. Domestic consumption markets such as environmental friendly vehicles promoted by the automobile industry, intelligent household appliances and latest high-tech electronic products continues booming. The Group will persist in meliorating its sales team in capturing business opportunities and markets. Moreover, the Group will strive to promote its online ordering system with a view to achieve a higher degree of market penetration in order to fortify its leading position in the industry.

With an aim to uphold its market competitive advantage, the Group will keep improving its production efficiency and reducing its production cost. Owing to the surge of labor and production cost, plants situated at Heyuan, Guangdong Province and Hangzhou, Zhejiang Province, China, will devote more resources to innovate its production skill and reengineering its production process in order to uplift its machining ability, production effectiveness and product quality. Apart from utilizing automated machinery to replace traditional machinery, the Group will suitably make use of robotic arms to further reduce its reliance on manpower operation. In the long term, it enables the Group to be more flexible in deploying its manpower and production equipment so as to enhance its aggregate productivity per capita and net profit on products.

The Group forecasts that the price of the local mould steel will gradually tend to stable. Despite the price of import steel will fluctuate with the floating exchange rate, yet the change will be mild. The Group will monitor the market environment, suitably purchase raw materials at a reasonable price and regulate its inventory level and product price in order to alleviate its operation burden.

The Group will keep close track of the global economic trend and market situation, the fluctuation of Renminbi and the credit management in hopes of capturing business opportunity and reducing operation risk. Although the business operating environment ahead is full of uncertainties, the Group will endeavor to achieve long term and steady business development and seek for favorable return.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2018, the Group had cash balance of approximately HK\$573 million and did not have any borrowings.

The cash balance was placed in short term deposits with major banks in Hong Kong and the PRC.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2018, the Group employed a total of approximately 4,600 employees, including approximately 4,300 employees in its PRC production sites and approximately 300 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 HK12 cents (2017: interim dividend of HK12 cents and interim special dividend of HK8 cents) per share in respect of the six months ended 30th June, 2018 to be payable on or around 18th September, 2018 to shareholders whose names appear in the Register of Members of the Company on 5th September, 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th September, 2018 to 5th September, 2018, 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 3rd September, 2018.

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 3rd September, 2018 will be entitled to the interim dividend.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2018, 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			Total interests	Percentage of Company's issued share capital
		Personal interests	Family interests	Other interests		
Siu Tit Lung (Notes 1 & 2)	Beneficial owner, interests jointly with another person and founder of discretionary trust	40,411,444	—	366,210,937	406,622,381	64.37%
Siu Yuk Lung (Notes 1 & 2)	Beneficial owner, interests jointly with another person and founder of discretionary trust	40,411,444	—	366,210,937	406,622,381	64.37%
Wai Lung Shing	Beneficial owner	3,843,750	—	—	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	—	—	720,000	0.11%
Siu Yuk Tung, Ivan (Note 2)	Beneficial owner and beneficiary of a trust	80,000	—	366,210,937	366,290,937	57.99%
Siu Yu Hang, Leo (Notes 2 & 3)	Interest of child or spouse and beneficiary of a trust	—	1,096,000	366,210,937	367,306,937	58.15%
Lee Tat Yee	Beneficial owner	150,000	—	—	150,000	0.02%
Lee Joo Hai	Beneficial owner	300,000	—	—	300,000	0.05%

Notes:

- (1) Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 35,101,288 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 (including Messrs. Siu Yuk Tung, Ivan and Siu Yu Hang, Leo), held 366,210,937 shares in the Company.
- (3) Mr. Siu Yu Hang, Leo and his spouse jointly held 1,096,000 shares in the Company.

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

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors nor 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, 2018.

SHARE OPTION SCHEME AND DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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"). The 2012 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants, as defined in the 2012 Scheme, 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.

No option was granted since the adoption of the 2012 Scheme.

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, 2018, 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 <i>(Note)</i>	57.97%
HSBC International Trustee Limited	Trustee	366,514,990 <i>(Note)</i>	58.02%
David Michael Webb	Beneficial owner and interest of a controlled corporation	31,594,498	5.00%

Note: HSBC International Trustee Limited, in its capacity as a trustee of a trust, controlled Pan Island Investments Limited and therefore was deemed to be interested in the shares of the Company in which Pan Island Investments Limited was interested. Accordingly, the 366,210,937 shares of the Company in which Pan Island Investments Limited was interested were duplicated with the interests attributed to HSBC International Trustee Limited.

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, 2018.

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, 2018.

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, 17th August, 2018