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## **LUNG KEE (BERMUDA) HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 255)**

Website: <http://www.irasia.com/listco/hk/lkm>

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2019**

#### **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, 2019 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, 2019*

|  |              | <b>Six months ended 30th June,</b> |                    |
|--|--------------|------------------------------------|--------------------|
|  |              | <b>2019</b>                        | <b>2018</b>        |
|  | <i>Notes</i> | <b>HK\$'000</b>                    | <b>HK\$'000</b>    |
|  |              | <b>(unaudited)</b>                 | <b>(unaudited)</b> |
| Revenue  | 3            | <b>1,121,218</b>                   | 1,366,392          |
| Other income, gains and losses   | 4            | <b>17,540</b>                      | 5,819              |
| Increase in fair value of investment properties                        |              | <b>2,300</b>                       | 10,000             |
| Impairment losses under expected credit loss model,<br>net of reversal |              | <b>6,566</b>                       | (2,138)            |
| Changes in inventories of finished goods and<br>work in progress       |              | <b>(752)</b>                       | 3,350              |
| Raw materials and consumables used                                     |              | <b>(455,817)</b>                   | (571,022)          |
| Employee benefits expenses   |              | <b>(274,862)</b>                   | (302,321)          |
| Depreciation of right-of-use assets                                    |              | <b>(3,002)</b>                     | —                  |
| Depreciation of property, plant and equipment                          |              | <b>(87,014)</b>                    | (91,740)           |
| Other expenses   |              | <b>(237,460)</b>                   | (256,833)          |
| Profit before taxation   |              | <b>88,717</b>                      | 161,507            |
| Income tax expense   | 5            | <b>(18,568)</b>                    | (37,642)           |
| Profit for the period  | 6            | <b>70,149</b>                      | 123,865            |

|   |             | <b>Six months ended 30th June,</b> |                            |
|---|-------------|------------------------------------|----------------------------|
|   |             | <b>2019</b>                        | <b>2018</b>                |
|   |             | <b>HK\$'000</b>                    | <b>HK\$'000</b>            |
|   | <i>Note</i> | <b>(unaudited)</b>                 | <b>(unaudited)</b>         |
| Other comprehensive expense:  |             |                                    |                            |
| <i>Item that may be reclassified subsequently to profit or loss</i> |             |                                    |                            |
| Exchange difference arising on translation of foreign operations    |             | <u>(2,644)</u>                     | <u>(25,348)</u>            |
| Other comprehensive expense for the period                          |             | <u>(2,644)</u>                     | <u>(25,348)</u>            |
| Total comprehensive income for the period                           |             | <u><u>67,505</u></u>               | <u><u>98,517</u></u>       |
| Basic earnings per share  | 8           | <u><u>HK11.11cents</u></u>         | <u><u>HK19.61cents</u></u> |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30th June, 2019*

|  | <b>At 30th<br/>June,<br/>2019</b> | <b>At 31st<br/>December,<br/>2018</b> |
|--|-----------------------------------|---------------------------------------|
| <i>Notes</i>   | <b>HK\$'000<br/>(unaudited)</b>   | <b>HK\$'000<br/>(audited)</b>         |
| <b>ASSETS AND LIABILITIES</b>                                  |                                   |                                       |
| <b>Non-current assets</b>                                      |                                   |                                       |
| Investment properties  | <b>210,300</b>                    | 208,000                               |
| Property, plant and equipment                                  | <b>725,627</b>                    | 760,066                               |
| Right-of-use assets  | <b>80,150</b>                     | —                                     |
| Prepaid lease payments — non-current portion                   | —                                 | 70,574                                |
| Deposits paid for acquisition of property, plant and equipment | <b>16,562</b>                     | 25,583                                |
| Deferred tax assets  | <b>9,345</b>                      | 12,675                                |
|  | <b>1,041,984</b>                  | 1,076,898                             |
| <b>Current assets</b>  |                                   |                                       |
| Inventories  | <b>552,985</b>                    | 555,795                               |
| Trade, bills and other receivables                             | <b>287,740</b>                    | 349,777                               |
| Prepaid lease payments — current portion                       | —                                 | 1,840                                 |
| Bank balances and cash   | <b>726,700</b>                    | 645,777                               |
|  | <b>1,567,425</b>                  | 1,553,189                             |
| <b>Current liabilities</b>                                     |                                   |                                       |
| Trade, bills and other payables                                | <b>271,510</b>                    | 291,156                               |
| Contract liabilities   | <b>19,184</b>                     | 22,853                                |
| Lease liabilities  | <b>5,244</b>                      | —                                     |
| Taxation payable   | <b>23,993</b>                     | 21,743                                |
| Dividend payable   | <b>586</b>                        | 212                                   |
|  | <b>320,517</b>                    | 335,964                               |
| Net current assets   | <b>1,246,908</b>                  | 1,217,225                             |
| Total assets less current liabilities                          | <b>2,288,892</b>                  | 2,294,123                             |

|                             | <b>At 30th<br/>June,<br/>2019<br/>HK\$'000<br/>(unaudited)</b> | At 31st<br>December,<br>2018<br>HK\$'000<br>(audited) |
|-----------------------------|--|---|
| Non-current liabilities     |  |   |
| Deferred tax liabilities    | 31,569   | 30,378  |
| Lease liabilities           | 3,517  | —   |
| Other payables              | 95,271   | 96,914  |
|                             | <u>130,357</u>   | <u>127,292</u>  |
| Net assets                  | <u>2,158,535</u>   | <u>2,166,831</u>                                      |
| <b>CAPITAL AND RESERVES</b> |  |   |
| Share capital               | 63,168   | 63,168  |
| Reserves                    | <u>2,095,367</u>   | <u>2,103,663</u>                                      |
| Total equity                | <u>2,158,535</u>   | <u>2,166,831</u>                                      |

*Notes:*

## **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, 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2018.

## 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 mandatorily effective for the annual period beginning on or after 1st January, 2019 for the preparation of the Group's condensed consolidated financial statements:

|                       |  |
|-----------------------|--|
| HKFRS 16              | Leases   |
| HK(IFRIC) - Int 23    | Uncertainty over Income Tax Treatments               |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation       |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement            |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs  | Annual Improvements to HKFRSs 2015 – 2017 Cycle      |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 2.1 *Impacts and changes in accounting policies of application on HKFRS 16 Leases*

The Group has applied HKFRS 16 *Leases* ("HKFRS 16") for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

#### 2.1.1 *Key changes in accounting policies resulting from application of HKFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

##### **Definition of a lease**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### **As a lessee**

###### *Short-term leases*

The Group applies the short-term lease recognition exemption to leases those have a lease term of 12 months or less from the commencement date and do not contain an extension and termination option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

### *Right-of-use assets*

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

### *Leasehold land and building*

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

### *Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

### *Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

#### *Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

### *Taxation*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

### **As a lessor**

#### *Allocation of consideration to components of a contract*

Effective on 1st January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* (“HKFRS 15”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

#### *Refundable rental deposits*

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

#### *Lease modification*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

#### *2.1.2 Transition and summary of effects arising from initial application of HKFRS 16*

### **Definition of a lease**

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining Whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.



For contracts entered into or modified on or after 1st January, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

### **As a lessee**

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1st January, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.05%.

|   | At<br>1st January,<br>2019<br>HK\$'000 |
|---|--|
| Operating lease commitments disclosed<br>as at 31st December, 2018      | <u>13,267</u>                          |
| Lease liabilities discounted at relevant<br>incremental borrowing rates | 12,715                                 |
| Less: Recognition exemption - short-term leases                         | <u>(1,153)</u>                         |
| Lease liabilities as at 1st January, 2019                               | <u><u>11,562</u></u>                   |
| Analysed as   |  |
| Current   | 5,830                                  |
| Non-current   | <u>5,732</u>                           |
|   | <u><u>11,562</u></u>                   |

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

|   | Notes | Right-of-use<br>assets<br>HK\$'000 |
|---|-------|------------------------------------|
| Right-of-use assets relating to operating leases<br>recognised upon application of HKFRS 16 |       | 11,562                             |
| Reclassified from prepaid lease payments  | (a)   | 72,414                             |
| Adjustments on rental deposits at<br>1st January, 2019                                      | (b)   | <u>120</u>                         |
|   |       | <u><u>84,096</u></u>               |
| By class:   |       |                                    |
| Leasehold lands   |       | 72,414                             |
| Office premises   |       | 5,646                              |
| Factory   |       | 4,708                              |
| Car park  |       | 262                                |
| Staff quarters  |       | <u>1,066</u>                       |
|   |       | <u><u>84,096</u></u>               |

- (a) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$1,840,000 and HK\$70,574,000, respectively, were reclassified to right-of-use assets.

- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$120,000 was adjusted to refundable rental deposits paid and right-of-use assets.

#### **As a lessor**

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1st January, 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1st January, 2019. However, effective 1st January, 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The management considers the impact of the discounting effect as insignificant to the condensed consolidated financial statements.
- (c) Effective on 1st January, 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2019. Line items that were not affected by the changes have not been included.

|                                       | Carrying<br>amounts<br>previously<br>reported at<br>31st<br>December,<br>2018<br>HK\$'000 | Adjustments<br>HK\$'000 | Carrying<br>amounts<br>under<br>HKFRS 16<br>at 1st<br>January,<br>2019<br>HK\$'000 |
|---------------------------------------|---|-------------------------|--|
| <b>Non-current Assets</b>             |   |                         |  |
| Prepaid lease payments                | 70,574  | (70,574)                | —  |
| Right-of-use assets                   | —   | 84,096                  | 84,096   |
| <b>Current Assets</b>                 |   |                         |  |
| Prepaid lease payments                | 1,840   | (1,840)                 | —  |
| Trade, bills and other<br>receivables | 349,777   | (120)                   | 349,657  |
| <b>Current Liabilities</b>            |   |                         |  |
| Lease liabilities                     | —   | (5,830)                 | (5,830)  |
| <b>Non-current liabilities</b>        |   |                         |  |
| Lease liabilities                     | —   | (5,732)                 | (5,732)  |

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30th June, 2019, movements in working capital have been computed based on opening statement of financial position as at 1st January, 2019 as disclosed above.

### 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.

#### *Revenue from manufacturing and marketing of mould bases and related products*

The Group manufactures and sells mould bases and related products directly to the customer, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the specific location (delivery). Transportation and other related activities that occur before the customers obtain control of the related goods are considered as fulfilment activities. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears

the risks of obsolescence and loss in relation to the goods. The Group allows credit periods ranging from 30 to 90 days to its trade customers.

The performance obligation of all contracts have an original expected duration of one year or less.

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, 2019 and 31st December, 2018, 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:

|         | <b>Six months ended 30th June,</b> |                         |
|---------|------------------------------------|-------------------------|
|         | <b>2019</b>                        | <b>2018</b>             |
|         | <b>HK\$'000</b>                    | <b>HK\$'000</b>         |
|         | <b>(unaudited)</b>                 | <b>(unaudited)</b>      |
| The PRC | <b>960,516</b>                     | 1,164,111               |
| Others  | <b>160,702</b>                     | 202,281                 |
|         | <b><u>1,121,218</u></b>            | <b><u>1,366,392</u></b> |

The Group has a very wide customer base covering Europe, America and Asia. No single customer contributed more than 10% of the Group's revenue for each of the six months ended 30th June, 2019 and 2018.

#### 4. OTHER INCOME, GAINS AND LOSSES

|  | <b>Six months ended 30th June,</b> |                     |
|--|------------------------------------|---------------------|
|  | <b>2019</b>                        | <b>2018</b>         |
|  | <b>HK\$'000</b>                    | <b>HK\$'000</b>     |
|  | <b>(unaudited)</b>                 | <b>(unaudited)</b>  |
| Interest income  | <b>6,510</b>                       | 5,501               |
| Rental income, net of direct outgoings of<br>approximately HK\$280,000 (2018: HK\$274,000) | <b>1,293</b>                       | 1,467               |
| Sundry income  | <b>4,894</b>                       | 1,482               |
| Gain on disposal of property, plant and equipment  | <b>4,912</b>                       | 1,750               |
| Net foreign exchange loss  | <b>(69)</b>                        | (4,381)             |
|  | <b><u>17,540</u></b>               | <b><u>5,819</u></b> |

#### 5. INCOME TAX EXPENSE

|   | <b>Six months ended 30th June,</b> |                      |
|---|------------------------------------|----------------------|
|   | <b>2019</b>                        | <b>2018</b>          |
|   | <b>HK\$'000</b>                    | <b>HK\$'000</b>      |
|   | <b>(unaudited)</b>                 | <b>(unaudited)</b>   |
| The charge comprises:                       |                                    |                      |
| Taxation in Hong Kong                       | <b>395</b>                         | 1,137                |
| Taxation in jurisdictions outside Hong Kong | <b>13,581</b>                      | 31,960               |
| Deferred taxation                           | <b>4,592</b>                       | 4,545                |
|   | <b><u>18,568</u></b>               | <b><u>37,642</u></b> |

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. 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% for both periods.

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:

|  | <b>Six months ended 30th June,</b> |                    |
|--|------------------------------------|--------------------|
|  | <b>2019</b>                        | <b>2018</b>        |
|  | <b>HK\$'000</b>                    | <b>HK\$'000</b>    |
|  | <b>(unaudited)</b>                 | <b>(unaudited)</b> |
| Cost of inventories recognised as an expense | <b>892,070</b>                     | 1,022,759          |
| Allowance recognised for inventories         | <b>11,160</b>                      | <b>4,985</b>       |

## 7. DIVIDENDS

Interim dividend for the current period:

On 28th August, 2019, the Directors determined that an interim dividend of HK11 cents (2018: HK12 cents) per share amounting to approximately HK\$69,485,000 (2018: HK\$75,801,000) should be paid to the shareholders of the Company whose names appear in the Register of Members on 13th September, 2019.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK12 cents (2018: final dividend of HK16 cents and final special dividend of HK12 cents) per share amounting to approximately HK\$75,801,000 (2018: final dividend of HK\$101,069,000 and final special dividend of HK\$75,801,000) was declared and paid to the shareholders in respect of the year ended 31st December, 2018.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months period ended 30th June, 2019 is based on the profit attributable to the owners of the Company of approximately HK\$70,149,000 (six months ended 30th June, 2018: HK\$123,865,000) and the number of 631,677,303 (2018: 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.

## 9. TRADE, BILLS AND OTHER RECEIVABLES

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

Included in trade, bills and other receivables are trade receivables (net of allowance for doubtful debts) of approximately HK\$216,995,000 (31st December, 2018: HK\$247,440,000) and bills receivables of approximately HK\$20,056,000 (31st December, 2018: HK\$19,095,000).

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

|               | <b>At 30th<br/>June,<br/>2019<br/>HK\$'000<br/>(unaudited)</b> | <b>At 31st<br/>December,<br/>2018<br/>HK\$'000<br/>(audited)</b> |
|---------------|--|--|
| 0 to 60 days  | <b>173,820</b>   | 201,896  |
| 61 to 90 days | <b>46,428</b>  | 46,652   |
| Over 90 days  | <b>16,803</b>  | 17,987   |
|               | <b><u>237,051</u></b>  | <b><u>266,535</u></b>  |

## 10. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are trade payables of approximately HK\$89,787,000 (31st December, 2018: HK\$93,580,000) and bills payables of approximately HK\$15,119,000 (31st December, 2018: HK\$15,712,000).

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

|               | <b>At 30th<br/>June,<br/>2019<br/>HK\$'000<br/>(unaudited)</b> | <b>At 31st<br/>December,<br/>2018<br/>HK\$'000<br/>(audited)</b> |
|---------------|--|--|
| 0 to 60 days  | <b>59,732</b>  | 84,519   |
| 61 to 90 days | <b>27,322</b>  | 15,519   |
| Over 90 days  | <b>17,852</b>  | 9,254  |
|               | <b><u>104,906</u></b>  | <b><u>109,292</u></b>  |



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group's revenue for the six months ended 30th June, 2019 was approximately HK\$1,121 million (2018: approximately HK\$1,366 million). Profit attributable to owners of the Company for the six months ended 30th June, 2019 was approximately HK\$70 million (2018: approximately HK\$124 million). Basic earnings per share for the six months ended 30th June, 2019 was HK11.11 cents (2018: HK19.61 cents).

During the period under review, the trade disputes between China and the United States intensified that posed a negative impact on the market. Dimmed by the unclear market outlook, faith on investment and consumption was seriously affected, as a result, the growth of domestic market in China was halted. "Wait and see" attitude was adopted in the market, thus, the aggregate order was sharply dropped that exerted a great pressure on the price of products. Both the machining and production capacity of the Group were not fully utilized, yet the fixed cost of the Group could not be correspondingly lowered at the same time, ultimately the revenue and gross profit margin of the Group declined. Consequently, the income of the Group in the first half year recorded a substantial decrease compared with that of the same period in 2018. In view of this, the Group had already issued a profit warning on 12th July, 2019 to the shareholders.

Despite the unfavorable external economic situation, the Group still put continued effort in uplifting its production skills and machining ability in order to fortify its strength and leading position in the industry. The plant in Hangzhou city, Zhejiang Province, China, achieved continuous improvement in its operation and production capability. Simultaneously, the Group kept on enhancing its production skills that resulted in boosting products' quality and production effectiveness. In consequence, the pressure of rising production cost could be relieved.

In the meantime, the Group put effort in exploring different markets and business opportunities. The Group promoted its business in Southern and Eastern regions of China by reinforcing its marketing team and refining its sales network. Apart from this, the Group proactively developed overseas markets and participated in exhibitions held in different regions in order to widen its sales channel and upgrade its brand as well as increase its share in overseas markets.

During the period under review, both the price of the local mould steel and imported steel remained stable and fluctuated in narrow range.

### **PROSPECTS**

For the next half year, it is expected the trade disputes between China and the United States will be continued, thus, trade will be hindered and economic growth will be decelerated correspondingly. Moreover, uncertainty on the Brexit issue and the debt crisis of Italy, coupled with the regional political tension intensified, all these put the global economy into a difficult position. Low investment intention and consumption confident prevailing in the market will strike a heavy blow to the manufacturing industry. However, despite the gloomy external economic outlook, the Group will still take a firm position in facing the difficulty and future challenge.

As dragged by the trade war between China and the United States, the economic growth of China is expected to slow down. To countervail the impact of economic downturn, it is expected the Central Government of China will continuously launch economic measures and monetary policy to encourage investment and consumption in order to reinforce the development of its domestic market.

Fortunately, the Group's customers come from different industries with diverse markets that help to lower its market risk. The Group will closely monitor the market and political situation and carefully devise its sales strategy with an aim to secure its leading position even in the difficult environment.

On the other hand, the Group will keep enhancing and consolidating its internal operation structure. The Group will persistently develop skills to uplift its machining ability, production effectiveness and product quality and also will further monitor and lower its operating cost so as to strengthen the competitive edge of its products. At the same time, the Group will continue to upgrade its marketing team in exploring business opportunities in China and overseas markets, enlarging its market coverage and enabling a balanced development.

The Group expects that the price of local mould steel tends to be stable with a downward trend and the price of the imported steel remains stable with only mild fluctuation. Moreover, the Group foresees the exchange rate of Renminbi will fluctuate. As the Group's recurrent expenditure are settled in Renminbi so its impact on the Group is comparatively slight. The Group will endeavor to keep track of the financial market and monitor credit control in the hope to reduce its operating risks.

Despite the unpredictable business operating outlook, the Group still strives to secure a stable business development and maintain its competitive edge during the difficult period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2019, the Group had cash balance of approximately HK\$727 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, 2019, the Group employed a total of approximately 4,100 employees. 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.

## **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 HK11 cents (2018: HK12 cents) per share in respect of the six months ended 30th June, 2019 to be payable on or around 26th September, 2019 to shareholders whose names appear in the Register of Members of the Company on 13th September, 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 12th September, 2019 to 13th September, 2019, 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 11th September, 2019.

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 11th September, 2019 will be entitled to the interim dividend.

## **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, 2019.

## **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 of Hong Kong Limited throughout the review period.

## **CORPORATE GOVERNANCE REPORT IN THE 2018 ANNUAL REPORT**

Reference is made to the annual report for the year ended 31st December, 2018 (the "2018 Annual Report") of the Company published on 12th April, 2019. Terms used herein shall have the same meanings as defined in the 2018 Annual Report, unless the context requires otherwise.

The Company noted that an inadvertent mistake was made in the Corporate Governance Report included in the 2018 Annual Report regarding the disclosure of attendance of Mr. Wong Hak Kun

and Mr. Liu Wing Ting, Stephen at the annual general meeting, board meetings and committee meetings of the Company (the “Meetings”). The Company has incorrectly used the number of meetings held during the financial year instead of the number of meetings held during the tenures of Mr. Wong Hak Kun and Mr. Liu Wing Ting, Stephen as the denominators in presenting the attendance records of the directors at the Meetings.

The Company would like to clarify that the attendance records of Mr. Wong Hak Kun and Mr. Liu Wing Ting, Stephen at the Meetings disclosed on pages 7, 9, 13 and 14 of the 2018 Annual Report shall be read as follows (with the corrections underlined):

Page 7:

During the financial year ended 31st December, 2018, an annual general meeting was held and the Board held four regular meetings at approximately quarterly intervals. The attendance of each director is set out as follows:

| Name of Director   | Attendance at annual general meeting | Attendance at board meetings |
|--|--------------------------------------|------------------------------|
| .....  |                                      |                              |
| Mr. Wong Hak Kun<br>(appointed with effect from 1st June, 2018)              | 0/ <u>0</u>                          | 3/ <u>3</u>                  |
| Mr. Liu Wing Ting, Stephen, JP<br>(resigned with effect from 31st May, 2018) | 1/1                                  | 1/ <u>1</u>                  |

Page 9:

During the financial year ended 31st December, 2018, the Nomination Committee held four meetings. The attendance of each member is set out as follows:

| Name of Member   | Number of attendance |
|--|----------------------|
| .....  |                      |
| Mr. Wong Hak Kun<br>(appointed with effect from 1st June, 2018)              | 3/ <u>3</u>          |
| Mr. Liu Wing Ting, Stephen, JP<br>(resigned with effect from 31st May, 2018) | 1/ <u>1</u>          |

Page 13:

During the financial year ended 31st December, 2018, the Remuneration Committee held four meetings. The attendance of each member is set out as follows:

| Name of Member   | Number of attendance |
|--|----------------------|
| .....  |                      |
| Mr. Wong Hak Kun<br>(appointed with effect from 1st June, 2018)              | 3/ <u>3</u>          |
| Mr. Liu Wing Ting, Stephen, JP<br>(resigned with effect from 31st May, 2018) | 1/ <u>1</u>          |

Page 14:

During the financial year ended 31st December, 2018, the Audit Committee held four meetings. The attendance of each member is set out as follows:

| Name of Member  | Number of attendance |
|---|----------------------|
| Mr. Wong Hak Kun ( <i>Chairman</i> )<br>(appointed with effect from 1st June, 2018) | 3/ <u>3</u>          |
| .....   |                      |
| Mr. Liu Wing Ting, Stephen, JP<br>(resigned with effect from 31st May, 2018)        | 1/ <u>1</u>          |

On behalf of the Board  
**Siu Yuk Lung**  
*Managing Director*

Hong Kong, 28th August, 2019

*As at the date of this announcement, the executive directors of the Company are Mr. Siu Tit Lung (Chairman), Mr. Siu Yuk Lung, Mr. Wai Lung Shing, Mr. Ting Chung Ho, Mr. Siu Yuk Tung, Ivan and Mr. Siu Yu Hang, Leo; and the independent non-executive directors of the Company are Dr. Lee Tat Yee, Mr. Lee Joo Hai and Mr. Wong Hak Kun.*