Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

INTERIM REPORT 2019

CONTENTS

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 28, which comprise the condensed consolidated statement of financial position as of 30th June, 2019 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, 28th August, 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

		Six months ended 30th June,	
	Notes	**2019 HK$'000 (unaudited)**	2018 HK$'000 (unaudited)
Revenue	*3*	**1,121,218**	1,366,392
Other income, gains and losses	*4*	**17,540**	5,819
Increase in fair value of investment properties		**2,300**	10,000
Impairment losses under expected credit loss model, net of reversal		**6,566**	(2,138)
Changes in inventories of finished goods and work in progress		**(752)**	3,350
Raw materials and consumables used		**(455,817)**	(571,022)
Employee benefits expenses		**(274,862)**	(302,321)
Depreciation of right-of-use assets		**(3,002)**	—
Depreciation of property, plant and equipment		**(87,014)**	(91,740)
Other expenses		**(237,460)**	(256,833)
Profit before taxation		**88,717**	161,507
Income tax expense	*5*	**(18,568)**	(37,642)
Profit for the period	*6*	**70,149**	123,865
Other comprehensive expense:			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**(2,644)**	(25,348)
Other comprehensive expense for the period		**(2,644)**	(25,348)
Total comprehensive income for the period		**67,505**	98,517
Basic earnings per share	*8*	**HK11.11 cents**	HK19.61 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2019

	Notes	At 30th June, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	*9*	**210,300**	208,000
Property, plant and equipment	*9*	**725,627**	760,066
Right-of-use assets	*9*	**80,150**	—
Prepaid lease payments — non-current portion		**—**	70,574
Deposits paid for acquisition of property, plant and equipment		**16,562**	25,583
Deferred tax assets		**9,345**	12,675
		1,041,984	1,076,898
Current assets			
Inventories		**552,985**	555,795
Trade, bills and other receivables	*10*	**287,740**	349,777
Prepaid lease payments — current portion		**—**	1,840
Bank balances and cash		**726,700**	645,777
		1,567,425	1,553,189
Current liabilities			
Trade, bills and other payables	*11*	**271,510**	291,156
Contract liabilities		**19,184**	22,853
Lease liabilities		**5,244**	—
Taxation payable		**23,993**	21,743
Dividend payable		**586**	212
		320,517	335,964

	Notes	At 30th June, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'000 (audited)
Net current assets		**1,246,908**	1,217,225
Total assets less current liabilities		**2,288,892**	2,294,123
Non-current liabilities			
Deferred tax liabilities		**31,569**	30,378
Lease liabilities		**3,517**	—
Other payables	*11*	**95,271**	96,914
		130,357	127,292
Net assets		**2,158,535**	2,166,831
CAPITAL AND RESERVES			
Share capital	*12*	**63,168**	63,168
Reserves		**2,095,367**	2,103,663
Total equity		**2,158,535**	2,166,831

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2019

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (note i)	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2018 (audited)	63,168	156,213	317,761	350,482	1,454,533	2,342,157
Profit for the period	—	—	—	—	123,865	123,865
Other comprehensive expense for the period						
Exchange difference arising on translation of foreign operations	—	—	—	(25,348)	—	(25,348)
Total comprehensive (expense) income for the period	—	—	—	(25,348)	123,865	98,517
Final dividend for the year ended 31st December, 2017 (note 7)	—	—	—	—	(101,069)	(101,069)
Final special dividend for the year ended 31st December, 2017 (note 7)	—	—	—	—	(75,801)	(75,801)
Transfer	—	—	25,060	—	(25,060)	—
At 30th June, 2018 (unaudited) and 1st July, 2018	63,168	156,213	342,821	325,134	1,376,468	2,263,804
Profit for the period	—	—	—	—	46,656	46,656
Other comprehensive expense for the period						
Exchange difference arising on translation of foreign operations	—	—	—	(67,828)	—	(67,828)
Total comprehensive (expense) income for the period	—	—	—	(67,828)	46,656	(21,172)
Interim dividend for the year ended 31st December, 2018 (note 7)	—	—	—	—	(75,801)	(75,801)
At 31st December, 2018 and 1st January, 2019 (audited)	63,168	156,213	342,821	257,306	1,347,323	2,166,831
Profit for the period	—	—	—	—	70,149	70,149
Other comprehensive expense for the period						
Exchange difference arising on translation of foreign operations	—	—	—	(2,644)	—	(2,644)
Total comprehensive (expense) income for the period	—	—	—	(2,644)	70,149	67,505
Final dividend for the year ended 31st December, 2018 (note 7)	—	—	—	—	(75,801)	(75,801)
Transfer	—	—	(3,111)	—	3,111	—
At 30th June, 2019 (unaudited)	63,168	156,213	339,710	254,662	1,344,782	2,158,535

Note: 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2019

	Six months ended 30th June,	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**193,487**	125,437
Net cash used in investing activities		
Purchases of property, plant and equipment	**(45,281)**	(48,047)
Proceeds on disposal of property, plant and equipment	**7,049**	2,027
Interest received	**6,510**	5,501
	(31,722)	(40,519)
Cash used in financing activities		
Dividends paid	**(75,427)**	(176,821)
Repayments of leases liabilities	**(2,859)**	—
Interest paid on leases liabilities	**(146)**	—
	(78,432)	(176,821)
Net increase (decrease) in cash and cash equivalents	**83,333**	(91,903)
Cash and cash equivalents at the beginning of the period	**645,777**	673,912
Effect of foreign exchange rate changes	**(2,410)**	(9,082)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	**726,700**	572,927

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2019

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. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Right-of-use assets (continued)

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Lease liabilities (continued)

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Lease modifications (continued)

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessor *(continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee *(continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee *(continued)*

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee *(continued)*

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

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

(a) Upfront payments for leasehold lands in 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee *(continued)*

(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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 ***Impacts and changes in accounting policies of application on HKFRS 16 Leases*** *(continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessor *(continued)*

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

3. REVENUE AND SEGMENT INFORMATION *(continued)*

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

	Six months ended 30th June,	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The PRC	**960,516**	1,164,111
Others	**160,702**	202,281
	1,121,218	1,366,392

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

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

5. INCOME TAX EXPENSE

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

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:

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

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. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS

The fair value of the Group's investment properties as at the end of the current interim period were determined 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 provides 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.

The resulting increase in fair value of investment properties of HK$2,300,000 (six months ended 30th June, 2018: HK$10,000,000) has been recognised directly in profit or loss for the six months ended 30th June, 2019.

During the period, the Group disposed of certain property, plant and equipment with an aggregate net carrying amount of approximately HK$2,137,000 (six months ended 30th June, 2018: HK$277,000) for cash proceeds of approximately HK$7,049,000 (six months ended 30th June, 2018: HK$2,027,000), resulting in a gain on disposal of approximately HK$4,912,000 (six months ended 30th June, 2018: HK$1,750,000).

In addition, during the current interim period, the Group acquired approximately HK$50,670,000 (six months ended 30th June, 2018: approximately HK$60,477,000), HK$1,595,000 (six months ended 30th June, 2018: approximately HK$334,000) and HK$2,037,000 (six months ended 30th June, 2018: approximately HK$2,321,000) of plant and machinery, furniture and equipment and motor vehicles, respectively, for the purpose of expanding and upgrading the Group's production facilities.

During the current interim period, the Group entered into a new lease agreement for the use of staff quarter for 2 years. The Group is required to make fixed monthly payments. On lease commencement during the current interim period, the Group recognised additional HK$58,000 of right-of-use asset and HK$58,000 lease liability.

10. TRADE, BILLS AND OTHER RECEIVABLES

	At 30th June, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'000 (audited)
Trade receivables	**226,763**	263,697
Bills receivables	**20,056**	19,095
Less: allowance for doubtful debts	**(9,768)**	(16,257)
	237,051	266,535
Other receivables	**2,763**	1,234
Deposits and prepayments	**47,926**	82,008
Total trade, bills and other receivables	**287,740**	349,777

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, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'000 (audited)
0 to 60 days	**173,820**	201,896
61 to 90 days	**46,428**	46,652
Over 90 days	**16,803**	17,987
	237,051	266,535

As at 30th June, 2019, total bills received amounting to HK$20,056,000 (31 December 2018: HK$19,095,000) are held by the Group for settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

11. TRADE, BILLS AND OTHER PAYABLES

	At 30th June, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'000 (audited)
Trade payables	**89,787**	93,580
Bills payables	**15,119**	15,712
Provision of employee economic compensation	**148,374**	150,940
Payables for salaries and bonuses	**44,393**	62,598
Deposits and accruals	**27,350**	28,555
Value-added tax payables	**25,216**	21,650
Other payables	**16,542**	15,035
Total amounts	**366,781**	388,070
Less: Amount due within one year shown under current liabilities	**(271,510)**	(291,156)
Amount due after one year	**95,271**	96,914

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

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

12. SHARE CAPITAL

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

13. CAPITAL COMMITMENTS

	At 30th June, 2019 HK$'000 (unaudited)	At 31st December, 2018 HK$'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	**17,586**	27,432

14. RELATED PARTY DISCLOSURE

During the period, the Group entered into transactions with the following related parties:

Relationship	Nature of transaction	Six months ended 30th June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Companies controlled by certain directors of the Company (note)	Lease principal paid	**1,166**	982
	Rental deposit paid	**583**	556
	Interest expense on lease liabilities	**6**	—

As at 30th June, 2019, the lease liabilities due to the above related parties amounted to HK$2,682,000.

Note: Two directors of the Company are the directors of Silver Aim Limited and Triplefull Company Limited and one of them is also the beneficial shareholder of Silver Aim Limited and Triplefull Company Limited.

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

	Six months ended 30th June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Short-term benefits	**20,156**	25,718
Post-employment benefits	**1,326**	1,323
	21,482	27,041

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

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. 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 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.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2019, 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

		Number of shares held				
Name of director	**Capacity**	**Personal interests**	**Family interests**	**Other interests**	**Total interests**	**Percentage of Company's issued share capital**
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, 2019.

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, 2019, 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 *(Note)*	57.97%
HSBC International Trustee Limited	Trustee	366,514,990 *(Note)*	58.02%
David Michael Webb	Beneficial owner and interest of a controlled corporation	37,904,498	6.00%

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, 2019.

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 (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, 28th August, 2019