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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, 2022

FINANCIAL RESULTS

The directors of Lung Kee (Bermuda) Holdings Limited (the “Company”) (the “Directors”) are pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2022 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, 2022

		Six months ended 30th June,	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	907,552	1,189,026
Other income, gains and losses	4	2,525	17,890
Increase (decrease) in fair value of investment properties		2,000	(8,000)
Impairment losses reversed (recognised) under expected credit loss model, net		2,181	(782)
Changes in inventories of finished goods and work in progress		7,468	(3,809)
Raw materials and consumables used		(359,766)	(416,282)
Employee benefits expenses		(238,020)	(300,309)
Depreciation of right-of-use assets		(2,985)	(4,012)
Depreciation of property, plant and equipment		(75,359)	(74,166)
Other expenses		(191,527)	(245,943)
Interest expense on lease liabilities		(168)	(248)
		<hr/>	<hr/>
Profit before taxation		53,901	153,365
Income tax expense	5	(12,913)	(45,325)
		<hr/>	<hr/>
Profit for the period	6	40,988	108,040

		Six months ended 30th June,	
		2022	2021
		HK\$'000	HK\$'000
	<i>Notes</i>	(unaudited)	(unaudited)
Other comprehensive (expense) income for the period:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		<u>(81,441)</u>	<u>10,706</u>
Total comprehensive (expense) income for the period		<u>(40,453)</u>	<u>118,746</u>
Basic earnings per share	8	<u>HK6.49 cents</u>	<u>HK17.10 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2022

		At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		170,500	168,500
Property, plant and equipment		674,990	668,494
Right-of-use assets		74,112	80,510
Deposits paid for acquisition of property, plant and equipment		98,230	95,283
Deferred tax assets		14,212	14,576
		<u>1,032,044</u>	<u>1,027,363</u>
Current assets			
Inventories		602,663	604,275
Trade, bills and other receivables	9	274,953	280,508
Bank balances and cash		603,565	833,586
		<u>1,481,181</u>	<u>1,718,369</u>
Current liabilities			
Trade, bills and other payables	10	211,607	249,700
Contract liabilities		19,695	32,143
Lease liabilities		2,018	3,379
Taxation payable		49,807	55,486
Dividend payable		353	270
		<u>283,480</u>	<u>340,978</u>
Net current assets		<u>1,197,701</u>	<u>1,377,391</u>
Total assets less current liabilities		<u>2,229,745</u>	<u>2,404,754</u>

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
Non-current liabilities		
Deferred tax liabilities	27,948	28,270
Lease liabilities	4,683	5,643
Other payables	92,630	99,569
	<u>125,261</u>	<u>133,482</u>
Net assets	<u>2,104,484</u>	<u>2,271,272</u>
CAPITAL AND RESERVES		
Share capital	63,168	63,168
Reserves	2,041,316	2,208,104
Total equity	<u>2,104,484</u>	<u>2,271,272</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 amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements of the Group for the six months ended 30th June, 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31st December, 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the Group’s annual period beginning on 1st January, 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020

The application of 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.

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 and revenue is recognised when control of the goods has been transferred to the customer, being at the point the goods are delivered to the customer. Transportation and other related activities that occur before the customers obtain control of the related goods are considered as fulfilment activities. Following the 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 only has one operating segment, based on the information reported to the chief operating decision maker (i.e. the Company's executive directors) for the purposes of resources allocation and performance assessment, which is the aggregated consolidated 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. Accordingly, only entity-wide disclosures and geographic information are presented.

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.

Entity-wide disclosures

As at 30th June, 2022 and 31st December, 2021, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the People's Republic of China (the "PRC").

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

	Six months ended 30th June,	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC	787,688	1,037,422
Others	119,864	151,604
	<u>907,552</u>	<u>1,189,026</u>

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, 2022 and 2021.

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30th June,	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	7,479	6,882
Rental income, net of direct outgoings of HK\$268,000 (2021: HK\$253,000)	2,708	1,936
Government grants (note)	236	2,670
Sundry income	2,090	1,665
Gain on disposal of property, plant and equipment	4,606	4,362
Net foreign exchange (loss) gain	(14,594)	375
	<u>2,525</u>	<u>17,890</u>

Note: In the current period, government grants of HK\$236,000 with respect to the Employment Support Scheme, which have fulfilled condition to retain current employees in Hong Kong, are received. In the prior period, the government grants, which have no unfulfilled condition attached amounting to HK\$2,670,000 represented the awards for the advancement of production facilities and technology of a subsidiary in the PRC.

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	1,088	2,678
Taxation in jurisdictions outside Hong Kong	11,115	38,436
Deferred taxation	710	4,211
	12,913	45,325

Under the Law of the PRC 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.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, 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%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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

6. PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	723,741	872,397
(Reversal of allowance for) allowance for inventories	(4,428)	286

7. DIVIDENDS

Interim dividend for the current period:

On 26th August, 2022, the Directors determined an interim dividend of HK6 cents (six months ended 30th June, 2021: HK15 cents) per share amounting to HK\$37,901,000 (six months ended 30th June, 2021: HK\$94,752,000) to be paid to the shareholders of the Company whose names appear in the Register of Members on 15th September, 2022.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK20 cents (six months ended 30th June, 2021: final dividend of HK18 cents and final special dividend of HK10 cents) per share amounting to HK\$126,335,000 (six months ended 30th June, 2021: final dividend of HK\$113,702,000 and final special dividend of HK\$63,168,000) was declared and paid to the shareholders in respect of the year ended 31st December, 2021 (six months ended 30th June, 2021: in respect of the year ended 31st December, 2020).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2022 is based on the profit attributable to the owners of the Company for the six months ended 30th June, 2022 of HK\$40,988,000 (six months ended 30th June, 2021: HK\$108,040,000) and the number of 631,677,303 (2021: 631,677,303) ordinary shares in issue during the period.

No diluted earnings per share is 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

In general, 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 credit losses) of HK\$113,953,000 (31st December, 2021: HK\$137,235,000) and bills receivables of HK\$16,973,000 (31st December, 2021: HK\$22,421,000).

The following is an aged analysis of trade and bills receivables (before allowance for credit losses), presented based on the invoice dates at the end of the reporting period.

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
0 to 60 days	114,005	136,833
61 to 90 days	20,509	26,443
Over 90 days	8,887	11,787
	<u>143,401</u>	<u>175,063</u>

10. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are trade payables of HK\$48,713,000 (31st December, 2021: HK\$43,792,000) and bills payables of HK\$3,850,000 (31st December, 2021: HK\$13,757,000).

The following is an aged analysis of trade and bills payables, presented based on the invoice dates at the end of the reporting period.

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
0 to 60 days	39,305	46,009
61 to 90 days	8,213	7,166
Over 90 days	5,045	4,374
	<u>52,563</u>	<u>57,549</u>

In general, the credit period on the purchases of goods ranges from 30 days to 150 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2022 was HK\$907,552,000 (2021: HK\$1,189,026,000). Profit attributable to owners of the Company for the six months ended 30th June, 2022 was HK\$40,988,000 (2021: HK\$108,040,000). Basic earnings per share for the six months ended 30th June, 2022 was HK6.49 cents (2021: HK17.10 cents).

During the period under review, the global economy still failed to fully recover. Due to the outbreak of Coronavirus Disease 2019 ("COVID-19") in certain regions of China, the aggregate orders in the market reduced. Coupled with the increase of raw material costs and the relatively fixed operation costs resulted in the decrease in the Group's revenue and net profit. Consequently, the net profit recorded by the Group decreased significantly as compared with the corresponding period in 2021. Therefore, the Group had issued a profit warning to shareholders and potential investors on 8th July, 2022 pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the review period, as affected by new variant of coronavirus, the COVID-19 pandemic broke out in certain regions of China. The pandemic prevention measures were thus tightened again, which greatly affected the public consumption desire. Demand for consumption goods such as electrical appliances and household products declined, dragging down the recovery speed of the domestic market in China. Subject to the pandemic control measures, transportation across provinces and regions had been hindered. As a result, logistics and transportation and supply chains operation were put under pressure, business and production activities had been severely impacted. With the gradual recovery of productivity in European countries and the United States, the export advantage of China to overseas countries as substitution had also declined, so the growth rate of China's export business had decreased. Although the production operation of the Group's plants located in mainland China had not been affected by the pandemic, in views of the slowdown in the overall market development in China and the reduction of aggregate orders from the Group's customers, the production efficiency of the plants was not fully realised and the Group's income thus dropped correspondingly.

On the other hand, geopolitical conflicts led to political instability and the war between Russia and Ukraine imposed great risks on the global economy and financial system. In addition, the international shipping was still not operated smoothly and the global supply chain industry had not been restored normal which remained in a tense situation, resulting in unstable supply of cargo and goods. Coupled with the surging of energy prices, imported parts as well as logistics and transportation costs, the global inflationary pressure intensified. All these unfavorable external economic factors further slowed down the pace of global economic recovery.

As for mould steel, due to inflationary pressure, the price increased with short term notable fluctuation. At the same time, during the period under review, the Group's raw material price and operation costs also increased, thus the net profit of the products relatively decreased.

FINANCIAL REVIEW

The Group's revenue for the six months ended 30th June, 2022 decreased by 23.7% as compared with the same period of last year. The decrease of revenue was mainly due to the reduction of aggregate purchase orders in the market caused by the outbreaks of the pandemic in certain regions of China. During the period under review, the relevant costs of raw materials and consumables used (including the changes in inventories of finished goods and work in progress) for generating the revenue decreased by 16.1% and their costs as percentage of revenue increased to 38.8% (2021: 35.3%). The employee benefit expenses and other expenses decreased by 20.7% and 22.1% respectively while the depreciation of property, plant and equipment increased by 1.6%.

During the period under review, the change in fair value of investment properties increased by HK\$10,000,000 as compared with the same period of last year. Other income decreased by HK\$15,365,000 mainly due to the increase of the net foreign exchange loss amounting to HK\$14,969,000. Income tax expense decreased by 71.5% and the effective tax rate decreased to 24.0% (2021: 29.6%).

As a result of the foregoing, profit for six months ended 30th June, 2022 decreased by 62.1% to HK\$40,988,000 (2021: HK\$108,040,000).

Liquidity and Financial Resources

The total equity of the Group as at 30th June, 2022 was HK\$2,104,484,000 (as at 31st December, 2021: HK\$2,271,272,000). As at 30th June, 2022, the Group had bank balances and cash of HK\$603,565,000 (as at 31st December, 2021: HK\$833,586,000) and did not have any borrowings (as at 31st December, 2021: Nil).

The bank balances and cash were placed in short term deposits with major banks in Hong Kong and the PRC.

The Group had sufficient cash to meet its operations and capital commitments and the COVID-19 pandemic did not affect the financial position of the Group.

Employees and Remuneration Policies

As at 30th June, 2022, the Group employed a total of approximately 3,200 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.

PROSPECTS

For the second half year, the global economic recovery will still face great obstacles and uncertainties. The unstable geopolitical situation, the repeated outbreaks of COVID-19 and the emergence of new variant of coronavirus, the continued high inflation risk have triggered great annoyance and worries. The outlook for the global economy and business remains uncertain and unpredictable. The Group will cautiously evaluate the market conditions in order to respond future changes.

Due to the unstable geopolitical situation and the fact that the global COVID-19 pandemic has not been fully controlled, international shipping is unable to resume smooth operation in the short term, the global supply chain operation is still blocked, and the shortage supply of chips and imported parts which all have impact on industrial production. Coupled with unfavorable factors such as persistent inflation and interest rate hikes, the global economic development will continue to be suppressed, putting considerable pressure on export business of China.

On the other hand, the Group expects that the domestic consumption market in China will continue to slow down. Due to the uncertain outlook, the public will be more cautious on consumption. As the pandemic has not completely subsided, demand for medical and healthcare products will remain stable. With the increasing general awareness of environmental protection, the environmentally friendly new energy vehicles will gradually become popular and its demand will also record growth. However, property market in China tends to be sluggish, resulting in reduced demand for consumer products such as electrical appliances and household products, therefore, the consumption market is expected to shrink further. The Group will strengthen its marketing team and network to explore markets for business opportunities and actively seek orders so as to bring stable income to the Group.

The operation costs of the Group will rise continuously. Due to the reduction in demand for mould steel, the price will drop slightly but with constant fluctuation. However, other production costs including energy, transportation and labor will escalate consistently. The Group will keep enhancing its production processes, promoting automated production lines and improving its management system and striving to monitor costs in order to reduce operational risks caused by rising costs.

Facing the complex and volatile international macro environment, despite the uncertain business outlook, the Group will maintain a pragmatic attitude and strive to reduce its potential operational risks in the hope to achieve steady development and growth.

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 condensed consolidated financial statements.

INTERIM DIVIDEND

The Directors have determined an interim dividend of HK6 cents (2021: HK15 cents) per share in respect of the six months ended 30th June, 2022 to be payable on or around 27th September, 2022 to shareholders whose names appear in the Register of Members of the Company on 15th September, 2022.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th September, 2022 to 15th September, 2022, 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 13th September, 2022.

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 13th September, 2022 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, 2022.

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.

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, China, 26th August, 2022

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, Mr. Wong Hak Kun and Ms. He Lamei.