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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, 2016**

#### **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, 2016 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, 2016*

		<b>Six months ended 30th June,</b>	
		<b>2016</b>	<b>2015</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Notes</i>	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	3	<b>1,060,718</b>	1,179,680
Other income	4	<b>11,065</b>	13,141
Changes in inventories of finished goods and work in progress		<b>(483)</b>	476
Raw materials and consumables used		<b>(368,688)</b>	(460,983)
Employee benefits expenses		<b>(274,309)</b>	(294,723)
Depreciation of property, plant and equipment		<b>(105,149)</b>	(113,774)
Other expenses		<b>(210,832)</b>	(231,627)
Interest on bank borrowings wholly repayable within five years		<b>(5)</b>	(969)
Profit before taxation		<b>112,317</b>	91,221
Income tax expense	5	<b>(35,788)</b>	(25,135)
Profit for the period	6	<b>76,529</b>	66,086

		<b>Six months ended 30th June,</b>	
		<b>2016</b>	2015
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Other comprehensive (expense) income:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		<u>(15,531)</u>	<u>564</u>
Other comprehensive (expense) income for the period		<u>(15,531)</u>	<u>564</u>
Total comprehensive income for the period		<u><b>60,998</b></u>	<u>66,650</u>
Profit for the period attributable to:			
Owners of the Company		<b>75,709</b>	65,240
Non-controlling interests		<u>820</u>	<u>846</u>
		<u><b>76,529</b></u>	<u>66,086</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>59,832</b>	65,458
Non-controlling interests		<u>1,166</u>	<u>1,192</u>
		<u><b>60,998</b></u>	<u>66,650</u>
Basic earnings per share	8	<u><b>HK11.99cents</b></u>	<u>HK10.33cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30th June, 2016*

	<i>Notes</i>	<b>At 30th June, 2016 HK\$'000 (unaudited)</b>	At 31st December, 2015 HK\$'000 (audited)
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment properties		177,500	177,500
Property, plant and equipment		993,564	1,016,442
Prepaid lease payments — non-current portion		83,904	86,014
Deposits paid for acquisition of property, plant and equipment		34,740	52,217
Deferred tax assets		40,311	41,406
		<b>1,330,019</b>	1,373,579
Current assets			
Inventories		414,881	468,512
Trade, bills and other receivables	9	407,549	429,956
Prepaid lease payments — current portion		2,112	2,139
Bank balances and cash		610,121	505,127
		<b>1,434,663</b>	1,405,734
Current liabilities			
Trade, bills and other payables	10	328,833	328,259
Taxation payable		16,148	7,883
Dividend payable		182	145
Unsecured bank borrowings — due within one year		—	1,879
		<b>345,163</b>	338,166
Net current assets		<b>1,089,500</b>	1,067,568
Total assets less current liabilities		<b>2,419,519</b>	2,441,147

	<b>At 30th June, 2016 HK\$'000 (unaudited)</b>	At 31st December, 2015 HK\$'000 (audited)
Non-current liabilities		
Deferred tax liabilities	44,347	48,190
Other payables	99,823	96,488
	<u>144,170</u>	<u>144,678</u>
Net assets	<u>2,275,349</u>	<u>2,296,469</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	63,168	63,168
Reserves	2,196,781	2,219,067
	<u>2,259,949</u>	<u>2,282,235</u>
Equity attributable to owners of the Company	2,259,949	2,282,235
Non-controlling interests	15,400	14,234
	<u>2,275,349</u>	<u>2,296,469</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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2015.

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle

The application of these amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The Group has only one operating segment. The information reported to the chief operating decision maker (the Company's board of directors) for the purposes of resources allocation and performance assessment, 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, 2016 and 31st December, 2015, substantially all of the Group's non-current assets are located in the place of domicile of the relevant group entities, namely the People's Republic of China (the "PRC").

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

	<b>Six months ended 30th June,</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
The PRC (excluding Hong Kong)	<b>913,595</b>	1,029,313
Hong Kong	<b>1,729</b>	2,104
Others	<b>145,394</b>	148,263
	<b><u>1,060,718</u></b>	<b><u>1,179,680</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, 2016 and 2015.

#### 4. OTHER INCOME

	<b>Six months ended 30th June,</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest income	<b>3,855</b>	6,285
Rental income, net of direct outgoings of approximately HK\$255,000 (2015: HK\$232,000)	<b>2,755</b>	2,417
Gain on disposal of property, plant and equipment	<b>3,100</b>	2,036
Net foreign exchange gain	<b>—</b>	1,146
Sundry income	<b>1,355</b>	1,257
	<b><u>11,065</u></b>	<b><u>13,141</u></b>

#### 5. INCOME TAX EXPENSE

	<b>Six months ended 30th June,</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
The charge (credit) comprises:		
Taxation in Hong Kong	<b>311</b>	401
Taxation in jurisdictions outside Hong Kong	<b>38,248</b>	27,618
Deferred taxation	<b>(2,771)</b>	(2,884)
	<b><u>35,788</u></b>	<b><u>25,135</u></b>

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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

## 6. PROFIT FOR THE PERIOD

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

	<b>Six months ended 30th June,</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cost of inventories recognised as an expense	<b>789,631</b>	920,181
Gross foreign exchange loss	<b>1,966</b>	756
Gross foreign exchange gain	—	(1,902)
Release of prepaid lease payments	<b>1,075</b>	1,164

## 7. DIVIDENDS

Interim dividend and interim special dividend for the current period:

On 15th August, 2016, the Directors determined that an interim dividend of HK7 cents (2015: HK7 cents) per share amounting to approximately HK\$44,217,000 (2015: HK\$44,217,000) and an interim special dividend of HK5 cents (2015: Nil) per share amounting to approximately HK\$31,584,000 (2015: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 1st September, 2016.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK8 cents (2015: HK7 cents) per share amounting to approximately HK\$50,534,000 (2015: HK\$44,217,000) and a final special dividend of HK5 cents (2015: Nil) per share amounting to approximately HK\$31,584,000 (2015: Nil) were declared and paid to the shareholders in respect of the year ended 31st December, 2015.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months period ended 30th June, 2016 is based on the profit attributable to the owners of the Company of approximately HK\$75,709,000 (six months ended 30th June, 2015: HK\$65,240,000) and the weighted average number of 631,677,303 (2015: 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\$335,543,000 (31st December, 2015: HK\$332,727,000) and bills receivables of approximately HK\$26,072,000 (31st December, 2015: HK\$33,112,000).

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 June, 2016 HK\$'000 (unaudited)</b>	At 31st December, 2015 HK\$'000 (audited)
0 to 60 days	267,527	265,990
61 to 90 days	65,544	73,273
Over 90 days	28,544	26,576
	<u>361,615</u>	<u>365,839</u>

## 10. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are trade payables of approximately HK\$94,500,000 (31st December, 2015: HK\$86,017,000) and bills payables of approximately HK\$11,188,000 (31st December, 2015: HK\$21,644,000).

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

	<b>At 30th June, 2016 HK\$'000 (unaudited)</b>	At 31st December, 2015 HK\$'000 (audited)
0 to 60 days	74,987	71,096
61 to 90 days	17,993	23,545
Over 90 days	12,708	13,020
	<u>105,688</u>	<u>107,661</u>



## **11. EVENT AFTER THE END OF THE REPORTING PERIOD**

On 4th July, 2016, 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, had entered into an agreement with an independent third party in relation to the disposal of the land use right of the land situated in Shanghai, the PRC and the related assets at a consideration of RMB90,000,000 (equivalent to approximately HK\$104,913,000). Details of the transaction are included in the announcement of the Company dated 4th July, 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 2016 was approximately HK\$1,061 million (2015: approximately HK\$1,180 million). Profit attributable to owners of the Company for the six months ended 30th June, 2016 was approximately HK\$76 million (2015: approximately HK\$65 million). Basic earnings per share for the six months ended 30th June, 2016 was HK11.99 cents (2015: HK10.33 cents).

During the period under review, the global economy operated without a remarkable sign of economic recovery. Besides the United States market showing a relatively mild improvement, the European countries still faced a lot of undetermined factors including the threat of terror attack by Middle East countries, refugee issue and unpredictability arose before and after the Brexit referendum. Consequently, the export business to European countries was impeded owing to the weak economic performance in these countries. As hindered by the uncertainties on the global economy, the growth pace of both export and domestic business of China was inevitably affected. The Group's sales turnover suffered a regression due to the unfavorable aggregate business operating environment. However, in spite of the business environment operated under unfavorable conditions and the retraction of the Group's turnover, the Group recorded an increase in its operating profit when compared with that of the same period in 2015.

Despite there was a sign that the economic growth pace of China was slow down as affected by the sluggish performance in external economy, the turnover of automobile industry was still booming, which in turn stimulated the rapid growth of automobile parts and components business which further boosted the demand for quality products produced by the Group. Following the continued uplift in production and machining skills of the Group and due to customers' shortage of technical labor, some of the customers tended to order quality mould products with high machining contents from the Group, thus; increased the income of the Group and elevating its profit margin.

Continued effort had been made to restructure and simplify the production process of the Heyuan factory, Guangdong Province, China. By adopting automated production equipment in replacing low efficient machineries and through outsourcing some of the non-core production processes, the Group succeeded in reducing its manpower and enhancing its productivity per capita and improving product quality, further reinforcing its production strength.

For the plant in Hangzhou city, Zhejiang Province, China, as its production skills became more matured and its production process operated more smoothly, the number of customers located in the Eastern, Central and Northern regions of China had increased. In this relation, its income contributed to the Group had been significantly improved compared with the same period in the last year.

During the period under review, the price of the local mould steel gradually rose up from its lowest price. For the imported steel, the price remained stable and its range of fluctuation was relatively small. Accordingly, the Group had suitably managed its procurement and inventory level, thus, the material cost reduced, relative to the same period in last year, bringing positive result to the Group.

Owing to the sustained effort in uplifting its production effectiveness and monitoring its cost

expenditure, coupled with the decrease of material cost and the gradual business improvement in the plant of Hangzhou city, Zhejiang Province, China, the Group's profit was ameliorated, as compared with the same period in last year, and its performance was satisfactory.

## **EVENT SINCE THE END OF THE FINANCIAL PERIOD**

As announced on 4th July, 2016, 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, had entered into an agreement with an independent third party in relation to the disposal of the land use right of the land situated in Shanghai, the PRC and the related assets at a consideration of RMB90,000,000 (equivalent to approximately HK\$104,913,000).

## **PROSPECTS**

The United States economy shows a mild growth and it is expected that it will bring hope to the revival of export business. However, the Europe zone is still clouded with uncertainties that will have adverse impact on the global economy. The Group foresees that the business operating environment will face constant fluctuation. On the other hand, though the economic growth pace slows down, China still maintains a relatively high Gross Domestic Product (GDP) growth rate at 6.5% as compared with other countries, demonstrating unlimited business opportunity exists in its market. In addition, the depreciation of Renminbi decelerates the growth rate of its production and labor cost which helps uplifting the competitive advantage of China product in the international market and directly promotes growth of the export business in China.

Following the rise of average wage level and standard of living of Chinese citizens, the domestic consumption market in China continues prospering, and the automobile parts and components business will have plenty room for development. The Group will strengthen its direct sales team and deploy multiple sales channels and internet sales platform to explore new market actively with an aim to enlarge its market coverage in China.

In developing the market opportunity in China, the Heyuan factory, Guangdong Province, China, will constantly enhance its production effectiveness and flexibility as well as its product precision to reduce scrap product. It further aims at fortifying its in-depth machining skill so as to reinforce the Group competitiveness and satisfy the high quality requirements demanded by customers. Turning to the new plant in Hangzhou city, Zhejiang Province, China, in view of its continual improvement in its production skills and the gradual amelioration in co-ordinating and managing its plants, machineries and manpower, it is anticipated its production capacity will be further enlarged. Hence, it enables the Group in sustaining orders and catering needs from the increased customers in the Eastern, Central and Northern regions of China, ultimately contributing positive return to the Group's turnover.

The Group foresees that the price of local mould steel will adjust upward mildly and then tend to be stable. The price of the imported steel remains stable without much fluctuation. Moreover, the labor cost is also expected to rise but the increased rate will slow down. The Group will endeavor to monitor its cost in the hope to further reduce its operating cost and risks.

Looking ahead, the business operating environment is not only full of uncertainties but also opportunity. The Group adopts prudent and positive attitude in keeping track with market change closely in order to manage its future development and to seek for a stable and healthy growth.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2016, the Group had cash balance of approximately HK\$610 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, 2016, the Group employed a total of approximately 5,000 employees, including approximately 4,600 employees in its PRC production sites and approximately 400 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

## **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 AND INTERIM SPECIAL DIVIDEND**

The Directors have determined an interim dividend of HK7 cents (2015: HK7 cents) per share and an interim special dividend of HK5 cents (2015: Nil) per share in respect of the six months ended 30th June, 2016 to be payable on or around 14th September, 2016 to shareholders whose names appear in the Register of Members of the Company on 1st September, 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 31st August, 2016 to 1st September, 2016, both days inclusive, during which period no share transfer will be effected.

In order to qualify for the interim dividend and interim special 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 30th August, 2016.

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 30th August, 2016 will be entitled to the interim dividend and interim special 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, 2016.

## **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, 15th August, 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Siu Tit Lung (Chairman), Mr. Siu Yuk Lung, Mr. Mak Koon Chi, Mr. Wai Lung Shing and Mr. Ting Chung Ho; and the independent non-executive directors of the Company are Mr. Liu Wing Ting, Stephen, Dr. Lee Tat Yee and Mr. Lee Joo Hai.*