



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



Interim Report **2016**

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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 18, which comprise the condensed consolidated statement of financial position as of 30th June, 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated 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, 15th August, 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

		Six months ended 30th June,	
		2016	2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	3	1,060,718	1,179,680
Other income	4	11,065	13,141
Changes in inventories of finished goods and work in progress		(483)	476
Raw materials and consumables used		(368,688)	(460,983)
Employee benefits expenses		(274,309)	(294,723)
Depreciation of property, plant and equipment		(105,149)	(113,774)
Other expenses		(210,832)	(231,627)
Interest on bank borrowings wholly repayable within five years		(5)	(969)
Profit before taxation		112,317	91,221
Income tax expense	5	(35,788)	(25,135)
Profit for the period	6	76,529	66,086
Other comprehensive (expense) income: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		(15,531)	564

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2016

	Notes	At 30th June, 2016 HK\$'000 (unaudited)	At 31st December, 2015 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	9	177,500	177,500
Property, plant and equipment	9	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
		1,330,019	1,373,579
Current assets			
Inventories		414,881	468,512
Trade, bills and other receivables	10	407,549	429,956
Prepaid lease payments			
— current portion		2,112	2,139
Bank balances and cash		610,121	505,127
		1,434,663	1,405,734
Current liabilities			
Trade, bills and other payables	11	328,833	328,259
Taxation payable		16,148	7,883
Dividend payable		182	145
Unsecured bank borrowings			
— due within one year	12	—	1,879
		345,163	338,166

		At 30th June, 2016 HK\$'000 (unaudited)	At 31st December, 2015 HK\$'000 (audited)
Net current assets		1,089,500	1,067,568
Total assets less current liabilities		2,419,519	2,441,147
Non-current liabilities			
Deferred tax liabilities		44,347	48,190
Other payables	11	99,823	96,488
		144,170	144,678
Net assets		2,275,349	2,296,469
CAPITAL AND RESERVES			
Share capital	13	63,168	63,168
Reserves		2,196,781	2,219,067
Equity attributable to owners of the Company		2,259,949	2,282,235
Non-controlling interests		15,400	14,234
Total equity		2,275,349	2,296,469

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2016

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note)	Translation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		
At 1st January, 2015 (audited)	63,168	156,213	278,129	449,634	1,422,816	2,369,960	13,449	2,383,409
Profit for the period	—	—	—	—	65,240	65,240	846	66,086
Other comprehensive income for the period								
Exchange difference arising on translation of foreign operation	—	—	—	218	—	218	346	564
Total comprehensive income for the period	—	—	—	218	65,240	65,458	1,192	66,650
Final dividend for the year ended 31st December, 2014 (note 7)	—	—	—	—	(44,217)	(44,217)	—	(44,217)
At 30th June, 2015 (unaudited)	63,168	156,213	278,129	449,852	1,443,839	2,391,201	14,641	2,405,842
Profit for the period	—	—	—	—	60,392	60,392	543	60,935
Other comprehensive expense for the period								
Exchange difference arising on translation of foreign operations	—	—	—	(125,141)	—	(125,141)	(950)	(126,091)
Total comprehensive (expense) income for the period	—	—	—	(125,141)	60,392	(64,749)	(407)	(65,156)
Interim dividend for the year ended 31st December, 2015 (note 7)	—	—	—	—	(44,217)	(44,217)	—	(44,217)
Transfer	—	—	7,894	—	(7,894)	—	—	—
At 31st December, 2015 and 1st January, 2016 (audited)	63,168	156,213	286,023	324,711	1,452,120	2,282,235	14,234	2,296,469
Profit for the period	—	—	—	—	75,709	75,709	820	76,529
Other comprehensive income for the period								
Exchange difference arising on translation of foreign operations	—	—	—	(15,877)	—	(15,877)	346	(15,531)
Total comprehensive income (expense) for the period	—	—	—	(15,877)	75,709	59,832	1,166	60,998
Final dividend for the year ended 31st December, 2015 (note 7)	—	—	—	—	(50,534)	(50,534)	—	(50,534)
Final special dividend for the year ended 31st December, 2015 (note 7)	—	—	—	—	(31,584)	(31,584)	—	(31,584)
Transfer	—	—	9,216	—	(9,216)	—	—	—
At 30th June, 2016 (unaudited)	63,168	156,213	295,239	308,834	1,436,495	2,259,949	15,400	2,275,349

Note: 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, 2016

	Six months ended 30th June,	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Net cash from operating activities	260,949	136,200
Net cash used in investing activities		
Deposits paid and purchase of property, plant and equipment	(73,890)	(75,844)
Interest received	3,855	6,285
Proceeds on disposal of property, plant and equipment	3,260	2,044
Deposit received in respect of disposal of a land lease	—	6,243
	(66,775)	(61,272)
Net cash used in financing activities		
Dividends paid	(82,081)	(44,198)
Repayment of bank borrowings	(1,922)	(14,895)
Interest paid	(5)	(969)
New bank borrowings raised	—	51,000
	(84,008)	(9,062)
Net increase in cash and cash equivalents	110,166	65,866
Cash and cash equivalents at the beginning of the period	505,127	383,774
Effect of foreign exchange rates changes	(5,172)	1,410
Cash and cash equivalents at the end of the period, represented by bank balances and cash	610,121	451,050

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2016

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 PRC.

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

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

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

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

5. INCOME TAX EXPENSE

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

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):

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	789,631	920,181
Gross foreign exchange loss	1,966	756
Gross foreign exchange gain	—	(1,902)
Release of prepaid lease payments	1,075	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. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors considered the carrying amounts of the Group's investment properties as at 30th June, 2016 and 30th June, 2015 did not differ significantly from the fair values. Consequently, no change in fair value has been recognised in both periods.

During the period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$160,000 (2015: HK\$8,000) for cash proceeds of approximately HK\$3,260,000 (2015: HK\$2,044,000), resulting in a gain on disposal of approximately HK\$3,100,000 (2015: HK\$2,036,000).

In addition, the Group incurred expenditures of approximately HK\$2,859,000 (2015: HK\$22,197,000) on the construction in progress in the PRC and spent approximately HK\$81,995,000 (2015: HK\$77,639,000), HK\$909,000 (2015: HK\$1,199,000), HK\$1,847,000 (2015: Nil) and HK\$3,757,000 (2015: HK\$3,510,000) during the period on acquisition of plant and machinery, furniture and equipment, buildings, and motor vehicles, respectively, for the purpose of expanding and upgrading the Group's production facilities.

10. TRADE, BILLS AND OTHER RECEIVABLES

	At 30th June, 2016 HK\$'000 (unaudited)	At 31st December, 2015 HK\$'000 (audited)
Trade receivables	362,834	360,312
Bills receivables	26,072	33,112
Less: allowance for doubtful debts	(27,291)	(27,585)
	361,615	365,839
Other receivables	6,191	6,083
VAT receivables	—	14,377
Deposits and prepayments	39,743	43,657
Total trade, bills and other receivables	407,549	429,956

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, 2016 HK\$'000 (unaudited)	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
	361,615	365,839

11. TRADE, BILLS AND OTHER PAYABLES

	At 30th June, 2016 HK\$'000 (unaudited)	At 31st December, 2015 HK\$'000 (audited)
Trade payables	94,500	86,017
Bills payables	11,188	21,644
Advance receipt from customers	35,776	42,651
Provision of employee economic compensation	157,385	144,456
Payables for salaries and bonuses	47,218	55,818
Deposits and accruals	37,921	33,701
VAT payables	13,274	—
Other payables	31,394	40,460
Total amounts	428,656	424,747
Less: Amount due within one year shown under current liabilities	(328,833)	(328,259)
Amount due after one year	99,823	96,488

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

	At 30th June, 2016 HK\$'000 (unaudited)	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
Total	105,688	107,661

12. UNSECURED BANK BORROWINGS

During the period, the Group raised new bank loans in the amount of HK\$Nil (2015: HK\$51,000,000) for general working capital requirements.

In addition, the Group repaid bank loans amounting to approximately HK1,922,000 (2015: HK\$14,895,000) during the period using the funds generated from operations.

13. SHARE CAPITAL

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

14. CAPITAL COMMITMENTS

	At 30th June, 2016 HK\$'000 (unaudited)	At 31st December, 2015 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	50,995	54,964

15. RELATED PARTY TRANSACTIONS

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

	Six months ended 30th June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	17,332	16,288
Post-employment benefits	1,032	1,035
	18,364	17,323

16. 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.

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 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.

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")(THE "LISTING RULES")

According to the recommendations from the Remuneration Committee, the Board of Directors has reviewed the remuneration packages of individual executive directors and revised their salaries based on their performances, experiences, abilities and responsibilities and with reference to the market rates. With effect from 1st July, 2016, the annual salary of each of Mr. Siu Tit Lung and Mr. Siu Yuk Lung has increased to HK\$8,400,000 per annum, the annual salary of each of Mr. Mak Koon Chi and Mr. Wai Lung Shing has increased to HK\$2,640,000 per annum and the annual salary of Mr. Ting Chung Ho has been added by HK\$696,000 per annum (i.e. Mr. Ting Chung Ho's annual salary has become RMB1,560,000 per annum together with HK\$696,000 per annum). All other benefits and the bonus, which is determined based on the executive directors' performance, the operating results of the Group and the current market environment, remain unchanged.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2016, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”).

Interests in the Company

Name of director	Capacity	Number of shares held		Total interests	Percentage of Company's issued share capital
		Personal interests	Other interests		
Siu Tit Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	404,152,381	63.98%
Siu Yuk Lung (Notes 1 & 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	404,152,381	63.98%
Mak Koon Chi	Beneficial owner	3,843,750	—	3,843,750	0.61%
Wai Lung Shing	Beneficial owner	3,843,750	—	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	—	720,000	0.11%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	150,000	0.02%
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 32,631,288 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, held 366,210,937 shares in the Company.

Interests in associated corporations of the Company

Name of director	Nature of interests	Name of associated corporation	Number of shares held	Percentage of issued share capital of the class
Siu Tit Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%
Siu Yuk Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company or its associated corporations.

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, 2016.

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, 2016, 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	57.97%
Schroders Plc	Investment manager	38,227,500	6.05%

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, 2016.

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 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, 15th August, 2016