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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, 2021

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, 2021 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, 2021

		Six months ended 30th June,	
		2021	2020
		HK\$'000	HK\$'000
	<i>Notes</i>	(unaudited)	(unaudited)
Revenue	3	1,189,026	955,564
Other income, gains and losses	4	17,890	22,044
Decrease in fair value of investment properties		(8,000)	(4,500)
Impairment losses recognised under expected credit loss model, net		(782)	(2,256)
Changes in inventories of finished goods and work in progress		(3,809)	5,606
Raw materials and consumables used		(416,282)	(362,912)
Employee benefits expenses		(300,309)	(262,280)
Depreciation of right-of-use assets		(4,012)	(3,945)
Depreciation of property, plant and equipment		(74,166)	(69,110)
Other expenses		(245,943)	(188,333)
Interest expense on lease liabilities		(248)	(252)
		<hr/>	<hr/>
Profit before taxation		153,365	89,626
Income tax expense	5	(45,325)	(22,498)
		<hr/>	<hr/>

		Six months ended 30th June,	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Profit for the period	6	108,040	67,128
Other comprehensive income (expense) for the period:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		<u>10,706</u>	<u>(31,901)</u>
Total comprehensive income for the period		<u>118,746</u>	<u>35,227</u>
Basic earnings per share	8	<u>HK17.10cents</u>	<u>HK10.63cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2021

		At 30th June, 2021 HK\$'000 (unaudited)	At 31st December, 2020 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		173,500	181,500
Property, plant and equipment		649,309	656,086
Right-of-use assets		82,752	86,094
Deposits paid for acquisition of property, plant and equipment		64,690	40,948
Deferred tax assets		15,306	14,893
		985,557	979,521
Current assets			
Inventories		544,321	577,128
Trade, bills and other receivables	9	270,776	270,372
Bank balances and cash		934,887	918,623
		1,749,984	1,766,123
Current liabilities			
Trade, bills and other payables	10	284,142	261,406
Contract liabilities		46,278	33,839
Lease liabilities		4,589	5,441
Taxation payable		55,002	41,045
Dividend payable		494	241
		390,505	341,972
Net current assets		1,359,479	1,424,151
Total assets less current liabilities		2,345,036	2,403,672

	At 30th June, 2021 HK\$'000 (unaudited)	At 31st December, 2020 HK\$'000 (audited)
Non-current liabilities		
Deferred tax liabilities	35,642	30,845
Lease liabilities	6,830	8,848
Other payables	86,294	89,585
	<u>128,766</u>	<u>129,278</u>
Net assets	<u>2,216,270</u>	<u>2,274,394</u>
CAPITAL AND RESERVES		
Share capital	63,168	63,168
Reserves	2,153,102	2,211,226
Total equity	<u>2,216,270</u>	<u>2,274,394</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.

The accounting policies and methods of computation used in the condensed consolidated financial statements of the Group for the six months ended 30th June, 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31st December, 2020.

Application of amendments to Hong Kong Financial Reporting Standards (“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 mandatorily effective for the annual period beginning on or after 1st January, 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16
Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

COVID-19 - Related Rent Concessions
Interest Rate Benchmark Reform - Phase 2

The application of the 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, revenue is recognised when control of the goods has 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 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 respectively.

Entity-wide disclosures

As at 30th June, 2021 and 31st December, 2020, 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,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC	1,037,422	821,029
Others	151,604	134,535
	<u>1,189,026</u>	<u>955,564</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, 2021 and 2020.

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30th June,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	6,882	7,548
Rental income, net of direct outgoings of approximately HK\$253,000 (2020: HK\$236,000)	1,936	1,792
Government grants (note)	2,670	6,990
Sundry income	1,665	4,388
Gain on disposal of property, plant and equipment	4,362	2,060
Net foreign exchange gain (loss)	375	(734)
	<u>17,890</u>	<u>22,044</u>

Note: The government grants without any unfulfilled condition attached amounting to HK\$2,670,000 (six months ended 30th June, 2020: HK\$6,990,000) is 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,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in Hong Kong	2,678	1,248
Taxation in jurisdictions outside Hong Kong	38,436	18,234
Deferred taxation	4,211	3,016
	<u>45,325</u>	<u>22,498</u>

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. 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. 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%.

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,	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as an expense	872,397	733,315
Allowance for (reversal of allowance for) inventories	<u>286</u>	<u>(169)</u>

7. DIVIDENDS

Interim dividend for the current period:

On 27th August, 2021, the Directors determined an interim dividend of HK15 cents (2020: HK10 cents) per share amounting to approximately HK\$94,752,000 (2020: HK\$63,168,000) to be paid to the shareholders of the Company whose names appear in the Register of Members on 15th September, 2021.

Dividend recognised as distribution during the period:

During the current period, a final dividend of HK18 cents (2020: HK11 cents) per share amounting to approximately HK\$113,702,000 (2020: HK\$69,485,000) and a final special dividend of HK10 cents (2020: Nil) per share amounting to approximately HK\$63,168,000 (2020: Nil) were declared and paid to the shareholders 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, 2021 is based on the profit attributable to the owners of the Company for the six months ended 30th June, 2021 of approximately HK\$108,040,000 (six months ended 30th June, 2020: HK\$67,128,000) and the number of 631,677,303 (2020: 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 approximately HK\$172,032,000 (31st December, 2020: HK\$170,445,000) and bills receivables of approximately HK\$18,344,000 (31st December, 2020: HK\$18,372,000).

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/year.

	At 30th June, 2021 HK\$'000 (unaudited)	At 31st December, 2020 HK\$'000 (audited)
0 to 60 days	156,590	159,859
61 to 90 days	37,706	29,504
Over 90 days	17,276	19,800
	<u>211,572</u>	<u>209,163</u>

10. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are trade payables of approximately HK\$67,055,000 (31st December, 2020: HK\$57,448,000) and bills payables of approximately HK\$14,454,000 (31st December, 2020: HK\$11,799,000).

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

	At 30th June, 2021 HK\$'000 (unaudited)	At 31st December, 2020 HK\$'000 (audited)
0 to 60 days	65,223	49,956
61 to 90 days	10,712	15,875
Over 90 days	5,574	3,416
	<u>81,509</u>	<u>69,247</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, 2021 was approximately HK\$1,189,026,000 (2020: HK\$955,564,000). Profit attributable to owners of the Company for the six months ended 30th June, 2021 was approximately HK\$108,040,000 (2020: HK\$67,128,000). Basic earnings per share for the six months ended 30th June, 2021 was HK17.10 cents (2020: HK10.63 cents).

During the year under review, the world was still affected by Coronavirus Disease 2019 ("COVID-19") pandemic, and the economy failed to fully recover. However, the COVID-19 pandemic situation in China is relatively under control, thus its market conditions improved. Owing to this, the Group's sales revenue and operating profit margins also improved. As a result, the Group's net profit recorded a favorable growth as compared with the corresponding period in 2020, and the Group had issued a positive profit alert to shareholders and potential investors on 9th July, 2021.

During the first half year, the COVID-19 pandemic repeatedly broke out around the world, and even a new variant of coronavirus appeared, which greatly harmed the global economy and severely affected the consumer market and production supply chain. Fortunately, the pandemic situation in China was relatively under control, and its domestic market kept turning good. Owing to this, the Group had continued its production advantages in the second half of last year and achieved steady growth in sales. Overview of the market situation, due to pandemic, the automobile industry was perplexed by the shortage of chips and imported parts and components, so its new projects could not be launched to the market as scheduled, thus its sales performance was not satisfactory. Since the supply of medical and pandemic prevention products turned to be stable, demand for medical and healthcare products slowed down slightly. Market performance for small size household appliances and hi-tech electronic products and toys was still encouraging. In addition, as the productivity of European countries and the United States was not yet recovered, large number of global orders had been directed to China for production, driving up the growth of export business in China. Benefited from the steady development of the aggregate market in China, the Group's sales and profits recorded satisfactory growths.

The price of mould steel materials, due to inflationary pressure, increased significantly with high volatility. However, as the Group constantly maintained its inventory to a certain level that the rise of steel price had only mild impact on its material cost. At the same time during the reviewed period, the Group's operating costs including labor costs also escalated but were managed within a reasonable range, so the gross profit margin of the product could be maintained.

FINANCIAL REVIEW

The Group's revenue for the six months ended 30th June, 2021 increased by 24.4% mainly due to the market condition had been improved as the COVID-19 pandemic were relatively under control in the PRC. 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 increased by 17.6% and their costs as percentage of revenue decreased to 35.3% (2020: 37.4%). The manufacturing costs of the Group were under control while the employee benefit expenses and the other expenses increased by 14.5% and 30.6% respectively. In addition, depreciation of property, plant and equipment increased by 7.3%.

During the period under review, the decrease in fair value of investment properties increased by

approximately HK\$3,500,000 compared with the same period of last year. Other income decreased by approximately HK\$4,154,000 mainly due to the decrease of the PRC government grant. Income tax expense increased by 101.5% which was mainly caused by the increase of PRC income tax provision and the effective tax rate increased to 29.6% (2020: 25.1%).

As a result of the foregoing, profit for six months ended 30th June, 2021 increased by 60.9% to approximately HK\$108,040,000 (2020: HK\$67,128,000).

Liquidity and Financial Resources

The total equity of the Group as at 30th June, 2021 was approximately HK\$2,216,270,000 (as at 31st December, 2020: HK\$2,274,394,000). As at 30th June, 2021, the Group had bank balances and cash of approximately HK\$934,887,000 (as at 31st December, 2020: HK\$918,623,000) and did not have any borrowings (as at 31st December, 2020: 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, 2021, the Group employed a total of approximately 3,500 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

Looking ahead to the second half year, the global economy will still be struck by the continuous outbreak of COVID-19 and its new variant viruses. Nevertheless, as the vaccination work launched by European countries and the United States tend to be matured, the Group believes that the negative impact of the pandemic on the global economy will be slightly relieved. However, due to the development of pandemic and the progress of vaccination work are not synchronized, strength and pace of the economic recovery in various countries exist a great variation. Furthermore, the transportation and logistics industry is still affected by the blockage caused by container ships stranded on the Suez Canal in Egypt at the beginning of this year and the successive outbreak of pandemic in various freight ports leading to complete or partial closures, eventually obstructing the international shipping operations and resulting in high freight costs. Owing to this, the supply of goods become instable which further puts pressure on the global supply chain. Therefore, the Group expects that the external economy and business prospects are still full of uncertainties.

Domestic market in China will continue to develop and market development of consumer products such as small size household appliances, hi-tech electronic products and medical products will still remain steady. However, due to the shortage of chips and imported parts and components, the normal production and the promotion of new projects of automobile industry will still be impeded and thus will drag down its recovery speed in the short term. Following the successful implementation of vaccination programs in European countries and the United States, their economic activities and productivity will be revived and gradually resumed. As a result, their

reliance on products from China may gradually decrease. The Group will monitor marketing changes closely and devise its market strategies in order to achieve a balanced business development.

The Group's operating costs will continue to rise. Facing the shortage of production manpower and rising labor costs, the Group, in addition to consolidate its production processes, will actively develop automated production lines to enhance its machining ability and productivity and to reduce its reliance on manpower. Apart from this, the Group expects that the price of mould steel materials will keep fluctuating. The Group will flexibly adapt its procurement strategies to monitor its cost fluctuation range so as to reduce operational risks.

Looking forward, the business environment is still full of challenges and uncertainties. However, with accumulated experience and a pragmatic approach to financial management, the Group is confident of achieving stable development and business growth in a complex and volatile macro environment.

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 HK15 cents (2020: HK10 cents) per share in respect of the six months ended 30th June, 2021 to be payable on or around 28th September, 2021 to shareholders whose names appear in the Register of Members of the Company on 15th September, 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th September, 2021 to 15th September, 2021, 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, 2021.

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, 2021 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, 2021.

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, 27th August, 2021

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