



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

2022

INTERIM REPORT



CONTENTS

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	2
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	4
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	8
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	9
MANAGEMENT DISCUSSION AND ANALYSIS	19
OTHER INFORMATION	22

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the “Company”) and its subsidiaries set out on pages 4 to 18, which comprise the condensed consolidated statement of financial position as of 30th June, 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 26th August, 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

	Notes	Six months ended 30th June,	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (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	5	(191,527)	(245,943)
Interest expense on lease liabilities		(168)	(248)
Profit before taxation		53,901	153,365
Income tax expense	6	(12,913)	(45,325)
Profit for the period	7	40,988	108,040
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		(81,441)	10,706
Total comprehensive (expense) income for the period		(40,453)	118,746
Basic earnings per share	9	HK6.49 cents	HK17.10 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2022

		At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	10	170,500	168,500
Property, plant and equipment	10	674,990	668,494
Right-of-use assets	10	74,112	80,510
Deposits paid for acquisition of property, plant and equipment		98,230	95,283
Deferred tax assets		14,212	14,576
		1,032,044	1,027,363
Current assets			
Inventories		602,663	604,275
Trade, bills and other receivables	11	274,953	280,508
Bank balances and cash		603,565	833,586
		1,481,181	1,718,369
Current liabilities			
Trade, bills and other payables	12	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
		283,480	340,978

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 30th June, 2022

	<i>Notes</i>	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
Net current assets		1,197,701	1,377,391
Total assets less current liabilities		2,229,745	2,404,754
Non-current liabilities			
Deferred tax liabilities		27,948	28,270
Lease liabilities		4,683	5,643
Other payables	<i>12</i>	92,630	99,569
		125,261	133,482
Net assets		2,104,484	2,271,272
CAPITAL AND RESERVES			
Share capital	<i>13</i>	63,168	63,168
Reserves		2,041,316	2,208,104
Total equity		2,104,484	2,271,272

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2022

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2021 (audited)	63,168	156,213	329,434	312,388	1,413,191	2,274,394
Profit for the period	—	—	—	—	108,040	108,040
Other comprehensive income for the period						
Exchange difference arising on translation of foreign operations	—	—	—	10,706	—	10,706
Total comprehensive income for the period	—	—	—	10,706	108,040	118,746
Final dividend for the year ended 31st December, 2020 (note 8)	—	—	—	—	(113,702)	(113,702)
Final special dividend for the year ended 31st December, 2020 (note 8)	—	—	—	—	(63,168)	(63,168)
Transfer	—	—	4,994	—	(4,994)	—
At 30th June, 2021 (unaudited)	63,168	156,213	334,428	323,094	1,339,367	2,216,270
At 1st January, 2022 (audited)	63,168	156,213	339,829	353,047	1,359,015	2,271,272
Profit for the period	—	—	—	—	40,988	40,988
Other comprehensive income (expense) for the period						
Exchange difference arising on translation of foreign operations	—	—	—	(81,441)	—	(81,441)
Total comprehensive income (expense) for the period	—	—	—	(81,441)	40,988	(40,453)
Final dividend for the year ended 31st December, 2021 (note 8)	—	—	—	—	(126,335)	(126,335)
At 30th June, 2022 (unaudited)	63,168	156,213	339,829	271,606	1,273,668	2,104,484

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2022

	Six months ended 30th June,	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Operating cash flows before movements in working capital	111,716	229,329
(Increase) decrease in inventories	(21,669)	36,924
Increase in trade, bills and other receivables	(10,804)	(516)
(Decrease) increase in trade, bills and other payables	(33,547)	18,032
(Decrease) increase in contract liabilities	(12,448)	12,439
Cash generated from operations	33,248	296,208
Income taxes paid	(16,770)	(27,502)
Income taxes refunded	1,232	—
Net cash from operating activities	17,710	268,706
Net cash used in investing activities		
Purchases of property, plant and equipment	(110,463)	(86,617)
Proceeds on disposal of property, plant and equipment	4,649	4,412
Interest received	7,479	6,882
	(98,335)	(75,323)
Cash used in financing activities		
Dividends paid	(126,252)	(176,617)
Repayments of leases liabilities	(1,983)	(2,960)
Interest paid on leases liabilities	(168)	(248)
	(128,403)	(179,825)
Net (decrease) increase in cash and cash equivalents	(209,028)	13,558
Cash and cash equivalents at the beginning of the period	833,586	918,623
Effect of foreign exchange rate changes	(20,993)	2,706
Cash and cash equivalents at the end of the period, represented by bank balances and cash	603,565	934,887

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2022

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").

3. REVENUE AND SEGMENT INFORMATION *(continued)*

Entity-wide disclosures (continued)

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

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

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 HK\$'000 (unaudited)	2021 HK\$'000 (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
	2,525	17,890

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. OTHER EXPENSES

	Six months ended 30th June,	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Tooling costs	39,600	66,919
Transportation expenses	34,285	39,857
Electricity and water	26,433	26,726
Repair and maintenance expenses	29,236	36,206
Factory supplies	18,958	19,294
Other taxes and government charges	11,105	12,587
Fuels & lubricant oil	6,585	8,286
Sub-contracting charges	4,031	4,079
Travelling and motor car expenses	2,635	3,257
Promotion and packing expenses	2,553	4,333
Software and system expenses	4,028	5,839
Auditors' remuneration (including remuneration for non-audit services)	2,364	2,388
Others	9,714	16,172
	191,527	245,943

6. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (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.

7. PROFIT FOR THE PERIOD

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

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

8. 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).

9. 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.

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

The fair value of the Group's investment properties as at the end of the current interim period were determined by C S Surveyors Limited, independent qualified professional valuers not connected to the Group.

The fair value was determined based on market comparable approach, where the prices per square feet of the properties are assessed by reference to market evidence of transaction prices for similar use of properties in the similar locations and conditions in Hong Kong. There has been no change from the valuation technique used in the prior years and it is classified under Level 3 hierarchy.

The resulting increase in fair value of investment properties of HK\$2,000,000 (six months ended 30th June, 2021: decrease of HK\$8,000,000) has been recognised directly in profit or loss during the period.

During the period, the Group disposed of certain property, plant and equipment with an aggregate net carrying amount of HK\$42,000 (six months ended 30th June, 2021: HK\$50,000) for cash proceeds of HK\$4,649,000 (six months ended 30th June, 2021: HK\$4,412,000), resulting in a gain on disposal of HK\$4,606,000 (six months ended 30th June, 2021: HK\$4,362,000).

In addition, during the current interim period, the Group acquired HK\$97,049,000 (six months ended 30th June, 2021: HK\$62,067,000), HK\$4,537,000 (six months ended 30th June, 2021: HK\$448,000) and HK\$5,930,000 (six months ended 30th June, 2021: HK\$360,000) of plant and machinery, furniture and equipment and motor vehicles, respectively, for the purpose of upgrading the Group's production facilities.

During the current interim period, the Group has not entered into new lease agreements (six months ended 30th June, 2021: the Group has entered into several new lease agreements with lease terms of 2 years).

11. TRADE, BILLS AND OTHER RECEIVABLES

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
Trade receivables	126,428	152,642
Bills receivables	16,973	22,421
Less: allowance for credit losses	(12,475)	(15,407)
	130,926	159,656
Other receivables	3,720	2,931
Deposits and prepayments	140,307	117,921
	274,953	280,508

In general, the Group allows a credit period ranging from 30 days to 90 days to its trade customers. 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
	143,401	175,063

As at 30th June, 2022, total bills received amounting to HK\$16,973,000 (31st December 2021: HK\$22,421,000) are held by the Group for settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year (31st December, 2021: less than one year).

12. TRADE, BILLS AND OTHER PAYABLES

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 HK\$'000 (audited)
Trade payables	48,713	43,792
Bills payables	3,850	13,757
Provision of employee economic compensation	120,923	129,194
Payables for salaries and bonuses	48,884	78,886
Deposits and accruals	28,260	27,028
Value-added tax payables	27,650	28,862
Other payables	25,957	27,750
Total	304,237	349,269
Less: Amount due within one year shown under current liabilities	(211,607)	(249,700)
Amount due after one year	92,630	99,569

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
	52,563	57,549

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

13. SHARE CAPITAL

The Company has 631,677,303 ordinary shares of HK\$0.1 each in issue as at 30th June, 2022 and throughout both periods.

14. CAPITAL COMMITMENTS

	At 30th June, 2022 HK\$'000 (unaudited)	At 31st December, 2021 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	114,622	66,881

15. RELATED PARTY DISCLOSURE

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

Relationship	Nature of transaction	Six months ended 30th June	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Companies controlled by certain directors of the Company (note)	Repayments of lease liabilities	1,227	1,182
	Rental deposit paid	614	614
	Interest expense on lease liabilities	16	44

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

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

	Six months ended 30th June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Short-term benefits	17,425	24,389
Post-employment benefits	1,329	1,325
	18,754	25,714

No director waived any emoluments for both periods.

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's revenue for the six months ended 30th June, 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

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.

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 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.

OTHER INFORMATION *(continued)*

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2022, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”).

Interests in the Company

Name of director	Capacity	Number of shares held			Total interests	Percentage of Company's issued share capital
		Personal interests	Family interests	Other interests		
Siu Tit Lung <i>(Notes 1 & 2)</i>	Beneficial owner, interests jointly with another person and founder of discretionary trust	41,161,444	—	366,210,937	407,372,381	64.49%
Siu Yuk Lung <i>(Notes 1 & 2)</i>	Beneficial owner, interests jointly with another person and founder of discretionary trust	41,161,444	—	366,210,937	407,372,381	64.49%
Wai Lung Shing	Beneficial owner	3,843,750	—	—	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	—	—	720,000	0.11%
Siu Yuk Tung, Ivan <i>(Note 2)</i>	Beneficial owner and beneficiary of a trust	80,000	—	366,210,937	366,290,937	57.99%
Siu Yu Hang, Leo <i>(Notes 2 & 3)</i>	Interest of child or spouse and beneficiary of a trust	—	1,096,000	366,210,937	367,306,937	58.15%
Lee Tat Yee	Beneficial owner	150,000	—	—	150,000	0.02%
Lee Joo Hai	Beneficial owner	300,000	—	—	300,000	0.05%

OTHER INFORMATION *(continued)*

DIRECTORS' INTERESTS IN SHARES *(continued)*

Interests in the Company *(continued)*

Notes:

- (1) Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 35,851,288 shares in the Company and each owned a further 5,310,156 shares in the Company registered in their own names.
- (2) Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung are beneficiaries (including Messrs. Siu Yuk Tung, Ivan and Siu Yu Hang, Leo), held 366,210,937 shares in the Company.
- (3) Mr. Siu Yu Hang, Leo and his spouse jointly held 1,096,000 shares in the Company.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2022.

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 (the "Shareholders") approved the adoption of a share option scheme of the Company (the "2012 Scheme"). The 2012 Scheme has expired on 6th May 2022.

Following the expiration of the 2012 Scheme, the Shareholders approved the adoption of a new share option scheme of the Company (the "2022 Scheme") at the annual general meeting of the Company held on 30th May, 2022, the 2022 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants, as defined in the 2022 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. The 2022 Scheme will expire on 29th May, 2032.

No option was granted since the adoptions of the 2012 Scheme and the 2022 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.

OTHER INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2022, 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 <i>(Note)</i>	57.97%
HSBC International Trustee Limited	Trustee	366,514,990 <i>(Note)</i>	58.02%
David Michael Webb	Beneficial owner and interest of a controlled corporation	37,938,498	6.00%

Note: HSBC International Trustee Limited, in its capacity as a trustee of a trust, controlled Pan Island Investments Limited and therefore was deemed to be interested in the shares of the Company in which Pan Island Investments Limited was interested. Accordingly, the 366,210,937 shares of the Company in which Pan Island Investments Limited was interested were duplicated with the interests attributed to HSBC International Trustee Limited.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2022.

OTHER INFORMATION *(continued)*

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 (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, China, 26th August, 2022