



# LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 255)

Website: <http://www.irasia.com/listco/hk/lkm>

## FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2005

### FINANCIAL HIGHLIGHTS

● Turnover — approximately HK\$1,899 million	
● Profit attributable to equity holders of the Company — approximately HK\$241 million	
● Basic earnings per share — HK\$38.88 cents	growth 19%
	9%

### RESULTS

The directors (the “Directors”) of Lung Kee (Bermuda) Holdings Limited (the “Company”) have pleasure in submitting the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2005 together with comparative figures for the year ended 31st December, 2004 as follows:

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	2	1,899,482	1,599,505
Other income		25,330	16,903
Changes in inventories of finished goods and work in progress		6,415	15,909
Raw materials and consumables used		(902,121)	(744,204)
Employee benefits expenses		(308,738)	(252,813)
Depreciation and amortisation of property, plant and equipment		(119,916)	(83,621)
Amortisation of goodwill		—	(21,015)
Amortisation of patents and trademarks		—	(666)
Impairment loss recognised in respect of goodwill		(9,060)	—
Impairment loss recognised in respect of patents and trademarks		(1,056)	—
Increase in fair value of investment properties		7,700	—
Revaluation surplus of investment properties recognised in income statement		—	4,900
Other expenses		(292,689)	(247,315)
Finance costs	3	(19,245)	(19,290)
Gain on partial disposal of a subsidiary		—	399
Profit before taxation		286,102	268,692
Taxation	4	(40,185)	(43,702)
Profit for the year		245,917	224,990
Attributable to:			
Equity holders of the Company		240,861	220,113
Minority interests		5,056	4,877
Profit for the year		245,917	224,990
Dividend declared during the year	5	117,719	98,260
Earnings per share			
— Basic	6	38.88 cents	35.81 cents
— Diluted	6	38.87 cents	35.79 cents

#### CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		35,700	28,000
Property, plant and equipment		708,280	518,642
Prepaid lease payments — non-current portion		39,313	39,436
Deposit paid for acquisition of property, plant and equipment		16,883	17,073
Intangible assets		—	1,056
Goodwill		—	9,060
		800,176	613,267
Current assets			
Inventories	7	531,036	467,567
Trade and other receivables	8	469,751	426,885
Bills receivable	8	48,564	44,045
Prepaid lease payments — current portion		914	934
Taxation recoverable		4,979	3,373
Bank balances and cash		150,582	441,672
		1,205,826	1,384,476
Current liabilities			
Trade and other payables	9	295,378	230,105
Bills payable	9	40,847	52,800
Obligations under finance leases		—	2
Unsecured bank borrowings		310,206	493,016
Bank overdraft		1,797	—
Floating rate notes		150,000	—
Dividend payable		14	9
Taxation payable		46,806	59,408
		845,048	835,340
Net current assets		360,778	549,136
Total assets less current liabilities		1,160,954	1,162,403
Non-current liabilities			
Floating rate notes		—	150,000
		1,160,954	1,012,403
CAPITAL AND RESERVES			
Share capital		61,968	61,881
Reserves		1,074,529	929,660
Equity attributable to equity holders of the Company		1,136,497	991,541
Minority interests		24,457	20,862
		1,160,954	1,012,403

#### Notes:

#### 1. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

#### Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

#### Goodwill

In previous years, goodwill arising on acquisition prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisition after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$3,536,000 has been transferred to the Group’s accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has, on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK\$56,522,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill is to be tested for impairment at least annually. Goodwill arising on acquisition after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

*Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)*

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition prior to 1st April, 2001 was held in reserves, and negative goodwill arising on acquisition after 1st April, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005 of HK\$11,966,000 previously recorded in capital reserve. A corresponding adjustment to the Group’s accumulated profits of HK\$11,966,000 has been made.

#### Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. Because the revised accounting policy has been applied prospectively to acquisition for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 have not been restated.

#### Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. Because there were no unvested share options at 1st January, 2005, comparative figures for 2004 need not be restated.

#### Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease

payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

#### Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. Because the Group did not have any investment property revaluation reserve at 1st January, 2005, the adoption of HKAS 40 did not result in any transfer between the reserve accounts.

#### 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold, less returns, to outside customers during the year, and is analysed as follows:

#### By business segments

For management purposes, the Group is currently organised into two operating divisions — manufacture and marketing of mould bases, metal and parts. These divisions are the basis on which the Group reports its primary segment information.

Segmental information about these businesses is presented below.

For the year ended 31st December, 2005

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	1,718,977	180,505	1,899,482
RESULTS			
Segment results	292,421	34,865	327,286
Increase in fair value of investment properties	—	7,700	7,700
Unallocated corporate income	—	25,330	25,330
Unallocated corporate expenses	—	(54,969)	(54,969)
Finance costs	—	(19,245)	(19,245)
Gain on partial disposal of a subsidiary	—	399	399
PROFIT BEFORE TAXATION		286,102	286,102
Taxation		(40,185)	(40,185)
PROFIT FOR THE YEAR		245,917	245,917

For the year ended 31st December, 2004

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER			
External sales	1,429,038	170,467	1,599,505
RESULTS			
Segment results	280,939	31,710	312,649
Revaluation surplus of investment properties recognised in income statement	—	4,900	4,900
Unallocated corporate income	—	16,903	16,903
Unallocated corporate expenses	—	(46,869)	(46,869)
Finance costs	—	(19,290)	(19,290)
Gain on partial disposal of a subsidiary	—	399	399
PROFIT BEFORE TAXATION		268,692	268,692
Taxation		(43,702)	(43,702)
PROFIT FOR THE YEAR		224,990	224,990

#### By geographical segments

The Group operates in the following geographical market segments — People’s Republic of China (including Hong Kong) and other countries.

The following table shows an analysis of the Group’s sales by geographical market, irrespective of the origin of the goods:

	Turnover	
	2005 HK\$'000	2004 HK\$'000
People’s Republic of China	1,560,828	1,304,745
Other countries	338,654	294,760
	1,899,482	1,599,505

#### 3. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Arrange fee for bank loans	87	356
Interest on		
— bank borrowings wholly repayable within five years	13,964	16,809
— obligations under finance leases	—	1
— floating rate notes	5,194	2,124
	19,245	19,290

#### 4. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	112	238
— underprovision in prior year	11	17
	123	255
Taxation in jurisdictions outside Hong Kong		
— current year	40,415	42,798
— (over) underprovision in prior year	(353)	649
	40,062	43,447
	40,185	43,702

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

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

#### 5. DIVIDENDS

	2005 HK'000	2004 HK'000
Dividends declared to equity holders of the Company:		
2003 final dividend of HK10 cents per share (equivalent to HK8 cents per share after adjusting for bonus share issued in 2004)	—	49,130
2004 interim dividend of HK5 cents per share	—	49,130
2004 final dividend of HK10 cents per share	61,952	—
2005 interim dividend of HK9 cents per share	55,767	—
Total dividends declared during the year	117,719	98,260

The directors have determined that a final dividend of HK11 cents (2004: HK10 cents) per share amounting to approximately HK\$68,180,000 (2004: HK\$61,928,000) should be paid to the shareholders of the Company whose names appear in the register of members on 8th May, 2006.

#### 6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005	2004
Profit attributable to equity holders of the Company (HK\$'000)	240,861	220,113
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	619,464,202	614,584,024
Effect of dilutive potential ordinary shares on exercise of share options of the Company	256,976	467,577
Weighted average number of ordinary shares for the purpose of diluted earnings per share	619,721,178	615,051,601

#### 7. INVENTORIES

	2005 HK'000	2004 HK'000
Raw materials	445,361	388,307
Work in progress	73,303	67,488
Finished goods	12,372	11,772
	531,036	467,567

The cost of inventories recognised as an expense during the year of the Group amounted to approximately HK\$1,326,000,000 (2004: HK\$1,084,000,000).

#### 8. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows a credit period ranged from 30 days to 90 days to its trade customers.

An aged analysis of trade and bills receivables are as follows:

	2005 HK'000	2004 HK'000
0 to 60 days	305,277	287,452
61 to 90 days	92,754	93,772
Over 90 days	82,336	42,473
	480,367	423,697

The fair value of the Group’s trade, bills and other receivables at 31st December, 2005 approximates to corresponding carrying amount.

#### 9. TRADE, BILLS AND OTHER PAYABLES

An aged analysis of trade and bills payables are as follows:

	2005 HK'000	2004 HK'000
0 to 60 days	137,007	115,498
61 to 90 days	25,483	27,996
Over 90 days	30,213	13,790
	192,703	157,284

The fair value of the Group’s trade, bills and other payables at 31st December, 2005 approximates to corresponding carrying amount.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business Review

During the year ended 31st December, 2005, the Group continued to focus on the manufacture and marketing of mould bases, metal and parts.

The Group’s turnover in the year ended 31st December, 2005 was approximately HK\$1,899 million (2004: approximately HK\$1,600 million). Profit attributable to equity holders of the Company in the year ended 31st December, 2005 was approximately HK\$241 million (2004: approximately HK\$220 million). Basic earnings per share in the year ended 31st December, 2005 was HK\$38.88 cents (2004: HK\$35.81 cents).

Throughout the year of 2005, being the reviewed business period, the performance of external economic environment was not up to expectation. Record high oil price and increasing interest rate in the United States caused a drastic fluctuation on raw material prices and transportation costs, consequently both the production cost and wage level of the manufacturing sector in China were boosted. Furthermore, the business growth in the manufacturing sector was slowed down, resulting a fall in selling price. In the meantime, the Group continued its expansion and absorbed its cost during the investment period. As a result, despite the Group had achieved a satisfactory growth in its turnover, its profit growth decreased during the review period.

#### Mould Base Manufacturing and Marketing

With sustained economic growth in China, the mainland domestic market still recorded a high demand for various kinds of consumer products and stimulated further development of the related manufacturing business. More foreign automobile manufacturers had set up factories in China, triggered off the continuous growth of the local car production and maintained a persisting demand of automobile parts and components. To capture this business opportunity, the Group further developed and enhanced its operations in China. Steady growth in turnover for plants situated in Shanghai and Zhejiang in China was recorded due to the escalating demand in the Eastern region of China.

The overseas business of the Group showed a steady development, contributing a reliable source of income for the Group. Export sales of high precision mould base to Europe, the United States, Japan and other Asian Region also achieved satisfactory growth.

The Group’s mould-related business and services, including standard mould inserts, mould components and parts, hot runner system, heat treatment, welding and PVD hard coating services, provided “one-stop” services to customers. These services were received favorably by the market.

During the review period, the Group continuously enlarged its sales network within the territory of China, and successfully widened its customer base to include local privately owned enterprises. Inspired by the rapid development of the highway systems in China, the Group established its own trans-province transportation team to link up the established sales offices and set up an efficient logistic network. Capitalizing the economy of scale of its production plants in Southern Region of China, the Group strategically decided to supply its products, manufactured by the Southern China plants, to customers located in the Eastern and Northern Region of China with a much shortened delivery time. The promising growth of order volume achieved during the reviewed period evidenced the success of the Group’s sales and logistics strategy.