



LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

FINANCIAL RESULTS

The directors (the "Directors") of Lung Kee (Bermuda) Holdings Limited (the "Company") 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, 2003 together with the comparative figures for the six months ended 30th September, 2002 as follows:

		Six months ended	
	Notes	30th June, 2003 (unaudited) HK\$'000	30th September, 2002 (unaudited) HK\$'000
Turnover		560,671	525,184
Other operating income		20,149	13,973
Changes in inventories of finished goods and work in progress		5,388	2,560
Raw materials and consumables used		(245,170)	(233,148)
Staff costs		(93,408)	(85,292)
Depreciation and amortisation of property, plant and equipment		(40,650)	(41,658)
Amortisation of goodwill		(10,860)	(6,400)
Other operating expenses		(90,357)	(82,920)
Profit from operations	4	105,763	92,299
Finance costs		(16,714)	(11,558)
Gain on disposal of a subsidiary		2,329	—
Profit before taxation		91,378	80,741
Taxation	5	(14,420)	(11,821)
Profit after taxation		76,958	68,920
Minority interests		(1,658)	(8,664)
Net profit for the period		75,300	60,256
Dividend	6		
Proposed interim dividend of HK7 cents per share (for the six months ended 30th September, 2002: HK5 cents per share)		34,210	24,342
Earnings per share	7		
— Basic		15.46 cents	12.42 cents
— Diluted		15.40 cents	12.36 cents

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

During 2002, the Board of Directors resolved to change the financial year end date of the Company from 31st March to 31st December in order to facilitate the preparation of accounts of the Group as most of the Group's investments and business activities, principally operate in the People's Republic of China (the "PRC") and the relevant subsidiaries of the Company which carry on the businesses in the PRC have a financial year end date of 31st December. As a result of the change in the financial year end date, the condensed consolidated income statement for the current period cover the period of six months from 1st January, 2003 to 30th June, 2003. Accordingly, the comparative amounts shown for the condensed consolidated income statement and related notes cover the period of six months from 1st April, 2002 to 30th September, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the period of nine months from 1st April, 2002 to 31st December, 2002, except for the adoption of the SSAP 12 (revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustments has been required.

During the period, the Group issued floating rate notes ("FRNs") which are in bearer form in the denomination of HK\$500,000 each. The FRNs carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are due in 2006. The interest are payable every three months. The costs incurred in connection with the issue of the FRNs are charged immediately to the income statement. Interest expenses are accrued on a time basis, by reference to the principal amount outstanding and the applicable interest rate.

3. SEGMENT INFORMATION

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

Six months ended 30th June, 2003

	Mould base HK\$'000	Metal and parts HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER				
External sales	489,851	70,820	—	560,671
Inter-segment sales	—	127,920	(127,920)	—
	489,851	198,740	(127,920)	560,671

Inter-segment sales are charged at prevailing market rates.

RESULTS				
Segment results	85,260	13,362	—	98,622

Unallocated corporate income				7,141
------------------------------	--	--	--	-------

Profit from operations				105,763
------------------------	--	--	--	---------

Six months ended 30th September, 2002

	Mould base HK\$'000	Metal and parts HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER				
External sales	407,588	117,596	—	525,184
Inter-segment sales	10,948	82,679	(93,627)	—
	418,536	200,275	(93,627)	525,184

Inter-segment sales are charged at prevailing market rates.

RESULTS				
Segment results	72,378	14,481	—	86,859

Unallocated corporate income				5,440
------------------------------	--	--	--	-------

Profit from operations				92,299
------------------------	--	--	--	--------

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended	
	30th June, 2003 (unaudited) HK\$'000	30th September, 2002 (unaudited) HK\$'000
Loss on disposal of property, plant and equipment	412	1,153
Interest income	(7,141)	(5,440)
Exchange (gain) loss	(1,242)	6,000

5. TAXATION

	Six months ended	
	30th June, 2003 (unaudited) HK\$'000	30th September, 2002 (unaudited) HK\$'000
The charge comprises:		
Hong Kong		
Profits tax	163	1,281
Deferred tax	(571)	—
	(408)	1,281
Taxation in jurisdictions outside Hong Kong	14,828	10,540
	14,420	11,821

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the period.

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

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In the current period, certain PRC subsidiaries are exempted from PRC income tax, and other PRC subsidiaries enjoyed a 50% reduction on PRC income tax.

Certain income of the Group is not subject to taxation in the jurisdictions in which the Group operates.

6. DIVIDENDS

On 14th May, 2003, a dividend of HK5 cents per share was paid to shareholders as final dividend for the period of nine months from 1st April, 2002 to 31st December, 2002 (final dividend for the year ended 31st March, 2002: HK5 cents per share).

The Directors have determined that an interim dividend of HK7 cents per share (for the six months ended 30th September, 2002: HK5 cents per share) should be paid to the shareholders of the Company whose names appear in the Register of Members on 19th September, 2003.

7. EARNINGS PER SHARE

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

	Six months ended	
	30th June, 2003 (unaudited) HK\$'000	30th September, 2002 (unaudited) HK\$'000
Earnings		
Earnings for the purposes of basic earnings per share	75,300	60,256
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of the group headed by Lung Kee Metal Holdings Limited based on dilution of their earnings per share	—	(289)
Earnings for the purposes of diluted earnings per share	75,300	59,967
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	486,916	485,047
Effect of dilutive potential ordinary shares on exercise of options of the Company	1,932	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	488,848	485,047

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The outbreak of SARS that afflicted the Asian region had slight negative effect on the Group's sales turnover in the second quarter of this year. However, the Group still recorded a satisfactory growth in its overall performance in the first half year.

As the newly expanded plants in China started to operate and with the help of more matured labors, the productivity of both the Heyuan and Dongguan plants in China had been further enhanced, showing great improvements on its products quality and production effectiveness. The Guangzhou factory, located in Guangzhou Free Trade Zone, devotes to produce high precision mould base for overseas clients. Owing to the growing awareness of LKM brand, sales orders from overseas market maintained steady growth.

The second phase development of the Shanghai plant, China had just been completed; and machineries had been well installed. Overall productivity of the plant is continuously strengthened, ready to accommodate further business growth in the Eastern Region in China.

Due to the decline of the mould industry in Singapore, the Group's small-sized factory in Singapore had been restructured into a regional sales office. Its production had been merged with the plant located in Malaysia, for more effective co-ordination and management.

Despite the unfavorable domestic environment in Japan, the Group's business in Japan still achieved constant growth, in terms of its market share and turnover, attributed to its widely accepted LKM brand in the Japan market.

The plant in Taiwan operates smoothly with incessant growth in productivity and sales turnover, further boosting the business development of the Group.

The imported mould steel business faced keen market competition on price. Nevertheless, positive growth in the sales of newly promoted quality steel from China, to a certain extent, compensated the dwindling demand of imported mould steel.

Prospects

Following China's accession to the WTO, worldwide manufacturers rush into China for direct investment and setting up new production plants. China has further reinforced its position as "The Global Manufacturing Center". Coupled with the economic boom in the domestic market, demand for plastic consumers goods has substantially increased. Looking ahead, the Group is highly optimistic towards its future developments.

The newly expanded plant in Heyuan, China concentrates in the production of large size mould base for the automobile industry, catering for the growing demand of such products in the market. On the other hand, the construction of the new supporting plant in the Zhejiang Province will be completed at the beginning of next year, and will start production in the middle of next year. It aims at providing quality mould bases for privately owned enterprises in that area, further enhancing the Group's business in China.

The Group will put considerably effort in widening its distribution networks with an aim to extend its sales contacts covering all major industrial cities in China. Through closer and direct contacts with customers, the Group can grasp local business opportunities efficiently. For the Eastern region of China, the Group has gradually set up sales offices in the Zhejiang Province and the Jiangsu Province, capturing the vast market opportunity in that region. Turning to the Guangdong Province, sales points and offices have been opened up continuously in those customer-intensive cities in order to offer more direct, intimate and prompt services to privately owned enterprises in that area.

Regarding the mould steel business, the Group commits to launch a wide variety of technical services, to fortify its sales on imported quality steel. Owing to the continued improvement on the quality of steel manufactured by China special steel factories, the Group will, through stringent quality control process, carefully select and market a wide range of quality China mould steel, matching needs of the more price-conscious customers. The parallel development of both imported quality steel and China quality steel products will offer more choices for customers and will sharpen the competitiveness of the Group.

The Group will further develop its value-added services to the customers. In addition to six-sides machining, vacuum heat treatment and mould repairing services, the Group will provide Physical Vapor Deposition (PVD) coating services to customers. Through different types of hard coating, the performance of mould components and machinery parts can be substantially enhanced due to the improvement in wear resistance, lubrication and corrosive resistance characteristics. The installation of the PVD system will be completed at the end of this year and service will be available at the beginning of next year, providing a more comprehensive "one-stop services" to customers.

Liquidity and Financial Resources

As at 30th June, 2003, the Group had cash balance of approximately HK\$621 million. Most of the cash balance was placed in HKD and USD short term deposits with major banks in Hong Kong.

Total debts of the Group were approximately HK\$828 million, equal to approximately 103% of shareholders' funds of approximately HK\$803 million.

Employees and Remuneration Policies

As at 30th June 2003, the Group employed a total of approximately 5,400 employees, including approximately 5,000 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.

FLOATING RATE NOTES

During the period, a subsidiary of the Company issued Floating Rate Notes in the amount of HK\$150 million which are due in 2006. The Floating Rate Notes carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are guaranteed by the Company.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including the review of the unaudited interim financial statements.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK7 cents per share (for the six months ended 30th September, 2002: HK5 cents per share) in respect of the six months ended 30th June, 2003 to be payable on or about 7th October, 2003 to shareholders whose names appear in the Register of Members on 19th September, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18th September, 2003 to 19th September, 2003, 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 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 17th September, 2003.

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, 2003.

CODE OF BEST PRACTICE

During the six months ended 30th June, 2003, the directors are not aware of any information that would indicate that the Company was not in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") (the "Listing Rules").

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 29th August, 2003