



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, 2004

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, 2004 together with the comparative figures as follows:

| | | Six months ended 30th June, 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
|----------------------------------------------------------------------------------------------------------------------|---|-------------------------------------------------------------|---------------------------------|
| Turnover | | 771,080 | 560,671 |
| Other operating income | | 23,928 | 20,149 |
| Changes in inventories of finished goods and work in progress | | 32,687 | 5,388 |
| Raw materials and consumables used | | (416,790) | (245,170) |
| Staff costs | | (115,495) | (93,408) |
| Depreciation and amortisation of property, plant and equipment | | (40,309) | (40,650) |
| Amortisation of goodwill | | (10,860) | (10,860) |
| Amortisation of patents and trademarks | | (333) | — |
| Other operating expenses | | (101,177) | (90,357) |
| Profit from operations | 4 | 142,731 | 105,763 |
| Finance costs | | (9,295) | (16,714) |
| Gain on disposal of a subsidiary | | — | 2,329 |
| Profit before taxation | | 133,436 | 91,378 |
| Taxation | 5 | (22,328) | (14,420) |
| Profit after taxation | | 111,108 | 76,958 |
| Minority interests | | (1,941) | (1,658) |
| Net profit for the period | | 109,167 | 75,300 |
| Dividend | 6 | | |
| Proposed interim dividend of HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue) | | 49,130 | 34,210 |
| Earnings per share | 7 | | |
| — Basic | | 17.78 cents | 12.37 cents |
| — Diluted | | 17.77 cents | 12.32 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 No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

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 annual financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

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

Six months ended 30th June, 2004

| | Mould base HK\$'000 | Metal & parts HK\$'000 | Elimination HK\$'000 | Total HK\$'000 |
|---------------------|------------------------|---------------------------|-------------------------|-------------------|
| TURNOVER | | | | |
| External sales | 688,341 | 82,739 | — | 771,080 |
| Inter-segment sales | — | 76,552 | (76,552) | — |
| | 688,341 | 159,291 | (76,552) | 771,080 |

Inter-segment sales are charged at prevailing market rates.

RESULTS

| | | | | |
|------------------------------|---------|--------|---|---------|
| Segment results | 121,641 | 14,604 | — | 136,245 |
| Unallocated corporate income | | | | 6,486 |
| Profit from operations | | | | 142,731 |

Six months ended 30th June, 2003

| | Mould base HK\$'000 | Metal & 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 |

4. PROFIT FROM OPERATIONS

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

| | Six months ended 30th June, 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------------------------|----------------------------------------------|------------------|
| Loss on disposal of property, plant and equipment | 528 | 412 |
| Interest income | (3,986) | (7,141) |
| Exchange gain | (1,086) | (1,242) |

5. TAXATION

| | Six months ended 30th June, 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------------------|----------------------------------------------|------------------|
| The charge (credit) comprises: | | |
| Hong Kong Profits tax, current period | 127 | 163 |
| Taxation in jurisdictions outside Hong Kong | | |
| — current period | 22,999 | 14,828 |
| — overprovision in prior year | (798) | — |
| | 22,201 | 14,828 |
| Deferred taxation | — | (571) |
| | 22,328 | 14,420 |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 enjoyed a 50% reduction on PRC income tax.

6. DIVIDENDS

On 13th May, 2004, a dividend of HK8 cents per share after adjusting for bonus share issue was paid to shareholders as final dividend for the year ended 31st December, 2003 (final dividend for the period of nine months from 1st April, 2002 to 31st December, 2002: HK4 cents per share after adjusting for bonus share issue).

The Directors have determined that an interim dividend of HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue) should be paid to the shareholders of the Company whose names appear in the Register of Members on 17th September, 2004.

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, 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------|
| Earnings | | |
| Earnings for the purposes of basic and diluted earnings per share | 109,167 | 75,300 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 614,123,303 | 608,644,954 |
| Effect of dilutive potential ordinary shares on exercise of options of the Company | 52,058 | 2,415,576 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 614,175,361 | 611,060,530 |
| The adjustment to comparative basic and diluted earnings per share, arising from bonus share issue, is as follows: | | |
| | Basic HK cents | Diluted HK cents |
| Reported figure before adjustment | 15.46 | 15.40 |
| Adjustment arising from bonus share issue | (3.09) | (3.08) |
| Restated | 12.37 | 12.32 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of the financial year of 2004, the Group recorded a good result in terms of both turnover and profit growth.

The tremendous domestic demand for plastic products in China triggered off the boom of manufacturing industries, partly fueled by the prominent growth of automobile parts manufacturing industry, within the territory of China; as a result, the Group registered a significant growth in business. In response to the surge of mould steel price, the Group had reasonably adjusted its product prices, which also helped to boost the turnover figure. With fully-fledged production skill, the Group's productivity has been further enhanced, allowing the Group to accommodate robust demand in the market. All these favorable factors contributed to the fruitful results as achieved by the Group during the first half of this financial year.

Through continuous effort of the factories in Southern China, agreeable return has been resulted. The new workshops of the Heyuan plant were subsequently switched into full operation. Part of the production previously conducted in Dongguan has been merged into the Heyuan plant for centralization purpose, enabling the Group to reengineer its production processes, and to manage its work force in a more effective way, benefiting from an increase in scale of production with a rise in productivity and effectiveness. Turning to the Guangzhou factory, production capacity has been increased to cater for an upward growth of overseas demand in high precision mould bases. The Dongguan plant has dedicated in developing its mould-related components business, to reinforce one-stop services to customers, with an aim to widen the source of income to the Group.

As a result of the second phase expansion, Shanghai plant has made promising progress, with satisfactory growth in turnover. For the new plant located in Taizhou, Zhejiang Province, most of its construction work has been completed; and the installation of machineries and infrastructure has been progressed smoothly, targeting to start production at the end of this year.

Overseas operations maintained a stable growth. Apart from the economic recovery of Japan market, the LKM brand has been widely accepted by local customers, rendering steady progress of business in Japan. After restructuring, the Taiwan plant has operated smoothly and started to bring positive contribution to the Group. With the stable economic performance of the South East Asian countries, the Malaysia and the Singapore operations showed mild improvement in business, as compared with the same period of the last financial year.

To seek new market opportunity, the Group has already set up fourteen direct sales outlets and offices in the Guangdong Province and the Eastern Region of China, mainly serving privately owned enterprises and sole proprietors within the regions. Benefiting from the close contact with different target segment of customers, the Group succeeded in establishing a substantial number of small to medium sized new customers, thus enlarging the customer base of the Group as a whole.

Following the successful launch of quality mould steels from China together with the adjustment on steel prices, the pressure from the increase in steel cost has been partly alleviated; the mould steel business has reported mild growth. With the continuous growth of mould market in China, the imported quality mould steel business will maintain a steady development. Entering the second quarter of the year, the mould steel prices has become more stable, after the announcement of adopting macro-economic control on the market by the China government.

The macro-economic control policy as imposed by the China government certainly affects some businesses; nevertheless, it only has minor impact on the Group's business as a whole. Moreover, the operation of the Group's plants in China has not been affected by the unstable electricity supply throughout the China region since the Group's plants are not located at those regions significantly affected by heavy shortage of electricity supply. In addition, all plants are equipped with in-house electricity generators. As a result, there is no negative impact on the factory operation.

Prospects

The domestic economy of China is growing fast. Moreover, China is also generally recognized as the world's most suitable production and sub-contracting base. Under these two favorable conditions, the plastic and mould manufacturing industries in China will enjoy sustained growth. It is expected that the mould industry in China will enter into another high growth cycle. The Group, being equipped with ample experience in mould base industry, sophisticated technical skills, advanced production facilities, together with a worldwide renowned "LKM" brand, has received favorable support and acceptance from international manufacturers with production plants established in China. Looking ahead, the Group expects promising growth in its business.

The Board of Directors of the Group will grasp such ample market opportunities by further strengthening its business in China to meet both customers and market needs. The Group will devise a long term strategic plan for reinforcing its overall management, improving its production planning, upgrading its manpower quality and investing its production facilities and so on. Continuous effort will be spent in reinforcing its sales and distribution networks in China, targeting initially on rapid developing areas in the Eastern Region in China. By setting up additional sales offices, the Group can have close contact with customers and acquire updated market information, eventually enlarging its market share in Eastern China. Furthermore, the Group will prepare itself for further launch of business in the Northern Region in China. Being benefited by the continuous move of production plants from Japan and Korea to Northern China, the development of plastic industry in provinces of Shandong, Hebei and Liaoning has been accelerated; even some of its major cities will gradually be transformed into manufacturing hub for the automobile industry. In views of such market opportunity, the Group will seriously consider the further development in Northern China.

Though the recent skyrocketed oil price has not posed a direct threat on the mould base industry, the Group will still pay attention to the trend of raw material market especially its impact on plastic industry. Nevertheless, in short term, the plastic materials are not easily substituted. The future is still cautiously optimistic.

Looking ahead, the Group will continue to develop actively its core production and other related businesses. Furthermore, the Group will strive its best to uplift quality and technology of the mould industry in China to achieve the international standard, advancing its status in the international markets.

Liquidity and Financial Resources

As at 30th June, 2004, the Group had cash balance of approximately HK\$398 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\$671 million, equal to approximately 73% of shareholders' funds of approximately HK\$914 million.

Employees and Remuneration Policies

As at 30th June 2004, the Group employed a total of approximately 6,500 employees, including approximately 6,200 employees in its PRC production sites and approximately 300 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.

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 HK8 cents per share (2003: HK5.6 cents per share after adjusting for bonus share issue) in respect of the six months ended 30th June, 2004 to be payable on or about 5th October, 2004 to shareholders whose names appear in the Register of Members on 17th September, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16th September, 2004 to 17th September, 2004, 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 15th September, 2004.

Shareholders in Singapore whose securities accounts with The Central Depository (Pte) Limited are credited with shares in the Company as at 5:00 p.m. on 15th September, 2004 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, 2004.

CODE OF BEST PRACTICE

During the six months ended 30th June, 2004, 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 (the "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 to the Listing Rules in force prior to 31st March, 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under transitional arrangements, 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, 27th August, 2004

As at the date of this announcement, the executive directors of the Company are Siu Tit Lung (Chairman), Siu Yuk Lung, Mak Koon Chi, Wai Lung Shing and Fung Wai Hing, the non-executive director of the Company is Chan Chun Sing, Colin and the independent non-executive directors of the Company are Liu Wing Ting, Stephen and Lee Tat Yee.