力勁科技集團有限公司

# L.K. Technology Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 558)**

# ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The board (the "Board") of directors (the "Directors") of L.K. Technology Holdings Limited (the "Company") presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2008 together with the comparative figures for the corresponding period in 2007.

## Condensed Consolidated Income Statement

For the six months ended 30 September 2008

| | | (Unaudited) Six months ended 30 September | |
|---|---|---|---|
| | *Notes* | **2008 HK$'000** | 2007 HK$'000 |
| Turnover | *3* | **756,116** | 698,759 |
| Cost of sales | | **(531,235)** | (472,142) |
| Gross profit | | **224,881** | 226,617 |
| Other revenue | *3* | **16,607** | 15,234 |
| Other gains/(losses) | *3* | **14,490** | (94) |
| Selling and distribution expenses | | **(83,253)** | (77,802) |
| Administration expenses | | **(114,489)** | (79,938) |
| Profit from operations | *4* | **58,236** | 84,017 |
| Finance income | | **2,907** | 3,356 |
| Finance costs | | **(22,551)** | (9,029) |
| Finance costs – net | *5* | **(19,644)** | (5,673) |
| Share of loss of an associate | | **(1,312)** | – |
| Profit before income taxes | | **37,280** | 78,344 |
| Income taxes | *6* | **(9,327)** | (10,376) |
| Profit for the period | | **27,953** | 67,968 |
| Interim dividends | *7* | **4,051** | 27,289 |
| Attributable to: | | | |
| Equity holders of the Company | | **29,347** | 67,968 |
| Minority interests | | **(1,394)** | – |
| | | **27,953** | 67,968 |
| | | **HK cents** | HK cents |
| Earnings per share | *8* | | |
| – basic | | **2.9** | 6.8 |
| – diluted | | **2.9** | 6.7 |

## Condensed Consolidated Balance Sheet
At 30 September 2008

| | Notes | (Unaudited) 30 September 2008 HK$'000 | (Audited) 31 March 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **15,719** | 3,174 |
| Property, plant and equipment | | **562,759** | 410,560 |
| Investment properties | | **24,970** | 25,650 |
| Land use rights | | **75,840** | 74,767 |
| Deposits paid | | **53,233** | 25,474 |
| Interest in an associate | | **75,391** | 21,336 |
| Available-for-sale financial assets | | **–** | 746 |
| Deferred tax assets | | **12,023** | 10,717 |
| Bills and accounts receivable – due after one year | *9* | **3,914** | – |
| Restricted bank balances | | **4,664** | 5,950 |
| | | **828,513** | 578,374 |
| **Current assets** | | | |
| Inventories | | **615,009** | 472,451 |
| Bills and accounts receivable | *9* | **467,531** | 360,943 |
| Other receivables, prepayments and deposits | | **77,080** | 46,826 |
| Derivative financial instruments | | **4,472** | – |
| Restricted bank balances | | **30,461** | 56,223 |
| Cash and bank balances | | **223,410** | 170,785 |
| | | **1,417,963** | 1,107,228 |
| **Current liabilities** | | | |
| Bills and accounts payable | *10* | **241,805** | 248,836 |
| Other payables, deposits and accruals | | **204,103** | 121,209 |
| Derivative financial instruments | | **3,098** | – |
| Bank borrowings – due within one year | | **495,240** | 381,074 |
| Tax payable | | **3,236** | 1,677 |
| | | **947,482** | 752,796 |
| **Net current assets** | | **470,481** | 354,432 |
| **Total assets less current liabilities** | | **1,298,994** | 932,806 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **4,098** | – |
| Bank borrowings – due after one year | | **315,218** | 18,508 |
| Provision for post-employment benefits | | **15,927** | – |
| | | **335,243** | 18,508 |
| **Net assets** | | **963,751** | 914,298 |
| Share capital | | **101,284** | 101,125 |
| Reserves | | **838,761** | 813,173 |
| **Equity attributable to the Company's equity holders** | | **940,045** | 914,298 |
| **Minority interests** | | **23,706** | – |
| **Total equity** | | **963,751** | 914,298 |

## 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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 March 2008.

### 2. Significant Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, available-for-sale financial assets and investment properties, which are carried at fair values. The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the financial statements of the Group for the year ended 31 March 2008. The following new interpretations and amendments are mandatory, for the first time, for accounting periods beginning on or after 1 January 2008 but are not currently relevant to the Group.

| | |
|---|---|
| Amendments to HKAS 39 and HKFRS 7 | Reclassification of Financial Assets |
| HK(IFRIC) – Interpretation 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC) – Interpretation 12 | Service Concession Arrangements |
| HK(IFRIC) – Interpretation 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The Group has not early applied the following new or revised Hong Kong Financial Reporting Standards ("HKFRS(s)") that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new or revised HKFRSs, other than HKAS 23 (Revised) "Borrowing Costs" and HKFRS 8 "Operating Segments" as further discussed below, will have no material impact on the financial statements of the Group.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs | 1 January 2009, except for Amendments to HKFRS 5, 1 July 2009 |
| Amendments to HKAS 1 and HKAS 32 | Puttable Financial Instruments and Obligations Arising on Liquidation | 1 January 2009 |
| HKAS 1 (Revised) | Presentation of Financial Statements | 1 January 2009 |
| HKAS 23 (Revised) | Borrowing Costs | 1 January 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements | 1 July 2009 |
| HKFRS 2 Amendment | Share-based Payment – Vesting Conditions and Cancellations | 1 January 2009 |
| HKFRS 3 (Revised) | Business Combinations | 1 July 2009 |
| HKFRS 8 | Operating Segments | 1 January 2009 |
| HK(IFRIC) – Interpretation 13 | Customer Loyalty Programmes | 1 July 2008 |
| HK(IFRIC) – Interpretation 15 | Agreements for the Construction of Real Estate | 1 January 2009 |
| HK(IFRIC) – Interpretation 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 |
| HK(IFRIC) – Interpretation 17 | Distribution of Non-cash Assets to Owners | 1 July 2009 |
| Amendments to HKFRS 1 and HKAS 27 | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | 1 January 2009 |
| Amendments to HKAS 39 | Eligible Hedged Items | 1 July 2009 |
| Amendments to HKAS 10 | Events After the Balance Sheet Date | 1 July 2009 |
| Amendments to HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 1 July 2009 |

HKAS 23 (Revised) "Borrowing Costs" requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset and removes the option of immediately expensing those borrowing costs. The adoption of this revised standard may result in capitalisation of borrowing costs incurred for the Group's qualifying assets.

HKFRS 8 "Operating Segments" replaces HKAS 14 and requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management as to whether it will change the number of reportable segments and the manner in which the segments are reported in order to be consistent with the internal reporting provided to the chief operating decision maker.

### 3. Turnover, Other Revenue, Other Gains/(Losses) and Segment Information

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Turnover | | |
| Sales of machines and related accessories, net of returns and discounts | **756,116** | 698,759 |
| Other revenue | | |
| Value added tax refunded | **6,459** | 12,779 |
| Other subsidies from government | **7,856** | 529 |
| Rental income | **657** | 1,148 |
| Sundry income | **1,635** | 778 |
| | **16,607** | 15,234 |
| Total revenue | **772,723** | 713,993 |
| Other gains/(losses) | | |
| Negative goodwill | **17,452** | – |
| Net foreign exchange losses | **(1,478)** | (2,145) |
| Change in fair value of investment properties | **(1,010)** | 2,090 |
| Change in fair value of derivative financial instruments | **(1,151)** | – |
| Gains/(losses) on disposal of property, plant and equipment | **285** | (39) |
| Gains on disposal of available-for-sale financial assets | **392** | – |
| | **14,490** | (94) |
| | **787,213** | 713,899 |

**Primary reporting format – Business segments**

The Group is principally engaged in the design, manufacture, and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines and related accessories.

As the Group has only one business segment, no business segment analysis was presented.

**Secondary reporting format – Geographical segments**

The Group primarily operates in Hong Kong, the PRC and Italy. The Group's revenue by geographical location is determined by the final destination of delivery of the products.

The following tables present total revenue, assets and capital expenditure information of the Group's geographical segments.

| | **(Unaudited) Six months ended 30 September** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Turnover and other revenue | | |
| The PRC | **495,784** | 658,660 |
| Europe | **175,688** | 6,063 |
| Middle and South America | **44,585** | 19,207 |
| Other countries | **56,666** | 30,063 |
| | **772,723** | 713,993 |

| | **(Unaudited) As at 30 September 2008** | (Audited) As at 31 March 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Location of assets | | |
| The PRC | **1,761,268** | 1,528,571 |
| Europe | **324,757** | 3,487 |
| Hong Kong | **63,222** | 74,868 |
| Other countries | **85,206** | 67,959 |
| Total segment assets | **2,234,453** | 1,674,885 |
| Deferred tax assets | **12,023** | 10,717 |
| Total assets | **2,246,476** | 1,685,602 |

Carrying amount of segment assets is allocated based on where the assets are located.

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Capital expenditure | | |
| The PRC | **108,541** | 51,123 |
| Europe | **4,408** | – |
| Hong Kong | **4,277** | 796 |
| Other countries | **414** | 1,180 |
| | **117,640** | 53,099 |

Capital expenditure is allocated based on where the assets are located.

## 4. Profit from Operations

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Profit from operations has been arrived at after charging/(crediting): | | |
| Research and development costs | **16,088** | 12,312 |
| Less: Government grants | **(5,307)** | – |
| Net research and development costs | **10,781** | 12,312 |
| Amortisation and depreciation | **40,790** | 25,104 |
| Share-based payments | **168** | 5,674 |
| Write down of inventories | **5,952** | 5,670 |

## 5. Finance Costs – Net

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Finance income: | | |
| Interest income on short-term bank deposits | **2,907** | 3,356 |
| Finance costs: | | |
| Interests on bank loans and overdrafts wholly repayable within five years | **(22,551)** | (9,029) |
| | **(19,644)** | (5,673) |

## 6. Income Taxes

| | (Unaudited) | |
|---|---|---|
| | Six months ended 30 September | |
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Current income taxes | | |
| – PRC income tax | **6,325** | 7,140 |
| – Hong Kong Profits Tax | **–** | – |
| – other jurisdictions | **–** | – |
| Deferred taxation | **3,002** | 3,236 |
| | **9,327** | 10,376 |

Under the Enterprise Income Tax Law of the PRC ("New Tax Law") and its implementation rules effective on 1 January 2008, the PRC enterprise income tax rate is 25%. A foreign-invested enterprise established before the New Tax Law was promulgated on 16 March 2007, which is entitled to foreign-invested enterprise income tax holiday, can continue to enjoy the existing tax holiday, if any, until its expiry subject to a 5-year period restriction. Consequently, certain subsidiaries of the Company which have unexpired tax holidays, continue to be tax exempted. For those subsidiaries with tax holidays expired, the tax rates for current period are 18% or 25%. The tax rate of those subsidiaries currently subject to the tax rate 18% will progressively increase to 25%.

Further under the New Tax Law, dividends out of profits earned on or after 1 January 2008 from the subsidiaries in the PRC distributed to the Group will be subject to dividend withholding tax. The implementation rules provides for the dividend withholding tax to be at 10% unless reduced by treaty. Pursuant to a double tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong are subject to a dividend withholding tax rate of 5%. Provision for withholding tax is included in deferred taxation.

No Hong Kong Profits Tax or income tax for other jurisdictions has been provided for the six months ended 30 September 2008 and 2007 as there were no assessable profits arose for both periods.

## 7. Interim Dividends

At a meeting held on 22 December 2008, the Board declared an interim dividend of HK0.4 cent (2007: HK2.7 cents) per share amounting to HK$4,051,000 (2007:HK$27,289,000), calculated based on ordinary shares in issue at the date of this interim results announcement. As the interim dividends were declared after the balance sheet date, they are not recognised as dividend payable as at 30 September 2008.

8. **Earnings Per Share**

(a) **Basic**

The calculation of the basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company of HK$29,347,000 (2007: HK$67,968,000) and on the weighted average number of approximately 1,012,373,000 (2007: 1,005,209,000) ordinary shares in issue during the period.

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| Profit attributable to equity holders of the Company (HK$'000) | **29,347** | 67,968 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **1,012,373** | 1,005,209 |
| Basic earnings per share (HK cents) | **2.9** | 6.8 |

(b) **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes of the Company are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2008** | 2007 |
| Profit attributable to equity holders of the Company (HK$'000) | **29,347** | 67,968 |
| Weighted average number of ordinary shares in issue for the period (shares in thousands) | **1,012,373** | 1,005,209 |
| Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration (shares in thousands) | **6,156** | 7,633 |
| Weighted average number of ordinary shares (diluted) for the period (shares in thousands) | **1,018,529** | 1,012,842 |
| Diluted earnings per share (HK cents) | **2.9** | 6.7 |

## 9. Bills and Accounts Receivable

| | (Unaudited) As at 30 September 2008 HK$'000 | (Audited) As at 31 March 2008 HK$'000 |
|---|---|---|
| Gross accounts receivable | **464,373** | 350,552 |
| Less: Allowances for impairment losses | **(37,560)** | (26,156) |
| | **426,813** | 324,396 |
| Bills receivable | **44,632** | 36,547 |
| Less: Balance due within one year included in current assets | **(467,531)** | (360,943) |
| Balance due after one year shown as non-current assets | **3,914** | – |

The following is an aging analysis of the gross accounts receivable at the balance sheet date:

| | (Unaudited) As at 30 September 2008 HK$'000 | (Audited) As at 31 March 2008 HK$'000 |
|---|---|---|
| 0 – 90 days | **227,060** | 168,931 |
| 91 – 180 days | **89,606** | 66,785 |
| 181 – 365 days | **67,974** | 63,944 |
| Over one year | **79,733** | 50,892 |
| | **464,373** | 350,552 |

The maturity date of the bills receivable is generally between one to six months.

Goods sold to customers are either made on cash on delivery or on credit. Customers in general are required to pay deposits upon purchases orders are placed, the remaining balances will be payable upon goods are delivered to customers. Some customers are granted a credit term with repayment period ranging from one month to six months. The Group also sells goods to certain customers with sales proceeds payable by instalments which normally range from 6 months to 12 months.

## 10. Bills and Accounts Payable

| | (Unaudited) As at 30 September 2008 HK$'000 | (Audited) As at 31 March 2008 HK$'000 |
|---|---|---|
| Accounts payable | **222,390** | 218,513 |
| Bills payable | **19,415** | 30,323 |
| | **241,805** | 248,836 |

The following is the aging analysis of the accounts payable at the balance sheet date:

| | **(Unaudited) As at 30 September 2008 HK$'000** | (Audited) As at 31 March 2008 HK$'000 |
|---|---|---|
| 0 – 90 days | **167,147** | 185,007 |
| 91 – 180 days | **39,278** | 25,479 |
| 181 – 365 days | **9,605** | 4,565 |
| Over one year | **6,360** | 3,462 |
| | **222,390** | 218,513 |

The maturity date of the bills payable is generally between one to six months.

## Management Discussion and Analysis

During the six months ended 30 September 2008, due to adverse factors including historic high price of raw materials such as crude oil and steel, continuous appreciation of the Renminbi, tightening of credit by banks, the implementation of new Labour Contract Law , the slow down of the economy and the uncertain overall business environment, customers of the Group in Mainland China experienced a drop in demand, surge in costs and squeeze in money supply.

The Group's customers are mainly from the automobiles, motor cycles, 3C (computers, communications and consumer electronics), construction materials (bathroom equipment, lightings and locks), toys, electrical tools and apparel sectors, the growth of these sectors has slowed down because of the recent severe business environment. According to China Association of Automobile Manufacturers statistics, between April and September 2008, automobiles production in the PRC grew by only approximately 10%, a marked decline from the 20% growth rate in the corresponding period last year. Global output of mobile phones and computers also decreased in the period. The construction materials sector was affected by the ongoing slack property market, and orders for the toys and apparel industries also shrank. Facing market uncertainty, some customers of the Group in the Mainland deferred delivery of their orders. Other customers shelved or postponed their investment in equipment. These situations had all adversely impacted the short term performance of the Group.

**Financial review**

For the six months ended 30 September 2008, the Group recorded a sales turnover of HK$756,116,000, representing a slight growth of 8% compared to HK$698,759,000 in the corresponding period last year.

Profit attributable to shareholders amounted to HK$29,347,000, representing a decrease of 57% compared with the corresponding period last year.

**Business review**

The adverse business environment had led to a 25% drop in sales turnover from the PRC market to approximately HK$480,033,000 (last year corresponding period: HK$643,425,000).

Aiming to further expand its overseas markets, to diversify market risks and to reinforce the presence and coverage of its brand and products worldwide, the Group acquired Idra, the world class die-casting machine manufacturer in Italy in April, 2008. This acquisition has not only made the Group the largest die-casting machine manufacturer in the world, but has also boosted the Group's sales turnover from overseas market by fourfold to HK$276,082,000 or 37% of Group's total sales turnover from less than 10%. It has allowed the Group to achieve the goals of diversifying market risks and strengthening its presence worldwide.

During the period under review, the Group had adopted various measures such as to raise the selling price of products, to develop higher value-added products, to extend into upstream businesses and to secure syndicated financing.

To ensure a steady supply of its iron and steel materials at stable cost, the Group established a wholly owned company to produce cast iron and cast steel in Fuxin County, Liaoning Province. Construction of this casting plant is in final stage with production scheduled for the first half of next year. Most of the products of this plant will meet the internal demand of the Group, and will be able to supply high-quality castings to various sectors externally such as machinery, power devices (such as windmills) and vessels. In the meantime, the Group also invested with 35% interest in an iron ore mining and smelting enterprise in the same County. The enterprise owns iron ore mine reserves and holds an exploration certificate issued by the local office of the Ministry of Land and Resources. Part of the iron ore explored by the enterprise will be supplied to the casting plant.

To lessen the impact of the tightened bank credit and the accelerated interest rate in the PRC, and to cope with its development needs, the Group secured a three-year term and revolving loan of HK$500 million in August 2008 from a financial syndicate led by the HSBC.

**Die-casting machines business**

During the period under review, amid the adverse economic environment, die-casting machine markets around the world, particularly in the PRC, had slowed down. With customers postponing delivery of orders, and delaying expansion and replacement plans of equipment as a result of the tough market environment, the China die-casting machine market slumped, and dragged down the Group's sales turnover in this market. However, the Group still recorded a moderate growth in overall sales turnover and continued to maintain leading position in the die-casting machine market in the PRC.

**Plastic injection moulding machines business**

During the period under review, international crude oil price had surged from US$100 a barrel at the beginning of the year to the record high of close to US$150 a barrel in July. Although crude oil price has softened since then, its persistently high price during the period under review had created tremendous cost pressure on customers, deterring their investment interest in equipment, and that in turn affected the Group's plastic injection moulding machines business. During the period under review, the turnover of this business segment decreased by 6% against the corresponding period last year.

**CNC machines business**

Despite the adverse business environment, this business segment managed to deliver a relatively stable performance with sales turnover decreased by a slight 2% compared with the corresponding period last year.

**Research and development**

The Group has stepped up its efforts in research and development ("R&D") of new products in order to lay a strong foundation during this slack period, so that it will be able to grasp the opportunities when the market starts to pick up.

**Die-casting machines**

The Group was able to make progress with its proprietary technology in U-Series large tonnage die-casting machine. Its R & D teams have successfully developed a new quick die change system that can substantially enhance efficiency of related operation for customers. Furthermore, the Group has optimised the speed mould clamping and injection system, which can significantly shorten the production cycle of large tonnage die-casting machines as compared with the conventional die-casting machines, hence boost production efficiency. This U-Series machines are well-received by both the domestic and overseas markets and are sold to the United States of America.

**Plastic injection moulding machines**

The Effort series of direct-clamp plastic injection moulding machines developed by the Group adopts a servo-driven mechanism, resulting in higher injection speed, higher energy efficiency and higher product yield, and continue to be a market favourite. At the same time, the Group has also developed a new series of large tonnage two-platen energy-saving plastic injection moulding machines. Apart from energy efficient and environmentally friendly, it is also more stable and superior in performance with a compatible and expandable control system to meet the requirements of various industries. Currently this series gain a more advanced standing in the domestic market.

In addition to continuing the effort on R&D and promotion of the Effort series direct- clamp and energy efficient plastic injection moulding machines, the Group has also signed an agreement with The Hong Kong Polytechnic University ("PolyU") in October, 2008 to form a joint venture company, L.K. Precision Machinery Co., Ltd. to produce and sell high-precision micro-injection moulding machines from 2 tons to 50 tons using world-exclusive patented micro-injection moulding technology, which will become the world first upward injection high-precision micro-injection moulding machine for producing nano-standard micro components and miniaturised precision parts.

**CNC machines**

The Group made an integrated upgrade on the CNC machines, to meet the different personalised requirements of the Mainland customers, giving them greater convenience, more flexibility and higher production efficiency.

**Prospects**

In September this year, the collapse of financial institutes in the United States triggered a financial tsunami that swept the world, hitting seriously market confidence and starting a credit crunch, causing volatility in financial markets and dramatic plunge in consumers spending and market demand. Governments from different countries have since then introduced various contingent measures with the aim to shorten the economic recession, and rebuild economies and confidence. The Group believes that it will take a few quarters to improve the current economic condition and restore market confidence, thus the market will continue to be ridden with unprecedented challenges for a considerable period of time.

In the second half of the year, the Group implemented a new order-based production system and tighten inventory control. It also re-assessed the human resources and adopted flexible measures to improve staff cost, the entire process is conducted with full communication with staff and compliance with relevant laws and regulations.

The Group will exercise prudent approach in evaluating new investment projects and has slowed down construction of new plants.

The Group will continue to focus on on-going projects including Idra and the Liaoning Casting Plant Project, aiming to achieve maximum synergies as soon as possible, and to provide positive contribution to the Group.

Apart from the aforesaid measures, the Group will continue to research and develop more innovative and competitive products. It will also pursue expansion with care and caution in the domestic and overseas markets to increase the market share of its products.

The Group believes opportunities exist even in a crisis and will face the challenges ahead with a positive attitude and applying different measures through continuing to control cost, finding new income sources, enhancing efficiency, optimising asset utilisation as well as asset management, and reinforcing staff training.

**Liquidity and financial resources**
The working capital of the Group was generally financed by internal cash flows generated from its operation and existing banking facilities. As at 30 September 2008, the Group's cash and bank balances amounted to approximately HK$223.4 million (31 March 2008: HK$170.8 million).

The gearing ratio (a ratio of total interest bearing liabilities less cash and bank balance to total equity) was approximately 61% (31 March 2008: 25%).

As at 30 September 2008, the total assets of the Group were HK$2,246.5 million, representing an increase of approximately 33% as compared with that as at 31 March 2008. The Group maintained a strong and healthy financial position.

As at 30 September 2008, the capital structure of the Company was constituted exclusively of 1,012,835,000 ordinary shares of HK$0.1 each. The total amount of outstanding borrowings was HK$810.5 million (31 March 2008: HK$399.6 million), approximately 61% of which being short-term loans. Approximately 12% of the total borrowings were subject to interests payable at fixed rates. During the period, the Group used interest rate swap to manage risks associated with interest rates risks. The Group did not used any derivative instruments to hedge against foreign currency exposure as the Directors considered such exposure will not be significant.

**Financial Guarantees**
The Group provided guarantees to banks in respect of banking facilities granted to certain customers of the Group to purchase its products. As at 30 September 2008, the amount of the outstanding loans granted by banks to customers for which guarantees have been given by the Group amounted to approximately HK$67,303,000 (31 March 2008: HK$77,446,000).

**Pledge of Assets**
(i) The Group's banking facilities were secured by the assets of the Group, including restricted bank balances, leasehold land and buildings, land use rights, investment properties, plant and machinery, with aggregate carrying amounts of HK$128,568,000 (31 March 2008: HK$195,982,000).

(ii) As at 30 September 2008, the Group also has restricted bank balances to the extent of HK$21,941,000 (31 March 2008: HK$24,471,000) pledged to banks for credit facilities granted to customers to purchase the Group's products.

**Capital Commitments**
As at 30 September 2008, the Group had made capital expenditure commitments of approximately HK$141,551,000 (31 March 2008: HK$150,203,000) in respect of acquisition of land use rights, property, plant and equipment.

**Staff and Remuneration Policies**
As at 30 September 2008, the Group employed approximately 3,900 full time staff. The staff costs for the current period amounted to HK$162.3 million. The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefits such as mandatory provident fund, state–managed social welfare scheme and a share option scheme.

## Interim Dividend

The Board has resolved to declare an interim dividend of HK0.4 cent per share for the six months ended 30 September 2008 payable on or about 21 January 2009, to the shareholders whose names appear on the register of members of the Company on 12 January 2009.

## Closure of Register of Members

The register of members of the Company will be closed from Monday, 12 January 2009 to Wednesday, 14 January 2009, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all shares transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 January 2009.

## Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the period under review.

## Corporate Governance

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period under review.

## Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Tsang Yiu Keung, Paul, Dr. Hon. Lui Ming Wah, SBS, JP and Mr. Chan Wah Tip, Michael. Mr. Tsang Yiu Keung, Paul is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board.

## Nomination Committee

The Nomination Committee comprises three members, namely Mr. Chan Wah Tip, Michael, Dr. Low Seow Chay and Dr. Hon. Lui Ming Wah, SBS, JP, all being independent non-executive Directors. Mr. Chan Wah Tip, Michael is the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors and the management of the Board succession.

## Remuneration Committee

The Remuneration Committee comprises three members, namely Dr. Hon. Lui Ming Wah, SBS, JP, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael , all being independent non-executive Directors. Dr. Hon. Lui Ming Wah, SBS, JP is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages of directors, determining the award of bonuses and considering the grant of options under the Share Option Scheme.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the period under review.

## Review of Financial Information

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2008. BDO McCabe Lo Limited, the Group's external auditor also reviewed the unaudited condensed consolidated financial statements for the six months ended 30 September 2008 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.

## Publication of Interim Results Announcement and Interim Report

This interim results announcement is published on the websites of the Company (www.lktechnology.com) and the Stock Exchange (www.hkexnews.hk). The 2008-09 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the same website in due course.

## Acknowledgement

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank my fellow directors for their valuable contribution and the staff of the Group for their commitment and services throughout the period.

On behalf of the Board
**Chong Siw Yin**
*Chairperson*

Hong Kong, 22 December 2008

*As at the date of this announcement, the executive Directors are Ms. Chong Siw Yin, Mr. Cao Yang, Mr. Chung Yuk Ming and Ms. Wong Pui Chun; and the independent non-executive Directors are Dr. Low Seow Chay, Dr. Hon. Lui Ming Wah, SBS, JP, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael.*