

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are primary listed on The Stock Exchange of Hong Kong Limited and secondary listed on The Singapore Exchange Securities Trading Limited.

The Company acts as an investment holding company and provides corporate management services. Its subsidiaries are principally engaged in the manufacture and marketing of mould base and the trading of metal and parts.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and in accordance with accounting principles generally accepted in Hong Kong.

### **Potential impact arising from the recently issued accounting standards**

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The principal accounting policies adopted by the Group currently are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life and is presented separately in the balance sheet.

On disposal of investments in subsidiaries, the attributable amount of unamortised goodwill/goodwill previously eliminated against or debited to reserves is included in the determination of the gain or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Revenue recognition (Cont'd)

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance, from properties let under operating leases, is recognised on a straight-line basis over the period of relevant leases.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### Patents and trademarks

Patents and trademarks are measured initially at cost and are amortised on a straight-line basis over their estimated useful life.

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation, amortisation and accumulated impairment losses.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Property, plant and equipment (Cont'd)

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the leases
Buildings	2%
Furniture, fixtures and fittings	15%
Plant and machinery	20%
Motor vehicles	30%

Construction in progress are stated at cost which includes all development expenditure and other direct costs attributable to such projects. Construction in progress are not depreciated until completion of construction when the properties are ready for their intended use. Costs on completed construction work are transferred to the appropriate category of assets.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the leases.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **Taxation (Cont'd)**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Retirement benefits scheme contributions**

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as an expense as they fall due.

### 3. TURNOVER

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

	2004 HK\$'000	2003 HK\$'000
Manufacture of mould bases	1,429,038	1,064,604
Trading of metal and parts	170,467	145,009
	<b>1,599,505</b>	<b>1,209,613</b>

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (a) Business segments

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

Principal activities are as follows:

Mould bases	—	Manufacture of mould bases
Metal and parts	—	Trading of metal and parts

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

## (a) Business segments (Cont'd)

Segmental information about these businesses is presented below.

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	197,861	26,858	224,719
Surplus arising on revaluation of investment properties			4,900
Unallocated corporate income			57,964
PROFIT FROM OPERATIONS			287,583
Finance costs			(19,290)
Gain on partial disposal of a subsidiary			399
PROFIT BEFORE TAXATION			268,692
Taxation			(43,702)
PROFIT AFTER TAXATION			224,990



## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

## (a) Business segments (Cont'd)

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
<b>OTHER INFORMATION</b>			
Capital expenditure	179,671	6,094	185,765
Amortisation of patents and trademarks	—	666	666
Depreciation and amortisation of property, plant and equipment	80,676	3,754	84,430
Amortisation of goodwill	21,015	—	21,015
Allowance for (reversal of) bad and doubtful debts	10,599	(2,956)	7,643
<b>Assets</b>			
Segment assets	1,550,873	116,011	1,666,884
Unallocated corporate assets			330,859
<b>Consolidated total assets</b>			<b>1,997,743</b>
<b>Liabilities</b>			
Segment liabilities	252,007	27,868	279,875
Unallocated corporate liabilities			705,465
<b>Consolidated total liabilities</b>			<b>985,340</b>

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

## (a) Business segments (Cont'd)

For the year ended 31st December, 2003

	Mould bases HK\$'000	Metal and parts HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>TURNOVER</b>				
External sales	1,064,604	145,009	—	1,209,613
Inter-segment sales	25,191	140,596	(165,787)	—
	<u>1,089,795</u>	<u>285,605</u>	<u>(165,787)</u>	<u>1,209,613</u>
Inter-segment sales are charged at prevailing market rates.				
<b>RESULTS</b>				
Segment results	154,783	17,998	—	172,781
Deficit arising on revaluation of investment properties				(950)
Unallocated corporate income				42,654
<b>PROFIT FROM OPERATIONS</b>				
				214,485
Finance costs				(29,084)
Gain on disposal of subsidiaries	—	2,048	—	2,048
<b>PROFIT BEFORE TAXATION</b>				
				187,449
Taxation				(27,870)
<b>PROFIT AFTER TAXATION</b>				
				<u>159,579</u>

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

## (a) Business segments (Cont'd)

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
<b>OTHER INFORMATION</b>			
Capital expenditure	127,479	5,799	133,278
Amortisation of patents and trademarks	—	278	278
Depreciation and amortisation of property, plant and equipment	74,411	6,520	80,931
Amortisation of goodwill	21,720	—	21,720
Allowance for bad and doubtful debts	7,228	1,222	8,450
	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
<b>Assets</b>			
Segment assets	1,262,195	109,980	1,372,175
Unallocated corporate assets			458,582
<b>Consolidated total assets</b>			<b>1,830,757</b>
<b>Liabilities</b>			
Segment liabilities	244,775	25,000	269,775
Unallocated corporate liabilities			695,230
<b>Consolidated total liabilities</b>			<b>965,005</b>

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

##### (b) Geographical segments

The Group operates in the following geographical market segments — People's Republic of China (the "PRC") 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	
	2004 HK\$'000	2003 HK\$'000
The PRC	1,304,745	957,907
Other countries	294,760	251,706
	<b>1,599,505</b>	1,209,613

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The PRC	1,824,165	1,661,079	180,876	130,862
Other countries	173,578	159,136	4,889	2,416
	<b>1,997,743</b>	1,820,215	<b>185,765</b>	133,278

**5. OTHER OPERATING INCOME**

	2004 HK\$'000	2003 HK\$'000
Gain on disposal of property, plant and equipment	1,620	—
Income from sales of scrap	41,062	21,137
Interest income	8,226	14,965
Release of negative goodwill	22	91
Rental income, net of outgoings of approximately HK\$298,000 (2003: HK\$290,000)	1,492	1,778
Sundry income	5,542	4,683
	<b>57,964</b>	<b>42,654</b>

**6. PROFIT FROM OPERATIONS**

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Allowance for bad and doubtful debts	7,643	8,450
Auditors' remuneration		
— Current year	2,173	2,117
— Underprovision in prior year	604	—
Net exchange loss	5,333	3,720
Loss on disposal of property, plant and equipment	—	109
Operating lease rentals in respect of:		
— rented premises	5,371	4,166
— plant and machinery	71	49
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$255,000 (2003: HK\$1,586,000)	6,362	5,638

## Notes to the Financial Statements

for the year ended 31st December 2004

### 7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Arrangement fee for bank loans	356	3,776
Interest on		
— bank borrowings wholly repayable within five years	16,809	22,425
— obligations under finance leases	1	6
— floating rate notes	2,124	2,877
	<b>19,290</b>	<b>29,084</b>

### 8. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Fees paid to non-executive directors	270	180
Fees paid to independent non-executive directors	531	378
Other emoluments paid to executive directors:		
Salaries and other benefits	18,408	18,408
Bonus	21,000	15,000
Retirement benefits scheme contributions	2,025	2,001
Total emoluments	<b>42,234</b>	<b>35,967</b>

Emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
HK\$1,000,000 or below	4	3
HK\$4,000,001 to HK\$4,500,000	—	1
HK\$4,500,001 to HK\$5,000,000	1	—
HK\$5,000,001 to HK\$5,500,000	—	2
HK\$6,500,001 to HK\$7,000,000	2	—
HK\$10,000,001 to HK\$10,500,000	—	2
HK\$11,500,001 to HK\$12,000,000	2	—
	<b>9</b>	<b>8</b>

The five individuals with the highest emoluments in the Group were directors of the Company for both years.

## 9. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
current year	238	169
under(over)provision in prior year	17	(1,349)
	<b>255</b>	<b>(1,180)</b>
Taxation in jurisdictions outside Hong Kong		
current year	42,798	29,894
underprovision in prior year	649	57
	<b>43,447</b>	<b>29,951</b>
Deferred taxation (note 27)	—	(901)
	<b>43,702</b>	<b>27,870</b>

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.

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 (the "Tax Holiday"). Certain PRC subsidiaries continue to enjoy their Tax Holiday during the year.

**9. TAXATION (Cont'd)**

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	268,692	187,449
Tax at PRC income tax rate of 24%	64,486	44,988
Tax effect of non-deductible expenses	7,654	1,947
Tax effect of non-taxable income	(3,351)	(2,599)
Tax effect of utilisation of tax losses not previously recognised	(1,783)	(2,356)
Tax effect of unused tax losses not recognised	2,160	8,704
Others	—	2,241
Under(over)provision in prior year	666	(1,292)
Tax effect of Tax Holiday	(28,162)	(31,503)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,032	7,740
<b>Tax expense for the year</b>	<b>43,702</b>	<b>27,870</b>

Details of deferred taxation are set out in note 27.

**10. DIVIDENDS**

	2004 HK\$'000	2003 HK\$'000
Dividends paid to shareholders:		
2002 final dividend of HK5 cents per share (equivalent to HK4 cents per share after adjusting for bonus share issue in 2004)	—	24,342
2003 interim dividend of HK7 cents per share (equivalent to HK5.6 cents per share after adjusting for bonus share issue in 2004)	—	34,391
2003 final dividend of HK10 cents per share (equivalent to HK8 cents per share after adjusting for bonus share issue in 2004)	49,130	—
2004 interim dividend of HK8 cents per share	49,130	—
<b>Total dividends paid during the year</b>	<b>98,260</b>	<b>58,733</b>

The directors have determined that a final dividend of HK10 cents per share amounting to approximately HK\$61,928,000 should be paid to the shareholders of the Company whose names appear in the register of members on 9th May, 2005.



## 11. EARNINGS PER SHARE

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

	2004	2003
Profit attributable to shareholders (HK\$'000)	<b>220,113</b>	157,255
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>614,584,024</b>	610,813,509
Effect of dilutive potential ordinary shares on exercise of share options of the Company	<b>467,577</b>	1,591,252
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>615,051,601</b>	612,404,761

The weighted average number of ordinary shares for the year ended 31st December, 2003 for the purposes of basic earnings per share had been adjusted for the bonus issue on 3rd May, 2004.

## 12. INVESTMENT PROPERTIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
At beginning of the year	<b>23,100</b>	24,050
Surplus (deficit) arising on revaluation	<b>4,900</b>	(950)
At end of the year	<b>28,000</b>	23,100

The investment properties of the Group were revalued at 31st December, 2004 on an open market value basis by CS Surveyors Limited, a firm of independent professional valuers. The surplus arising on revaluation of approximately HK\$4,900,000 has been credited to the income statement.

The Group's investment properties are situated in Hong Kong and are held under medium-term leases.

## Notes to the Financial Statements

for the year ended 31st December 2004

### 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and fittings	Plant and machinery	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
AT COST						
At 1st January, 2004	246,626	104,862	634,506	35,822	10,686	1,032,502
Currency realignment	7	283	1,349	43	—	1,682
Transfer	20,984	1,202	26,187	—	(48,373)	—
Additions	31,436	22,040	69,998	10,769	51,522	185,765
Disposals	—	(242)	(680)	(6,337)	—	(7,259)
At 31st December, 2004	299,053	128,145	731,360	40,297	13,835	1,212,690
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	22,162	66,750	457,711	28,392	—	575,015
Currency realignment	—	175	555	—	—	730
Provided for the year	6,193	10,319	63,193	4,725	—	84,430
Eliminated on disposals	—	(142)	(225)	(6,130)	—	(6,497)
At 31st December, 2004	28,355	77,102	521,234	26,987	—	653,678
NET BOOK VALUE						
At 31st December, 2004	270,698	51,043	210,126	13,310	13,835	559,012
At 31st December, 2003	224,464	38,112	176,795	7,430	10,686	457,487

The net book value of land and buildings of the Group comprises:

	2004 HK\$'000	2003 HK\$'000
Land and buildings outside Hong Kong:		
— freehold	25,274	25,907
— held under medium-term leases	245,424	198,557
	<b>270,698</b>	224,464

The construction in progress are situated outside Hong Kong and are held under medium-term leases.

The net book value of plant and machinery includes an amount of approximately HK\$2,000 (2003: HK\$24,000) in respect of assets held under finance leases.

**14. INVESTMENT IN A SUBSIDIARY****The Company**

The carrying value of the unlisted shares is based on the net book values of the underlying net assets of the subsidiary attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1993.

Details of the Company's principal subsidiaries at 31st December, 2004 are set out in note 36.

None of the subsidiaries had issued any debt securities at the end of the year.

**15. AMOUNTS DUE FROM SUBSIDIARIES**

The amounts due from subsidiaries of the Company are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date and the balances are therefore shown as non-current.

**16. LOANS TO SUBSIDIARIES**

Loans to subsidiaries of the Company are unsecured, interest bearing at Hong Kong prime rate and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date and the balances are therefore shown as non-current.

**17. INTANGIBLE ASSETS**

	<b>THE GROUP</b> <b>Patents and</b> <b>trademarks</b> HK\$'000
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COST	
At 1st January, 2004 and 31st December, 2004	2,000
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AMORTISATION	
At 1st January, 2004	278
Provided for the year	666
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At 31st December, 2004	944
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NET BOOK VALUE	
At 31st December, 2004	1,056
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At 31st December, 2003	1,722
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The patents and trademarks are amortised over a period of three years.

## Notes to the Financial Statements

for the year ended 31st December 2004

### 18. GOODWILL

	<b>THE GROUP</b>
	HK\$'000
COST	
At 1st January, 2004 and 31st December, 2004	65,582
AMORTISATION	
At 1st January, 2004	35,507
Charged for the year	21,015
At 31st December, 2004	56,522
NET BOOK VALUE	
At 31st December, 2004	9,060
At 31st December, 2003	30,075

The amortisation period adopted for goodwill is three years.

### 19. NEGATIVE GOODWILL

	<b>THE GROUP</b>
	HK\$'000
GROSS AMOUNT	
At 1st January, 2004 and at 31st December, 2004	272
RELEASED TO INCOME	
At 1st January, 2004	250
Released during the year	22
At 31st December, 2004	272
CARRYING AMOUNT	
At 31st December, 2004	—
At 31st December, 2003	22

The negative goodwill is released to income statement on a straight-line basis over three years.

**20. INVENTORIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	388,307	297,568
Work in progress	67,488	27,729
Finished goods	11,772	35,622
	<b>467,567</b>	<b>360,919</b>

Inventories are stated at cost except that raw materials of approximately HK\$227,052,000 (2003: HK\$137,595,000) are carried at net realisable value.

**21. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$382,657,000 (2003: HK\$351,088,000) and an aged analysis of which is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 60 days	275,757	236,843
61 to 90 days	83,450	79,541
Over 90 days	23,450	34,704
	<b>382,657</b>	<b>351,088</b>

**22. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$104,484,000 (2003: HK\$113,624,000) and an aged analysis of which is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 60 days	79,215	86,752
61 to 90 days	17,206	9,148
Over 90 days	8,063	17,724
	<b>104,484</b>	<b>113,624</b>

**23. AMOUNT DUE TO A SUBSIDIARY**

The amount due to a subsidiary of the Company is unsecured, interest-free and has been fully repaid during the year.

**24. OBLIGATIONS UNDER FINANCE LEASES**

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The maturity of obligations under finance leases is as follows:				
Within one year	2	27	2	26
In the second to fifth year inclusive	—	2	—	2
	2	29	2	28
Less: Future finance charges	—	(1)	—	—
Present value of lease obligations	2	28	2	28
Less: Amount due for settlement within one year and shown under current liabilities			(2)	(26)
Amount due after one year			—	2

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is ranged from three to six years. The average effective borrowing rate was 11% (2003: 11%). All leases are on a fixed repayment basis in Japanese Yen and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

**25. UNSECURED BANK BORROWINGS**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank loans	478,286	491,413
Trust receipt loans	14,730	—
<b>Total, repayable within one year</b>	<b>493,016</b>	<b>491,413</b>

**26. FLOATING RATE NOTES**

During the year ended 31st December, 2003, a subsidiary of the Company issued Floating Rate Notes ("FRNs") in the amount of HK\$150 million which are due in 2006. The FRNs carry interest at Hong Kong Inter-bank Borrowing Rate plus 1% and are guaranteed by the Company.

**27. DEFERRED TAXATION**

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are summarised below:

	THE GROUP			
	Accelerated tax depreciation	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	1,141	—	(240)	901
(Credit) charge for the year	(1,141)	—	240	(901)
At 31st December, 2003	—	—	—	—
(Credit) charge for the year	1,252	(1,252)	—	—
At 31st December, 2004	1,252	(1,252)	—	—

At the balance date, the Group has unused tax losses of approximately HK\$62,612,000 (2003: HK\$52,191,000) available for offset against future profits that are subject to Hong Kong Profits Tax. A deferred tax asset amounting to approximately HK\$1,252,000 (2003: Nil) in respect of tax loss amounted to approximately HK\$7,154,000 (2003: Nil) has been recognised. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

Neither the Group nor the Company had any material unprovided deferred taxation for the year nor at the balance sheet date.

**28. SHARE CAPITAL**

	Authorised		Issued and fully paid	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.1 each				
At 1st January, 2003	600,000,000	60,000	486,843,643	48,684
Shares issued on exercise of share options	—	—	4,455,000	446
At 31st December, 2003	600,000,000	60,000	491,298,643	49,130
Increase during the year	400,000,000	40,000	—	—
Bonus shares issued	—	—	122,824,660	12,283
Share issued on exercise of share options	—	—	4,684,000	468
At 31st December, 2004	1,000,000,000	100,000	618,807,303	61,881

Pursuant to the annual general meeting held on 3rd May, 2004, the increase in authorised share capital of HK\$40,000,000 and a bonus issue of shares on the basis of one share for every four shares held were approved. 122,824,660 bonus shares were issued under the bonus issue and the amount HK\$12,282,466 was capitalised from the Company's share premium account.

The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.



**29. RESERVES**

	Share premium HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
At 1st January, 2003	104,512	50,129	154,641
Final dividend declared for the nine months ended 31st December, 2002	—	(24,342)	(24,342)
Shares issued on exercise of share options	4,990	—	4,990
Net profit for the year	—	109,005	109,005
Interim dividend declared	—	(34,391)	(34,391)
At 31st December, 2003	109,502	100,401	209,903
Final dividend declared for the year ended 31st December, 2003	—	(49,130)	(49,130)
Bonus shares issued	(12,283)	—	(12,283)
Shares issued on exercise of share options	14,989	—	14,989
Net loss for the year	—	(1,380)	(1,380)
Interim dividend declared	—	(49,130)	(49,130)
At 31st December, 2004	112,208	761	112,969

The Company's reserves available for distribution to shareholders at 31st December, 2004 represent its accumulated profits of approximately HK\$761,000 (2003: HK\$100,401,000).

### 30. SHARE OPTION SCHEME

A share option scheme was adopted by the Company pursuant to a resolution passed on 9th September, 2002 (the "2002 Scheme"). Under the 2002 Scheme, the board of directors of the Company or a duly authorised committee (the "Board") may grant options to (i) any executive or non-executive directors of the Group (or any persons proposed to be appointed as such) or any employees of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group; (iii) any consultants and professional advisers to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company, as absolutely determined by the Board (the "Participants"), to subscribe for shares in the Company. The 2002 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants, and will expire on 8th September, 2012.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the 2002 Scheme, unless prior approval from the Company's shareholders is obtained. Without prior approval from the Company's shareholders, the number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within a period of 28 days from the date of grant, upon payment of HK\$1 per grant. An option period is a period to be determined by the Board at its absolute discretion and notified by the Board to each Participant who accepts the option offer as being the period during which an option may be exercised, such period to expire not later than 10 years after the date of the grant of the share option ("Option Period"). Options may be exercised in accordance with the terms of the 2002 Scheme at any time during the Option Period after the option has been granted. The exercise price is determined by the Board, and shall be at least the highest of the nominal value of the Company's share, the closing price of the Company's shares on the date of grant and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

At 31st December, 2004, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 1,316,000, representing 0.2% of the shares of the Company in issue at that date. At 31st December, 2003, no share option was outstanding under the 2002 Scheme.

**30. SHARE OPTION SCHEME (Cont'd)**

The following table discloses details of the Company's share options held by the Participants and movements in such holdings during the year ended 31st December, 2003 and 2004:

Exercise price HK\$	Outstanding at 1.1.2003	Exercised during the year ended 31.12.2003	Cancelled during the year ended 31.12.2003	Outstanding at 31.12.2003 and 1.1.2004	Granted during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004
1.22	5,000,000	(4,455,000)	(545,000)	—	—	—	—
3.30	—	—	—	—	6,000,000	(4,684,000)	1,316,000

Details of the share options held by the directors included in the above table are as follows:

Exercise price HK\$	Outstanding at 1.1.2003	Exercised during the year ended 31.12.2003	Outstanding at 31.12.2003 and 1.1.2004	Granted during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004
1.22	2,500,000	(2,500,000)	—	—	—	—
3.30	—	—	—	2,950,000	(2,650,000)	300,000

Details of options granted are as follows:

Exercise price HK\$	Date of grant	Vesting period	Exercisable period
1.22	8th November, 2002	6 months	8th May, 2003 to 7th May, 2006
3.30	25th May, 2004	6 months	25th November, 2004 to 24th May, 2007

During the year, the total amount of consideration received from the Participants for taking up the options granted was HK\$103.

The closing price of the Company's shares immediately before the date of which the options were exercised during the year was HK\$4.55.

The fair value of the Company's shares at the date of issue for the exercise of share option during the year is approximately HK\$5,040,000.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

Subsequent to the balance sheet date, 472,000 share options had been exercised.

**31. DISPOSAL OF SUBSIDIARIES**

During the year ended 31st December, 2003, the Group entered into a sale and purchase agreement to dispose of 60% interest in Sky Bright Metal Product Limited and Dongguan Sky Bright Metal Products Co., Ltd. ("Sky Bright Group"), being the entire interest at Sky Bright Group held by the Group, with a consideration of HK\$6,332,000. The net of assets of Sky Bright Group at the date of disposal were as follows:

	2003 HK\$'000
Property, plant and equipment	1,970
Inventories	2,452
Trade and other receivables	10,153
Bank balances and cash	6,492
Trade and other payables	(12,993)
Taxation	(934)
Net assets	7,140
Less: Minority interests	(2,856)
Gain on disposal	4,284 2,048
Total consideration	6,332
Satisfied by:	
Cash	6,332
Net cash outflow on disposal:	
Cash consideration	6,332
Bank balances and cash disposed of	(6,492)
	(160)

The subsidiary disposed of during the year ended 31st December, 2003 contributed approximately HK\$1,965,000 to the Group's turnover, and a loss of approximately HK\$10,600 to the Group's profit from operations.

**32. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>119,594</b>	29,103

The Company had no material capital commitments at the balance sheet date.

**33. OPERATING LEASE COMMITMENTS/ARRANGEMENTS****The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>4,768</b>	2,887
In the second to fifth year inclusive	<b>3,327</b>	3,264
	<b>8,095</b>	6,151

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average terms of two years.

The Company had no material operating lease commitments at the balance sheet date.

**The Group as lessor**

Property rental income earned during the year was approximately HK\$1,790,000 (2003: HK\$2,070,000).

**33. OPERATING LEASE COMMITMENTS/ARRANGEMENTS (Cont'd)****The Group as lessor (Cont'd)**

At the balance sheet date, the Group had minimum lease receipts, which represent rentals receivable by the Group for its investment properties, under non-cancellable operating leases. The amount which fall due as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,860</b>	1,320
In the second to fifth year inclusive	<b>1,991</b>	2,267
	<b>3,851</b>	3,587

The investment properties held have committed tenants for an average term of one year.

The Company had no material operating lease arrangements at the balance sheet date.

**34. CONTINGENT LIABILITIES**

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Guarantees given to banks in respect of facilities granted to subsidiaries	<b>1,044,614</b>	958,579
Guarantees given by the Company in respect of FRNs issued by a subsidiary	<b>150,000</b>	150,000
	<b>1,194,614</b>	1,108,579

**35. RETIREMENT BENEFITS SCHEME**

The Group participates in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme. New employees joining the Group on or after 1st January, 2002 are also offered a choice of joining the ORSO Scheme or the MPF Scheme.

### 35. RETIREMENT BENEFITS SCHEME (Cont'd)

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,000 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from the Group only at rates ranging from 5% to 11% of the employee's basic salary, depending on the length of service with the Group.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which is available to reduce the contribution payable in the future years.

The employees in the Group's PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The subsidiaries in the PRC are required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

### 36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Group as at 31st December, 2004 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

<b>Name of subsidiary</b>	<b>Place of incorporation/ establishment and operations</b>	<b>Issued and fully paid share capital/paid up capital</b>	<b>Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company</b>	<b>Principal activities</b>
東莞龍記五金製品有限公司 Dongguan Lung Kee Metal Products Ltd.	The PRC	HK\$110,500,000 (note a)	100	Manufacturing and marketing of mould bases
東莞天祥五金製品有限公司 Dongguan Tin Cheung Metal Products Co., Ltd.	The PRC	HK\$25,300,000 (note a)	60	Manufacturing and marketing of metal and parts
河源龍記金屬製品有限公司 Heyuan Lung Kee Metal Products Co., Ltd.	The PRC	HK\$216,790,000 (note a)	100	Manufacturing and marketing of mould bases
LKM Heatlock Company Limited	Hong Kong	HK\$100	70	Trading of hot runner system

## Notes to the Financial Statements

for the year ended 31st December 2004

### 36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/paid up capital	Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company	Principal activities
Lung Kee International Limited	Hong Kong	HK\$2 ordinary shares HK\$2,000,002 non-voting deferred shares (note b)	100 —	Investment holding
Lung Kee Metal Japan Company Limited	Japan	JPY300,000,000	100	Manufacturing and marketing of metal and parts
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	RM750,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal Limited	Hong Kong	HK\$2 ordinary shares HK\$10,000,002 non-voting deferred shares (note b)	100 —	Manufacturing and marketing of mould bases
龍記鋼材製品(廣州保稅區)有限公司 Lung Kee Steel Products (Guangzhou Free Trade Zone) Co. Ltd.	The PRC	HK\$79,000,000 (note a)	100	Manufacturing and marketing of mould bases
上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd.	The PRC	US\$10,000,000 (note a)	100	Manufacturing and marketing of mould bases
Sky Lucky Metal Limited	Hong Kong	HK\$100	60	Manufacturing and marketing of mould bases
仕霸工業股份有限公司 Taiwan Supertech Industrial Company Limited	Republic of China	NT\$36,000,000	70	Manufacturing and marketing of mould bases
台州龍記金屬製品有限公司 Taizhou Lung Kee Metal Products Co. Ltd.	The PRC	RMB49,750,000 (note a)	100	Manufacturing and marketing of mould bases



### 36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Cont'd)

Notes:

- a. These companies are wholly-owned foreign enterprises established in the PRC.
- b. The deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up. The Company or a subsidiary of the Company has been granted an option by the holders of the deferred shares to acquire these deferred shares not held by the Group at a nominal amount.