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 addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" in the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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 bases, metal and parts.

2. CHANGES IN ACCOUNTING POLICIES

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

Business combinations

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

Goodwill

In previous years, goodwill arising on acquisition prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisition after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$3,636,000 has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group has, on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$56,522,000 with a corresponding decrease in the cost of goodwill (see Note 20). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill is to be tested for impairment at least annually. Goodwill arising on acquisition after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

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

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

Contingent liabilities of acquirees

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

Share-based payments

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

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derivatives and hedging

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1st January, 2005 onwards, deemed such derivatives as held for trading. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st January, 2005 onwards. This change in accounting policy has had no material effect on results for the current year.

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

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

2. CHANGES IN ACCOUNTING POLICIES (Cont'd)

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The adoption of HK(SIC) Interpretation 21 has no material effect to the Group. Comparative figures for 2004 have not been restated.

Initial direct costs incurred by lessors under operating leases

HKAS 17 *Leases* has eliminated the choice of expensing initial direct costs incurred by lessors in negotiating and arranging an operating lease, the policy previously followed by the Group. Initial direct costs are now required to be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. This change in accounting policy has been applied retrospectively. There is no material impact to the Group on this adoption.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above are a decrease in amortisation of goodwill of approximately HK$9,060,000 for the current year (2004: Nil).

The effects on the consolidated balance sheet as at 31st December, 2004 and 1st January, 2005 as a result of the changes in the accounting policies described in note 2 above are as follows:

	As at 31st December, 2004 (originally stated) HK$'000	Adjustment HK$'000	As at 31st December, 2004 (restated) HK$'000	Adjustment HK$'000	**As at 1st January, 2005 (restated) HK$'000**
Balance sheet items					
On adoption of HKAS 17					
Property, plant and equipment	559,012	(40,370)	518,642	—	**518,642**
Prepaid lease payments	—	40,370	40,370	—	**40,370**
On adoption of HKFRS 3					
Goodwill reserve	(3,636)	—	(3,636)	3,636	**—**
Capital reserve	11,966	—	11,966	(11,966)	**—**
Accumulated profits	756,609	—	756,609	8,330	**764,939**

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Cont'd)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisition prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisition after 1st April, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

Goodwill arising on acquisition on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in Note 2 above, all negative goodwill recorded in the capital reserve as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Patents and trademarks

Patents and trademarks are measured initially at cost. Prior to 1st January, 2005, the patents and trademarks are amortised over the estimated useful lives. After 1st January, 2005, patents and trademarks with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment below).

Gains or losses arising from derecognition of the patents and trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Freehold land is stated at cost less accumulated impairment losses, if any.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets other than goodwill and intangibles with indefinite life to determine whether there is any indication that those assets have suffered an impairment loss. For intangible assets with indefinite useful lives and intangible assets not yet available for use, they are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

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 income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts 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 profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(a) *Loans and receivables*

Loans and receivables (including trade and other receivables, bills receivable and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

(b) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

(b) *Other financial liabilities*

Other financial liabilities including bank borrowings, trade, bills and other payables and floating rate notes are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily forward contract on foreign currency) to hedge its exposure against bank borrowings and acquisition of property, plant and equipment. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

There are three types of hedge relationships, including fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair value of such derivates are recognised directly in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable is recognised in profit or loss.

For financial liabilities, they are removed from the consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions — Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium and share capital. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation and Amortisation

The Group's net book value of property, plant and equipment as at 31st December, 2005 was HK$708 million. The Group depreciates the manufacturing buildings and related improvements on a straight-line basis over their useful life. The Group depreciates the plant and machinery on a straight-line basis over the estimated useful life of five years, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 4. The fair value of the investment properties are determined by the directors of the Company with reference to the property valuation performed by CS Surveyors Limited, a firm of independently qualified professional valuers. The fair value of investment properties at the balance sheet date is set out in note 16. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Impairment loss on trade receivables

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31st December, 2005, the carrying value of trade receivables (net of impairment loss) is approximately HK$432 million.

Allowances for inventories

The management of the Group reviews the inventories listing at each balance sheet date and identifies obsolete and slow-moving inventory items which are no longer suitable for use in operation based on their estimation and experience. Allowance was made by reference to the latest market value for those inventories identified. As at 31st December, 2005, the carrying amount of inventories (net of allowances) is approximately HK$531 million.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bills receivable, bank balances, trade and other payables, bills payable, unsecured bank borrowings and floating rate notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Market risk

Foreign exchange risk

The Group mainly operates in the People's Republic of China (the "PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). However, foreign currencies, mainly United States dollars, Hong Kong dollars and Singaporean dollars, are required to settle the Group's expenses and borrowings. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group has used forward contracts, foreign currency borrowings or other means to reduce its foreign currency exposure.

Interest rate risk

The Group's cash flow interest rate risks mainly relates to variable-rate borrowings. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

7. TURNOVER

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

	2005	2004
	HK$'000	HK$'000
Manufacture and marketing of mould bases	**1,718,977**	1,429,038
Manufacture and marketing of metal and parts	**180,505**	170,467
	1,899,482	1,599,505

8. 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 and marketing of mould bases
Metal and parts	—	Manufacture and marketing of metal and parts

8. 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, 2005

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

For the year ended 31st December, 2005 (Cont'd)

	Mould bases HK$'000	Metal and parts HK$'000	Total HK$'000
OTHER INFORMATION			
Capital expenditure	274,043	30,052	304,095
Depreciation and amortisation of property, plant and equipment	118,256	1,660	119,916
Impairment loss recognised in respect of trade receivables	3,869	758	4,627
Impairment loss recognised in respect of goodwill	9,060	—	9,060
Impairment loss recognised in respect of patents and trademarks	—	1,056	1,056
Assets			
Segment assets	1,732,235	172,863	1,905,098
Unallocated corporate assets			100,904
Consolidated total assets			2,006,002
Liabilities			
Segment liabilities	305,876	27,035	332,911
Unallocated corporate liabilities			512,137
Consolidated total liabilities			845,048

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

For the year ended 31st December, 2004

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

For the year ended 31st December, 2004 (Cont'd)

	Mould bases HK$'000	Metal and parts HK$'000	Total HK$'000
OTHER INFORMATION			
Capital expenditure	171,805	5,513	177,318
Amortisation of goodwill	21,015	—	21,015
Amortisation of patents and trademarks	—	666	666
Depreciation and amortisation of property, plant and equipment	79,919	3,702	83,621
Impairment loss (reversal of impairment loss) recognised in respect of trade receivables	10,599	(2,956)	7,643
Assets			
Segment assets	1,550,873	116,011	1,666,884
Unallocated corporate assets			330,859
Consolidated total assets			1,997,743
Liabilities			
Segment liabilities	252,007	27,868	279,875
Unallocated corporate liabilities			705,465
Consolidated total liabilities			985,340

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(b) Geographical segments

The Group operates in the following geographical market segments — 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	
	2005	2004
	HK$'000	HK$'000
The PRC	**1,560,828**	1,304,745
Other countries	**338,654**	294,760
	1,899,482	1,599,505

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**1,844,780**	1,824,165	**297,111**	172,429
Other countries	**161,222**	173,578	**6,984**	4,889
	2,006,002	1,997,743	**304,095**	177,318

9. OTHER INCOME

	2005	2004
	HK$'000	HK$'000
Gain arising from disposal of property, plant and equipment	**637**	1,620
Interest income	**4,524**	8,226
Release of negative goodwill	**—**	22
Rental income, net of direct operating expenses from investment properties that generated rental income of approximately HK$257,000 (2004: HK$298,000)	**2,013**	1,492
PRC tax refund on capital reinvestment in subsidiaries (Note)	**15,245**	—
Sundry income	**2,911**	5,543
	25,330	16,903

Note:

Pursuant to an approval by local tax authority, a subsidiary of the Company received a benefit of approximately HK$15,245,000 (equivalent to approximately RMB16,021,000) in respect of its reinvestment made in certain subsidiaries. The benefit is calculated with reference to certain percentage of the tax paid by the subsidiaries.

10. FINANCE COSTS

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

11. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

2005

	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Mak Koon Chi HK$'000	Wai Lung Shing HK$'000	Fung Wai Hing HK$'000	Chan Chun Sing, Colin HK$'000	Liu Wing Ting, Stephen HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Total HK$'000
Fees	—	—	—	—	—	540	252	540	216	1,548
Other emoluments										
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	—	—	—	—	18,408
Contributions to retirement benefits schemes	713	713	214	214	171	—	—	—	—	2,025
Bonus	4,850	4,850	4,950	4,950	3,400	—	—	—	—	23,000
Total emoluments	12,043	12,043	7,108	7,108	5,131	540	252	540	216	44,981

2004

	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Mak Koon Chi HK$'000	Wai Lung Shing HK$'000	Fung Wai Hing HK$'000	Chan Chun Sing, Colin HK$'000	Liu Wing Ting, Stephen HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Total HK$'000
Fees	—	—	—	—	—	270	216	270	45	801
Other emoluments										
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	—	—	—	—	18,408
Contributions to retirement benefits schemes	713	713	214	214	171	—	—	—	—	2,025
Bonus	4,500	4,500	4,500	4,500	3,000	—	—	—	—	21,000
Total emoluments	11,693	11,693	6,658	6,658	4,731	270	216	270	45	42,234

No directors waived any emoluments during the year ended 31st December, 2005.

The five highest paid individuals in the Group during both years were all directors of the Company and details of their emoluments are included in above.

12. TAXATION

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

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

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

Pursuant to the relevant laws and regulations in the PRC, certain of 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 continued to enjoy their Tax Holiday during the year.

Pursuant to an approval by PRC tax authority, one of the Company's PRC subsidiary, is granted advanced-technology exemption from 50% PRC income tax reduction for three years with the period commencing 1st January, 2005.

12. TAXATION (Cont'd)

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

	2005 **HK$'000**	2004 HK$'000
Profit before taxation	**286,102**	268,692
Tax at PRC income tax rate of 24%	**68,664**	64,486
Tax effect of non-deductible expenses	**6,179**	7,654
Tax effect of non-taxable income	**(6,056)**	(3,351)
Tax effect of utilisation of tax losses not previously recognised	**(2,540)**	(1,783)
Tax effect of unused tax losses not recognised	**6,970**	2,160
(Over)underprovision in prior year	**(342)**	666
Tax effect of tax reduction granted to PRC subsidiaries	**(34,331)**	(28,162)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,641**	2,032
Tax expense for the year	**40,185**	43,702

Details of deferred taxation are set out in note 28.

13. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration		
— Current year	**2,590**	2,173
— (Over)underprovision in prior year	**(250)**	604
Impairment loss recognised in respect of trade receivables	**4,627**	7,643
Net exchange loss	**6,548**	5,333
Operating lease rentals in respect of:		
— rented premises	**6,714**	5,371
— plant and machinery	**44**	71
Release of prepaid lease payment	**904**	809
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK$644,000 (2004: HK$255,000)	**13,715**	9,789

14. DIVIDENDS

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

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

15. EARNINGS PER SHARE

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

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

16. INVESTMENT PROPERTIES

	2005 **HK$'000**
FAIR VALUE	
At 1st January, 2004	**23,100**
Revaluation surplus recognised in income statement	**4,900**
At 1st January, 2005	**28,000**
Increase in fair value recognised in the income statement	**7,700**
At 31st December, 2005	**35,700**

The Group's investment properties are held under medium-term leases in Hong Kong and are rented out under an operating lease.

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that date by C S Surveyors Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's property interests held under medium-term operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. As at 31st December, 2005, the carrying amount of such property interests amounted to HK$35,700,000 (2004: HK$28,000,000).

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	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	HK$'000
AT COST							
At 1st January, 2004							
— as originally stated	59,090	187,535	104,862	634,506	35,822	10,686	1,032,501
Adoption of HKAS 17	(36,403)	—	—	—	—	—	(36,403)
At 1st January, 2004							
— as restated	22,687	187,535	104,862	634,506	35,822	10,686	996,098
Currency realignment	7	—	283	1,349	43	—	1,682
Transfer	—	20,984	1,202	26,187	—	(48,373)	—
Additions	—	22,989	22,040	69,998	10,769	51,522	177,318
Disposals	—	—	(242)	(680)	(6,337)	—	(7,259)
At 1st January, 2005	22,694	231,508	128,145	731,360	40,297	13,835	1,167,839
Currency realignment	—	4,331	1,093	12,502	230	265	18,421
Transfer	—	25,872	449	3,339	682	(30,342)	—
Additions	—	201	17,022	209,195	11,694	65,983	304,095
Disposals	(1,377)	—	(739)	(778)	(2,910)	—	(5,804)
At 31st December, 2005	21,317	261,912	145,970	955,618	49,993	49,741	1,484,551
DEPRECIATION AND AMORTISATION							
At 1st January, 2004							
— as originally stated	3,672	18,490	66,750	457,711	28,392	—	575,015
Adoption of HKAS 17	(3,672)	—	—	—	—	—	(3,672)
At 1st January, 2004							
— as restated	—	18,490	66,750	457,711	28,392	—	571,343
Currency realignment	—	—	175	555	—	—	730
Provided for the year	—	5,384	10,319	63,193	4,725	—	83,621
Eliminated on disposals	—	—	(142)	(225)	(6,130)	—	(6,497)
At 1st January, 2005	—	23,874	77,102	521,234	26,987	—	649,197
Currency realignment	—	348	697	9,916	173	—	11,134
Provided for the year	—	5,163	13,524	93,660	7,569	—	119,916
Eliminated on disposals	—	—	(568)	(498)	(2,910)	—	(3,976)
At 31st December, 2005	—	29,385	90,755	624,312	31,819	—	776,271
CARRYING VALUES							
At 31st December, 2005	21,317	232,527	55,215	331,306	18,174	49,741	708,280
At 31st December, 2004	22,694	207,634	51,043	210,126	13,310	13,835	518,642

17. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2%
Furniture, fixtures and fittings	15%
Plant and machinery	20%
Motor vehicles	30%

Freehold land is not depreciated.

Construction in progress are not depreciated until completion of construction and the properties are ready for their intended use.

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

	2005	2004
	HK$'000	HK$'000
Freehold land outside Hong Kong	**21,317**	22,694
Building held under medium-term leases outside Hong Kong	**232,527**	207,634
	253,844	230,328

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

As at 31st December, 2005, the net book value of plant and machinery includes an amount of approximately Nil (2004: HK$2,000) in respect of assets held under finance leases.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease.

	2005	2004
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current asset	**39,313**	39,436
Current asset	**914**	934
	40,227	40,370

19. INTANGIBLE ASSETS

	Patents and trademarks
	HK$'000
COST	
At 1st January, 2004, 1st January, 2005 and 31st December, 2005	2,000
AMORTISATION AND IMPAIRMENT LOSS	
At 1st January, 2004	278
Provided for the year	666
At 1st January, 2005	944
Impairment loss recognised during the year	1,056
At 31st December, 2005	2,000
CARRYING VALUE	
At 31st December, 2005	—
At 31st December, 2004	1,056

Prior to 1st January, 2005, the parents and trademarks are amortised over a period of three years.

20. GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 31st December, 2004	65,582
Eliminated of accumulated amortisation upon the application of HKFRS 3	(56,522)
At 1st January, 2005 and 31st December, 2005	9,060
AMORTISATION	
At 1st January, 2004	35,507
Provided for the year	21,015
At 31st December, 2004	56,522
Eliminated of accumulated amortisation upon the application of HKFRS 3	(56,522)
At 1st January, 2005 and 31st December, 2005	—
IMPAIRMENT	
At 1st January, 2004 and 1st January, 2005	—
Impairment loss recognised during the year	9,060
At 31st December, 2005	9,060
CARRYING VALUE	
At 31st December, 2005	—
At 31st December, 2004	9,060

Prior to 1st January, 2005, the goodwill is amortised over a period of three years.

21. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1st January, 2004 and 31st December, 2004	272
Derecognised upon adoption of HKFRS 3	(272)
At 1st January, 2005 and 31st December, 2005	—
RELEASED TO INCOME	
At 1st January, 2004	250
Released during the year ended 31st December, 2004	22
At 31st December, 2004	272
Derecognised upon adoption of HKFRS 3	(272)
At 1st January, 2005 and 31st December, 2005	—
CARRYING VALUE	
At 31st December, 2005	—
At 31st December, 2004	—

22. INVENTORIES

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

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

23. TRADE, BILLS AND OTHER RECEIVABLES

	2005 HK$'000	2004 HK$'000
Trade receivables	**479,854**	424,577
Less: accumulated impairment	**(48,051)**	(44,925)
	431,803	379,652
Other receivables	**37,948**	47,233
Total trade and other receivables	**469,751**	426,885
Bills receivable	**48,564**	44,045

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

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

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

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

24. TRADE, BILLS AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$151,856,000 (2004: HK$104,484,000).

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

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

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

25. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases at 31st December, 2004 was due within one year. During the year ended 31st December, 2004, the average effective borrowing rate was 11%.

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

26. UNSECURED BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans	**310,206**	478,286
Bank overdraft	**1,797**	—
Trust receipt loans	**—**	14,730
Total, repayable within one year	**312,003**	493,016

26. UNSECURED BANK BORROWINGS (Cont'd)

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group companies are set out below:

	Denominated in HK$	Denominated in Singapore $
As at 31st December, 2005	30,000,000	42,920,000
As at 31st December, 2004	—	43,070,000

The borrowings granted by the banks to the respective group companies are guaranteed by their respective shareholders. The interest rates for the loans are Hong Kong Inter-bank Offered Rate ("HIBOR") plus a spread, thus exposing the Group to cash flow interest rate risk.

The effective borrowing rate of the Group ranged from 1.77% to 5.45% (2004: 0.85% to 5.29%).

During the year, the Group obtained new loans with an aggregate amounts of approximately HK$74,770,000. The proceeds were used to finance the acquisition of property, plant and equipment and for working capital purpose.

The carrying amount of bank borrowings approximates their fair value as the weighted average interest rates approximate the respective market rates.

27. 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$150,000,000 which are due in 2006. The FRNs carry interest at HIBOR plus 1% and are guaranteed by the Company.

On 13th February, 2006, the Group raised a loan of HK$200,000,000 for a period of three years. The loan is partially used to finance the repayment of the FRNs. The loan carries interest at HIBOR plus 1% and is guaranteed by the Company.

The carrying amount of floating rate notes approximates their fair value as the weighted average interest rates approximate the market rate.

28. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1st January, 2004	—	—	—
Charge (credit) for the year	1,252	(1,252)	—
At 31st December, 2004	1,252	(1,252)	—
Charge (credit) for the year	106	(106)	—
At 31st December, 2005	1,358	(1,358)	—

At the balance sheet date, the Group had unused tax losses of approximately HK$67,189,000 (2004: HK$62,612,000) available for offset against future profits that are subject to Hong Kong Profits Tax. A deferred tax asset amounting to approximately HK$1,358,000 (2004: HK$1,252,000) in respect of tax loss amounted to approximately HK$7,760,000 (2004: HK$7,154,000) 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.

29. 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, 2004	600,000,000	60,000	491,298,643	49,130
Increase during the year (Note a)	400,000,000	40,000	—	—
Bonus shares issued (Note a)	—	—	122,824,660	12,283
Shares issued on exercise of share options (Note b)	—	—	4,684,000	468
At 31st December, 2004	1,000,000,000	100,000	618,807,303	61,881
Shares issued on exercise of share options (Note b)	—	—	870,000	87
At 31st December, 2005	1,000,000,000	100,000	619,677,303	61,968

Notes:

(a) 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 of 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.

(b) The Company issued 870,000 shares (2004: 4,684,000 shares) of HK$0.1 each in the Company for cash at HK$3.3 (2004: HK$3.3) per share, as a result of the exercise of share options. The shares issued rank pari passu with the then existing shares in all respects.

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 Company (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.

30. SHARE OPTION SCHEME (Cont'd)

At 31st December, 2005, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 446,000 (2004: 1,316,000), representing 0.07% of the shares of the Company in issue at that date.

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, 2004 and 2005:

Exercise price HK$	Date of grant	Vesting period	Exercisable period	Outstanding at 1.1.2004	Granted during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004 and 1.1.2005	Exercised during the year ended 31.12.2005	Outstanding at 31.12.2005
3.30	25.5.2004	6 months	25.11.2004–24.5.2007	—	6,000,000	(4,684,000)	1,316,000	(870,000)	446,000

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

Exercise price HK$	Outstanding at 1.1.2004	Granted during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004 and 1.1.2005	Exercised during the year ended 31.12.2005	Outstanding at 31.12.2005
3.30	—	2,950,000	(2,650,000)	300,000	(150,000)	150,000

During the year ended 31st December, 2004, the total amount of consideration received from the Participants for taking up the options granted was HK$103.

In respect of the share options exercised during the year, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was HK$5.138 (2004: HK$4.55)

Subsequent to the balance sheet date, 140,000 share options had been exercised.

31. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**147,140**	119,594

32. 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:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**5,602**	4,768
In the second to fifth year inclusive	**6,003**	3,327
Over five years	**880**	—
	12,485	8,095

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

The Group as lessor

Property rental income earned during the year was approximately HK$2,270,000 (2004: HK$1,790,000).

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 which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**1,356**	1,860
In the second to fifth year inclusive	**635**	1,991
	1,991	3,851

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

33. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution scheme which is registered under the Occupational Retirement Schemes 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.

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.

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.

The total cost charged to income statement of approximately HK$13,715,000 (2004:HK$9,789,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2005, contributions of approximately HK$391,000 (2004: HK$236,000) due in respect of the reporting period had not been paid over to the schemes.

34. RELATED PARTY TRANSACTIONS

Transactions between group companies have been eliminated on consolidation and are not disclosed in this note.

The remuneration of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	**42,956**	40,209
Post-employment benefits	**2,025**	2,025
	44,981	42,234

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2005 is as follows:

	NOTE	**2005 HK$'000**	2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		**55,856**	55,856
Amounts due from subsidiaries		**—**	102,318
Loans to subsidiaries		**17,000**	17,000
		72,856	175,174
Current assets			
Amounts due from subsidiaries		**246,851**	—
Prepayments		**328**	180
Bank balances		**123**	183
		247,302	363
Current liabilities			
Accrued charges		**516**	678
Amount due to a subsidiary		**115,635**	—
Dividend payable		**14**	9
		116,165	687
Net current assets (liabilities)		**131,137**	(324)
		203,993	174,850
CAPITAL AND RESERVES			
Share capital		**61,968**	61,881
Share premium	(a)	**114,992**	112,208
Accumulated profits	(a)	**27,033**	761
		203,993	174,850

35. BALANCE SHEET OF THE COMPANY (Cont'd)

Note:

(a) Reserves

	Share premium HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st January, 2004	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
Loss for the year	—	(1,380)	(1,380)
Interim dividend declared	—	(49,130)	(49,130)
At 31st December, 2004	112,208	761	112,969
Final dividend declared for the year ended 31st December, 2004	—	(61,952)	(61,952)
Shares issued on exercise of share options	2,784	—	2,784
Profit for the year	—	143,991	143,991
Interim dividend declared	—	(55,767)	(55,767)
At 31st December, 2005	114,992	27,033	142,025

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company as at 31st December, 2005 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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
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$33,280,000 (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$370,870,000 (note a)	100	Manufacturing and marketing of mould bases
LKM Heatlock Company Limited	Hong Kong	HK$100	70	Trading of hot runner systems
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

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
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$91,000,000 (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$11,600,000 (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

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.