



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



2007  
ANNUAL REPORT

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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Siu Tit Lung (*Chairman*)  
Mr. Siu Yuk Lung (*Managing Director*)  
Mr. Mak Koon Chi  
Mr. Wai Lung Shing  
Mr. Fung Wai Hing

## NON-EXECUTIVE DIRECTOR

Mr. Chan Chun Sing, Colin

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Wing Ting, Stephen, JP  
Dr. Lee Tat Yee  
Mr. Lee Joo Hai

## COMPANY SECRETARY

Mr. Wai Lung Shing

## SOLICITORS

Woo Kwan Lee & Lo  
26th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35th Floor  
One Pacific Place  
88 Queensway  
Hong Kong

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## SINGAPORE SHARE TRANSFER AGENT

M & C Services Private Limited  
138 Robinson Road #17-00  
The Corporate Office  
Singapore 068906

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2nd Floor  
Cheung Kong Electronic Building  
4 Hing Yip Street  
Kwun Tong  
Kowloon  
Hong Kong

## WEBSITE

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

# Chairman's Statement

It is my pleasure to present the results of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2007.

## BUSINESS REVIEW

The Group's turnover in the year ended 31st December, 2007 was approximately HK\$2,702 million (2006: approximately HK\$2,135 million). Profit attributable to equity holders of the Company in the year ended 31st December, 2007 was approximately HK\$306 million (2006: approximately HK\$150 million). Basic earnings per share in the year ended 31st December, 2007 was HK49.33 cents (2006: HK24.27 cents).

The Group's profit for the year ended 31st December 2007 experienced a substantial growth as compared with that of 2006.

During the year under review, the manufacturing industry in China generally registered a satisfactory growth, being fueled by the robust domestic consumption. The continuous rapid development of the automobile part and accessories industry pushed up the demand for high quality mould base, which represented an increasing share of the Group's total turnover. Besides, the Group achieved overall favorable growth in business. The Group had successfully established new direct sales outlets and distributors in the Southern, Eastern and Northern parts of China. These helped to strengthen the promotion of the LKM brand, broaden customer base, and bring fruitful return to the Group. During this year, the Group suitably adjusted its product prices to accommodate part of the increased materials cost. In spite of the price movement, the Group still managed to sustain its sales growth, thus demonstrating its value and its leading position in the market. Moreover, the overseas operations of the Group attained a parallel growth and brought a steady profit to the Group.

## PROSPECTS

The global economy is clouded by the U.S.A. Subprime Mortgage Crises, uncertainty and potential risk has increased. With the surge of oil and raw material prices, together with the rise of transportation cost, China faces growing pressure of inflation, which may eventually drags down its domestic consumption and economic growth. The launch of new policies in China, such as the new Labor Contract Law and the Unification of Income Tax Rate for foreign and domestic enterprises, has further pushed up both labor cost and tax burden laid onto enterprises. In view of these unfavorable factors and keen market competition, the Group faces greater challenges in the coming year. Yet, the Group still holds a cautious and optimistic view and will endeavor to reduce operation risks and explore new business opportunities.

Although the China domestic market has been slowed down by the recent severe snowstorm struck in Mid-Eastern region of China and the implementation of marco-economic control by the Central Government, there is still room for market development in China. The Group seeks to continuously explore new market and customers to sustain its steady growth. As directed by preferential policies granted to investors who choose to invest in the Central part of China, economic development is moving to inland cities where manufacturing industries gradually emerges and offers vast market opportunities. The Group will co-operate with local distributors in Sichuan and Hubei Province to seize market opportunities in these emerging markets. The Group will also put greater emphasis on the North China market and had

## Chairman's Statement

already set up a distribution center and a sales office in Tianjin. The aim is to offer more intimate services to customers, secure larger market coverage and eventually embrace the market opportunity in the latest development of the Bohai Sea Region. Relatively speaking, the Group's operation in Southern China is more firmly established and it will further fortify its sales and distribution channel in the Fujian Province of China. Through providing quality and comprehensive services to local customers, the Group seeks to prepare itself to capitalize the business opportunities in the upcoming "Three Direct Linkages of trade (mail, and air and shipping services) across the Taiwan Straits". The steady growth of private-owned enterprises in Zhejiang Province has boosted the demand for quality moulds and the potential in gaining further development in the Eastern market in China is still notable. The Group will, on the one hand, strive to uplift its product and service quality and on the other hand, be alert to the changes in the market and customer needs in order to devise a suitable market strategy to maintain its competitive edge and leading position.

With the prevailing strong Euro dollars, European countries are becoming more active to look for high quality products made in China. The products of the Group will match perfectly with such market needs. Through active participation in international exhibitions, the LKM brand has been increasingly recognized. Manufacturers in China, who are producing goods to be exported to Europe and the United States, incline to give priority to purchase the Group's products in order to suit the high quality requirement of their customers. Such trend demonstrates that the quality of the Group's products has already reached international standard and enjoys a favorable market position.

The Group will adopt policies for effective cost control to enhance its operational effectiveness by advocating "Excel Production, Excel Management and Quality Services" and to strive for a stable business progress with satisfactory financial results. The expansion of production capacity of the Heyuan plant has been completed and started to operate smoothly. The Group will persistently streamline its production process in accordance with the market needs. To seek for better performance, the Group continues to meliorate the production capability and the management system in the Guangzhou plant in Guangdong Province and in the plants of Shanghai and Taizhou in Eastern China. The overseas operations, including plants in Japan, Taiwan and Malaysia, will continue to provide quality products and value added services to their local clients, reinforcing the Group's competitive edge and market coverage.

As driven by the surge of price in iron ore, it is expected that the prices of both imported and local made tool steels will remain high and fluctuate persistently. The Group will cautiously devise an effective material procurement strategy in response to the ever-changing steel market. In view of the rise in labor costs, the Group will strive to control its operation cost by adopting a systematic "manpower and time saving" production workflow. In addition, the Group will continuously upgrade the management and technical knowledge of its staffs and to further cultivate the sense of belonging of its employees in order to establish an effective team, aiming to achieve "High Quality at Optimal Cost" as its management objective.

# Chairman's Statement

Looking ahead, the business environment is full of uncertainty as well as opportunity. The Group will face every challenge in a positive way. Equipped with ample experience and pragmatic attitude, the Group expects to hold a steady and healthy growth in its future business.

Taking this opportunity, the Board of Directors would like to express our thanks to all staffs for their dedication and contribution in pursuing excellence and continual improvement of the Group. We also wish to extend our sincere gratitude to our shareholders and business partners for their great support.

**Siu Tit Lung**  
*Chairman*

Hong Kong, 28th March, 2008



# Management Discussion and Analysis

During the year ended 31st December, 2007, the Group continued to focus on the manufacturing and marketing of mould bases, metal and parts.

The Group recorded turnover of approximately HK\$2,702 million and earnings of approximately HK\$306 million for the year ended 31st December, 2007.

## MOULD BASE MANUFACTURING AND MARKETING

At the beginning of the year 2007, following the completion of expansion work of the Guangdong Heyuan plant, administration and production operations were moved into the new administration tower and new workshops. The operating environment was enhanced owing to the addition of supporting facilities and well-planned space utilization, allowing more rational operational management, with better coordination and cooperation among related departments. At the same time, the Group took effort to reengineer its production workflow. Together with the new machineries and new workshops, production efficiency had been greatly enhanced. Making use of its strategic location, the Dongguan plant in Guangdong Province was converted into a logistic center with a view to further strengthening the distribution network of the Group. The Guangzhou plant in Guangdong Province continued to dedicate to the production of high precision mould base for the European, North America, Japanese and other overseas markets with satisfactory growth. This also contributed to fortifying the quality image of the LKM brand. Production technique of both Shanghai and Taizhou plants in Eastern China had improved considerably, leading to steady growth in production output. Through successful implementation of productivity improvement policies and measures, including ameliorating of workflow and production technique, reengineering of organization and manufacturing processes, the Group had significantly uplifted its operational efficiency and effectiveness.

During the year under review, the price of its major raw materials- tool steels was being pushed up in the second half of the year, driven by the escalating cost of energy and iron ore. In response to the surging steel price, the Group had moderately adjusted its product price to lessen the pressure of cost increment as imposed to the Group.

## TRADING OF MOULD STEEL

Regarding steel trading business, the Group strategically enlarged its sales network in Eastern China and kept exploring new customer segments. As a result, the mould steel business reported a steady growth in sales turnover.

To conclude, the Group's performance was substantially improved as compared with that of last year.

# Management Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2007, the Group had bank balances of approximately HK\$261 million. The bank balances were placed in short term deposits with major banks in Hong Kong and the PRC.

The Group adopted conservative measures to hedge any exchange fluctuation if the exposure is considered significant by the management.

The Group continues to incur capital expenditure for the plant expansion and factory construction, which is financed by internal resources.

## GEARING RATIO

Total debts of the Group were approximately HK\$637 million, equal to approximately 40% of equity attributable to equity holders of the Company of approximately HK\$1,584 million.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2007, the Group employed a total of approximately 9,000 employees, including approximately 8,700 employees in its PRC production sites and approximately 300 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.



# Corporate Governance Report

The Company is committed to adopting the standards of corporate governance. The board of directors (the “Board”) of the Company believes that good governance is essential to achieving the Group’s objectives of maximizing shareholders’ value and safeguarding the interests of the shareholders.

During the financial year ended 31st December, 2007, the Company complied with all requirements set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

## A. DIRECTORS

### A.1 The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Group by directing and supervising the Group’s affairs. The Board sets strategies for the Group and monitors the performance of the management.

During the financial year ended 31st December, 2007, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

<b>Name of Director</b>	<b>Number of attendance</b>
Mr. Siu Tit Lung	4/4
Mr. Siu Yuk Lung	4/4
Mr. Mak Koon Chi	4/4
Mr. Wai Lung Shing	4/4
Mr. Fung Wai Hing	4/4
Mr. Chan Chun Sing, Colin	3/4
Mr. Liu Wing Ting, Stephen	4/4
Dr. Lee Tat Yee	4/4
Mr. Lee Joo Hai	4/4

### A.2 Chairman and Managing Director

The Company segregates the role of Chairman from the Managing Director. Mr. Siu Tit Lung is the Chairman of the Company and Mr. Siu Yuk Lung is the Managing Director of the Company. They are brothers. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development, whereas the Managing Director is responsible for policy making and corporate management in order to implement the strategies approved by the Board.

## A.3 Board composition

The Board consists of five executive directors, one non-executive director and three independent non-executive directors:

### *Executive directors*

Mr. Siu Tit Lung (*Chairman*)  
Mr. Siu Yuk Lung (*Managing Director*)  
Mr. Mak Koon Chi  
Mr. Wai Lung Shing  
Mr. Fung Wai Hing

### *Non-executive director*

Mr. Chan Chun Sing, Colin

### *Independent non-executive directors*

Mr. Liu Wing Ting, Stephen  
Dr. Lee Tat Yee  
Mr. Lee Joo Hai

The Board has met the recommended best practice under the Code that the number of independent non-executive directors is one third of the Board membership. Two independent non-executive directors possess recognised professional qualifications in accounting. The independent non-executive directors bring independent judgement, knowledge and experience to the Board.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee and the Company consider all of the independent non-executive directors are independent within the definition of the Listing Rules.

## A.4 Appointment, re-election and removal

All non-executive directors of the Company are appointed for a specific term, subject to re-election.

A Nomination Committee was established by the Company in 2004. The Nomination Committee comprises the three independent non-executive directors and the non-executive director of the Company. Mr. Lee Joo Hai is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The full terms of reference are available on the Company's website: [www.irasia.com/listco/hk/lkm](http://www.irasia.com/listco/hk/lkm).

# Corporate Governance Report

Three Nomination Committee meetings were held in 2007. The attendance of each member is set out as follows:

<b>Name of Member</b>	<b>Number of attendance</b>
Mr. Lee Joo Hai ( <i>Chairman</i> )	3/3
Mr. Chan Chun Sing, Colin	3/3
Mr. Liu Wing Ting, Stephen	3/3
Dr. Lee Tat Yee	3/3

The chairman of the Nomination Committee will report the findings and recommendations of the Nomination Committee to the Board after each meeting. The minutes of all meetings of Nomination Committee are circulated to the Board for information.

For the financial year ended 31st December, 2007, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board. The Nomination Committee concluded that the Board possesses of a diversity of skills, expertise, experience and qualifications and believed that the Board performs its duties competently. The Nomination Committee has also assessed the independence of all the independent non-executive directors.

## **A.5 Responsibilities of directors**

The directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive directors participate actively in the board meetings. They bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interests arise in connected transaction. They are also members of Audit Committee, Nomination Committee and Remuneration Committee.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

## **A.6 Supply of and access to information**

In respect of regular board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

# Corporate Governance Report

The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B.1 The level and make-up of remuneration and disclosure

A Remuneration Committee was established by the Company in 2004. The Remuneration Committee comprises the three independent non-executive directors and the non-executive director of the Company. Dr. Lee Tat Yee is the chairman of the Remuneration Committee.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The full terms of reference are available on the Company's website: [www.irasia.com/listco/hk/lkm](http://www.irasia.com/listco/hk/lkm).

During the financial year ended 31st December, 2007, the Remuneration Committee held three meetings. The attendance of each member is set out as follows:

<b>Name of Member</b>	<b>Number of attendance</b>
Dr. Lee Tat Yee ( <i>Chairman</i> )	3/3
Mr. Chan Chun Sing, Colin	3/3
Mr. Liu Wing Ting, Stephen	3/3
Mr. Lee Joo Hai	3/3

The chairman of the Remuneration Committee will report the findings and recommendations of the Remuneration Committee to the Board after each meeting. The minutes of all meetings of Remuneration Committee are circulated to the Board for information.

For the financial year ended 31st December, 2007, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 12 to the consolidated financial statements.

The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

# Corporate Governance Report

In order to attract, retain and motivate talented executives/employees 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 executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out in note 29 to the consolidated financial statements.

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the consolidated financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the consolidated financial statements on a going concern basis.

The responsibility of the external auditor, Messrs. Deloitte Touche Tohmatsu, is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of Company, as a body, in accordance with Section 90 of The Companies Act of Bermuda, and for no other purpose.

The Company has announced its annual and interim results in a timely manner within approximately three months and two months, respectively, after the end of the relevant period in order to enhance high level of corporate transparency.

### C.2 Internal controls

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. Through the Audit Committee, the Board has reviewed the effectiveness of the system. No material deficiencies have been identified so far. The Board considered the Group's internal control system effective and that there were no significant areas of concern.

The Group has an Internal Audit Department. The Internal Audit Department plans its internal audit schedules annually. The internal audit includes comprehensive audits of procedures, practices and internal controls of both operational and financial units of the Group. The internal audit plan is then submitted to the Audit Committee for review and comment. The Internal Audit Department conducts independent reviews of the Group's system of internal control, including operational and financial controls. Reports and findings prepared by the Internal Audit Department are submitted to the Board and the Audit Committee.

## C.3 Audit Committee

An Audit Committee was established by the Company in 1998. The Audit Committee comprises the three independent non-executive directors, two of whom possess recognised professional qualifications in accounting and have wide experience in auditing and accounting, and the non-executive director of the Company. Mr. Liu Wing Ting, Stephen is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls. The full terms of reference are available on the Company's website: [www.irasia.com/listco/hk/lkm](http://www.irasia.com/listco/hk/lkm).

Four Audit Committee meetings were held in 2007. The attendance of each member is set out as follows:

<b>Name of Member</b>	<b>Number of attendance</b>
Mr. Liu Wing Ting, Stephen ( <i>Chairman</i> )	4/4
Mr. Chan Chun Sing, Colin	3/4
Dr. Lee Tat Yee	4/4
Mr. Lee Joo Hai	4/4

The chairman of the Audit Committee will report the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee are circulated to the Board for information.

A summary of the work performed by the Audit Committee for the financial year ended 31st December, 2007 is set out in "Audit Committee Report" of the Annual Report for the year ended 31st December, 2007 (the "Annual Report").

## C.4 Fee paid/payable to Group's auditor

For the financial year ended 31st December, 2007, the fee paid/payable to the Group's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b> HK\$'000
Audit services	2,583
Non-audit services	
— Taxation services	123
— Interim review	400
— Audit of provident fund	5
— Review of connected transactions	40
— Review of results announcement	42

# Corporate Governance Report

## D. DELEGATION BY THE BOARD

### D.1 Management functions

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group.

### D.2 Board committees

The Company has maintained the Audit Committee, the Nomination Committee and the Remuneration Committee throughout the year to oversee particular aspects of the Group's affairs. Each of these committees has specific written terms of reference, which deal clearly with their authorities and duties. The chairmen of the committees will report the findings and recommendations of the committees to the Board after each meeting. The minutes of all meetings of the committees are circulated to the Board for information.

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. The chairman of the Board and the chairmen of Audit Committee, Nomination Committee and Remuneration Committee have attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

### E.2 Voting by poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the Annual Report.

# Audit Committee Report

The Audit Committee comprises the three independent non-executive directors and the non-executive director of the Company. The chairman of the Audit Committee is Mr. Liu Wing Ting, Stephen, an independent non-executive director. The Audit Committee possesses extensive experience in accounting and financial matters. Mr. Liu Wing Ting, Stephen and Mr. Lee Joo Hai are practising certified public accountants.

The Audit Committee is mainly responsible for providing an independent review and supervision of financial reporting process and the Group's internal control system. The full terms of reference are available on the Company's website: [www.irasia.com/listco/hk/lkm](http://www.irasia.com/listco/hk/lkm).

During the financial year ended 31st December, 2007, the Audit Committee held four meetings at approximately quarterly intervals to review the quarterly results presented by the management and to discuss the internal audit findings prepared by the Internal Audit Department. The external auditor, Messrs. Deloitte Touche Tohmatsu, attended three meetings, which included the meetings in conjunction with the release of the half year and full year results announcements. The chairman of the Audit Committee reported the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee were circulated to the Board for information.

The following was a summary of the work performed by the Audit Committee in 2007:

1. review of the Group's consolidated financial statements for the year ended 31st December, 2006 and the annual results announcement with a recommendation to the Board for approval;
2. review of the Group's consolidated financial statements for the period from 1st January, 2007 to 30th April, 2007 with a recommendation to the Board for approval;
3. presentation of a final report to the Board. The final report was prepared by the Internal Control Review Task Force, which was established to assess broadly any significant risks faced by the Group and to review the effectiveness of the internal control system of the Group.;
4. review of the Group's consolidated financial statements for the six months period ended 30th June, 2007 and the interim results announcement with a recommendation to the Board for approval;
5. review of the Group's consolidated financial statements for the period from 1st January, 2007 to 31st October, 2007 with a recommendation to the Board for approval;
6. review of the compliance by the Group with the Code on Corporate Governance Practices;
7. review of the annual internal audit plan submitted by the Group's Internal Audit Department;
8. review of the findings and recommendations submitted by the Group's Internal Audit Department;
9. review of the report and management letter submitted by external auditor;
10. review of the audit plan for the year ended 31st December, 2007 submitted by external auditor;

# Audit Committee Report

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11. consideration of the 2007 audit fees with a recommendation to the Board for approval; and
12. review of “Continuing Connected Transactions” set forth in “Directors’ Report” of the 2007 annual report.

At the Audit Committee meeting on 28th March, 2008, the Audit Committee reviewed the Group’s consolidated financial statements for the year ended 31st December, 2007 and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group for 2008 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2008 annual general meeting of the Company.

*Audit Committee Members:*

Mr. Liu Wing Ting, Stephen (*Chairman*)

Mr. Chan Chun Sing, Colin

Dr. Lee Tat Yee

Mr. Lee Joo Hai

Hong Kong, 28th March, 2008

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 30.

An interim dividend of HK8 cents per share amounting to approximately HK\$49,602,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK15 cents per share to shareholders registered on the register of members on 5th May, 2008, amounting to approximately HK\$93,002,000, and the retention of the remaining profit.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 80.

## INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2007 were revalued by an independent firm of professional property valuers on an open market value basis. The revaluation increase of HK\$4,700,000 has been recognised in the consolidated income statement. Details of the movements in the investment properties of the Group during the year are set out in note 17 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2007 are set out on page 81.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure in respect of factory premises and staff quarters at a cost of approximately HK\$24 million. The Group continued its plant expansion policy and expended approximately HK\$42 million on new plant and machinery and approximately HK\$24 million on other furniture and equipment during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 28 to the consolidated financial statements.

# Directors' Report

## DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2007 represented the accumulated profits of approximately HK\$257,402,000 (2006: HK\$148,287,000).

## MAJOR CUSTOMERS AND SUPPLIERS

Since the Group has a very wide customer base, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year.

The Group's largest supplier contributed 12% to the total purchases for the year while the Group's five largest suppliers accounted for 49% of the total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive Directors

Mr. Siu Tit Lung (*Chairman*)  
Mr. Siu Yuk Lung (*Managing Director*)  
Mr. Mak Koon Chi  
Mr. Wai Lung Shing  
Mr. Fung Wai Hing

### Non-executive Director

Mr. Chan Chun Sing, Colin

### Independent Non-executive Directors

Mr. Liu Wing Ting, Stephen, JP  
Dr. Lee Tat Yee  
Mr. Lee Joo Hai

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Siu Yuk Lung, Mr. Wai Lung Shing and Mr. Lee Joo Hai retire from office by rotation and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

Mr. Siu Tit Lung, aged 57, elder brother of Mr. Siu Yuk Lung and brother-in-law of Mr. Chan Chun Sing, Colin, has been an executive director and the chairman of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for overall strategic planning and corporate development of the Group. He has many years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Dongguan City and Heyuan City, Guangdong Province in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 54, younger brother of Mr. Siu Tit Lung and brother-in-law of Mr. Chan Chun Sing, Colin, has been an executive director and the managing director of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for policy making and corporate management of the Group. He has many years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association. He is also an honorary citizen of Heyuan City, Guangdong Province in the PRC.

Mr. Mak Koon Chi, aged 49, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. He is a past chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a fellow of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from the Hong Kong Polytechnic University and Murdoch University with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 46, has been an executive director of the Company since December 1992. He is the company secretary of the Company. He is also a director and a company secretary of certain subsidiaries of the Company. Mr. Wai is responsible for policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick, United Kingdom with a Master of Business Administration Degree. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He is also a member of the Institute of Chartered Accountants in England and Wales. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

# Directors' Report

## BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

### Executive Directors *(continued)*

Mr. Fung Wai Hing, aged 55, has been an executive director of the Company since August 1997 and is a director of certain subsidiaries of the Company. Mr. Fung is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham with a Master of Science Degree in Industrial Management, and from The University of Hong Kong with a Master of Business Administration Degree. He is currently one of the directors and past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is the Honorary Secretary of the Hong Kong Diecasting Association, a member of the Steering Committee of the Industrial Centre of the Hong Kong Polytechnic University, and a member of The Hong Kong Institute of Directors. He has extensive experience in the trading business.

### Non-executive Director

Mr. Chan Chun Sing, Colin, aged 53, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He is a fellow of The Hong Kong Institute of Directors. He has many years of experience in the information technology industry.

### Independent Non-executive Directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 55, has been an independent non-executive director of the Company since December 1992. He is a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited and a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the chairman of the Audit Committee of the Company.

Dr. Lee Tat Yee, aged 60, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. He is a fellow of The Hong Kong Institute of Directors. Dr. Lee is currently a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems. He is the chairman of the Remuneration Committee of the Company.

Mr. Lee Joo Hai, aged 52, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore, the Singapore Institute of Directors and The Hong Kong Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the chairman of the Nomination Committee of the Company.

## DIRECTORS' INTERESTS IN SHARES

At 31st December, 2007, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

### Interests in the Company

Name of director	Capacity	Number of shares held		Number of share options and corresponding number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	650,000	345,558,631	55.73%
Siu Yuk Lung (Notes 1, 3 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	650,000	345,558,631	55.73%
Mak Koon Chi	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Wai Lung Shing	Beneficial owner	2,843,750	—	1,000,000	3,843,750	0.62%
Fung Wai Hing	Beneficial owner	1,457,031	—	1,000,000	2,457,031	0.40%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	300,000	450,000	0.07%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Tat Yee	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Joo Hai	Beneficial owner	—	—	250,000	250,000	0.04%

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES *(continued)*

### Notes:

1. Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 4,660,156 shares in the Company registered in their own names.
2. Rickdee Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Tit Lung other than Mr. Siu Tit Lung himself are beneficiaries, held 58,593,750 shares in the Company.
3. Robin Hill Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Yuk Lung other than Mr. Siu Yuk Lung himself are beneficiaries, held 58,593,750 shares in the Company.
4. Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung other than Messrs. Siu Tit Lung and Siu Yuk Lung themselves are beneficiaries, held 249,023,437 shares in the Company.

### Interests in Associated Corporations of the Company

<b>Name of director</b>	<b>Nature of interests</b>	<b>Name of associated corporation</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital of the class</b>
Siu Tit Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%
Siu Yuk Lung	Personal	Lung Kee International Limited	1,000,000 non-voting deferred shares	49.99%
	Personal	Lung Kee Metal Limited	5,000,000 non-voting deferred shares	49.99%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company or its associated corporations.

The details of the directors' interests in the share options granted by the Company are stated in the following section "Share Options".

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31st December, 2007.

## SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 29 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

	Number of share options					At 31st December, 2007	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year				
<b>Category 1: Directors</b>									
Siu Tit Lung	150,000	—	—	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	500,000	—	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Siu Yuk Lung	150,000	—	—	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	500,000	—	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Mak Koon Chi	500,000	—	—	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	500,000	—	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Wai Lung Shing	500,000	—	—	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	500,000	—	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Fung Wai Hing	500,000	—	—	—	—	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	500,000	—	—	—	500,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Chan Chun Sing, Colin	150,000	—	—	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Liu Wing Ting, Stephen	150,000	—	—	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Lee Tat Yee	150,000	—	—	—	—	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
Lee Joo Hai	100,000	—	—	—	—	100,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
<b>Total</b>	<b>2,350,000</b>	<b>3,100,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,450,000</b>			
<b>Category 2: Employees</b>									
	118,000	—	(8,000)	(110,000)	—	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
	4,330,000	—	—	—	(520,000)	3,810,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
	—	4,242,000	—	—	—	4,242,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
<b>Total</b>	<b>4,448,000</b>	<b>4,242,000</b>	<b>(8,000)</b>	<b>(110,000)</b>	<b>(520,000)</b>	<b>8,052,000</b>			
<b>Total all categories</b>	<b>6,798,000</b>	<b>7,342,000</b>	<b>(8,000)</b>	<b>(110,000)</b>	<b>(520,000)</b>	<b>13,502,000</b>			

# Directors' Report

## SHARE OPTIONS *(continued)*

The closing price of the Company's shares immediately before 14th November, 2007, the date of grant of options in 2007 was HK\$3.46.

The closing price of the Company's shares immediately before 27th April, 2007, the date on which the options were exercised was HK\$3.65.

Save as disclosed above, none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of shares/ underlying shares held</b>	<b>Percentage of Company's issued share capital</b>
Pan Island Investments Limited	Beneficial owner	249,023,437	40.16%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.45%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.45%
Commonwealth Bank of Australia	Interest of controlled corporation	56,016,108	9.03%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2007.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At no time during the year, did the Company nor any of its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## CONTINUING CONNECTED TRANSACTIONS

Pursuant to a products sale and purchase agreement dated 22nd December, 2005 (the "2005 Products Sale and Purchase Agreement"), 河源龍記金屬製品有限公司 (Heyuan Lung Kee Metal Products Co., Ltd. ("Heyuan Lung Kee")) and 東莞天祥五金製品有限公司 (Dongguan Tin Cheung Metal Products Co., Ltd. ("Dongguan Tin Cheung")) agreed to sell and purchase the Products by Heyuan Lung Kee to or from Dongguan Tin Cheung (as the case may be) during the period from 1st January, 2006 to 31st December, 2006 (both dates inclusive). Products refer to products in relation to the Group's business including but not limited to (1) steel; and (2) mould bases and components of mould bases manufactured by Heyuan Lung Kee or Dongguan Tin Cheung (as the case may be) (the "Products").

The term of the 2005 Products Sale and Purchase Agreement expired on 31st December, 2006. In order to comply with the requirements under the Listing Rules, Heyuan Lung Kee and Dongguan Tin Cheung entered into a new products sale and purchase agreement on 28th November, 2006 which sets out the framework within which the Products are to be sold and purchased by Heyuan Lung Kee to or from Dongguan Tin Cheung (as the case may be) for a further term commencing on 1st January, 2007 and expiring on 5th October, 2007 (both dates inclusive) (the "New Products Sale and Purchase Agreement").

Since the completion date (i.e. 6th October, 2006) of the Group's disposal of all its interests in Sky Lucky Metal Limited ("Sky Lucky Metal"), the Group ceased to have any interest in Sky Lucky Metal.

As at 28th November, 2006, Dongguan Tin Cheung was a wholly-owned subsidiary of Sky Lucky Metal, which is owned as to (i) 30% by Mr. Li Siu Cheung ("Mr. Li") (a director and substantial shareholder of Sky Lucky Metal), and (ii) 70% by Zoto Company Limited (which is owned as to 90% by Mr. Li and as to 10% by the spouse of Mr. Li). Although Sky Lucky Metal has ceased to be a subsidiary of the Company since 6th October, 2006, Mr. Li being a director and a substantial shareholder of Sky Lucky Metal continues to be a connected person of the Company at the subsidiary level for the 12-month period from 6th October, 2006 to 5th October, 2007 under the Listing Rules. Accordingly, Dongguan Tin Cheung is an associate of Mr. Li, who is a connected person of the Company, and the transactions contemplated under the New Products Sale and Purchase Agreement will constitute continuing connected transactions for the Company under the Listing Rules. An announcement dated 28th November, 2006 in respect of the transactions was published.

The sale of the Products by Heyuan Lung Kee to Dongguan Tin Cheung for the period from 1st January, 2007 to 5th October, 2007 did not exceed the cap amount of HK\$9,000,000.

# Directors' Report

## CONTINUING CONNECTED TRANSACTIONS *(continued)*

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors of the Company (the "Board") engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has also reviewed these transactions and confirmed to the Board that the continuing connected transactions:

- (a) have received the approval of the Board;
- (b) have been entered into in accordance with the relevant agreement governing the transactions; and
- (c) have not exceeded the annual cap disclosed in previous announcement.

## SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st December, 2007 until the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or Laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## EMOLUMENT POLICY

The Remuneration Committee reviews the Group's emolument policy and structure for remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme in 2002. Details of the scheme are set out in note 29 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 8 to 14 and "Audit Committee Report" from pages 15 to 16.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, Mr. Liu Wing Ting, Stephen, Dr. Lee Tat Yee and Mr. Lee Joo Hai, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has assessed the independence of the independent non-executive directors. The Nomination Committee and the Company consider all of the independent non-executive directors are independent.

## CHARITABLE DONATIONS

The Group made charitable and other donations amounting to approximately HK\$113,000 during the year.

## AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board  
**Siu Yuk Lung**  
*Managing Director*

Hong Kong, 28th March, 2008

# Independent Auditor's Report

## Deloitte. 德勤

### **TO THE MEMBERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 79, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28th March, 2008



# Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	8	<b>2,702,099</b>	2,135,360
Other income	10	<b>45,636</b>	20,954
Increase in fair value of investment properties		<b>4,700</b>	6,900
Changes in inventories of finished goods and work in progress		<b>(26,197)</b>	53,086
Raw materials and consumables used		<b>(1,289,623)</b>	(1,128,127)
Employee benefits expenses		<b>(439,070)</b>	(371,020)
Depreciation and amortisation of property, plant and equipment		<b>(173,621)</b>	(144,495)
Other expenses		<b>(423,489)</b>	(359,778)
Finance costs	11	<b>(37,554)</b>	(30,791)
Profit before taxation		<b>362,881</b>	182,089
Income tax expense	13	<b>(55,381)</b>	(31,021)
Profit for the year	14	<b>307,500</b>	151,068
Attributable to:			
Equity holders of the Company		<b>305,851</b>	150,463
Minority interests		<b>1,649</b>	605
		<b>307,500</b>	151,068
Dividends recognised as distribution during the year	15	<b>89,902</b>	96,080
Proposed final dividend of HK15 cents (2006: HK6.5 cents) per share	15	<b>93,002</b>	40,300
		<b>HK cents</b>	HK cents
Earnings per share	16		
— Basic		<b>49.33</b>	24.27
— Diluted		<b>49.32</b>	24.27

# Consolidated Balance Sheet

At 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment properties	17	<b>43,500</b>	38,800
Property, plant and equipment	18	<b>813,969</b>	846,360
Prepaid lease payments — non-current portion	19	<b>44,946</b>	42,760
Deposits paid for acquisition of property, plant and equipment		<b>8,951</b>	6,426
Deferred consideration receivable — non-current portion	20	<b>—</b>	7,622
		<b>911,366</b>	941,968
Current assets			
Inventories	21	<b>800,843</b>	623,680
Trade and other receivables	22	<b>687,983</b>	543,351
Bills receivable	22	<b>40,349</b>	42,242
Prepaid lease payments — current portion	19	<b>1,077</b>	1,000
Deferred consideration receivable — current portion	20	<b>7,622</b>	5,391
Taxation recoverable		<b>3,032</b>	3,114
Bank balances and cash	23	<b>261,115</b>	149,938
		<b>1,802,021</b>	1,368,716
Current liabilities			
Trade and other payables	24	<b>412,038</b>	278,105
Bills payable	24	<b>36,334</b>	35,823
Taxation payable		<b>40,183</b>	34,263
Dividend payable		<b>39</b>	25
Derivative financial instruments	25	<b>1,468</b>	—
Unsecured bank borrowings — due within one year	26	<b>416,664</b>	480,720
		<b>906,726</b>	828,936
Net current assets		<b>895,295</b>	539,780
Total assets less current liabilities		<b>1,806,661</b>	1,481,748
Non-current liabilities			
Unsecured bank borrowings — due after one year	26	<b>220,000</b>	240,000
Deferred tax liabilities	27	<b>1,634</b>	—
		<b>221,634</b>	240,000
		<b>1,585,027</b>	1,241,748

# Consolidated Balance Sheet

At 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	28	<b>62,002</b>	62,001
Reserves		<b>1,522,095</b>	1,182,350
Equity attributable to equity holders of the Company		<b>1,584,097</b>	1,244,351
Minority interests		<b>930</b>	(2,603)
		<b>1,585,027</b>	1,241,748

The consolidated financial statements on pages 30 to 79 were approved and authorised for issue by the Board of Directors on 28th March, 2008 and are signed on its behalf by:

**Siu Tit Lung**  
*Director*

**Siu Yuk Lung**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

## Equity attributable to equity holdings of the Company

	Share capital	Share premium	PRC statutory reserve (Note)	Translation reserve	Share options reserve	Accumulated profits	Sub-total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006	61,968	114,992	75,492	20,439	—	863,606	1,136,497	24,457	1,160,954
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	51,353	—	—	51,353	997	52,350
Profit for the year	—	—	—	—	—	150,463	150,463	605	151,068
Total recognised income and expense for the year	—	—	—	51,353	—	150,463	201,816	1,602	203,418
Recognition of equity-settled share-based payments	—	—	—	—	1,035	—	1,035	—	1,035
Final dividend for the year ended 31st December, 2005	—	—	—	—	—	(68,180)	(68,180)	—	(68,180)
Shares issued on exercise of share options	33	1,050	—	—	—	—	1,083	—	1,083
Disposal of subsidiaries	—	—	—	—	—	—	—	(16,962)	(16,962)
Interim dividend declared	—	—	—	—	—	(27,900)	(27,900)	(12,000)	(39,900)
Capital injection	—	—	—	—	—	—	—	300	300
At 31st December, 2006	62,001	116,042	75,492	71,792	1,035	917,989	1,244,351	(2,603)	1,241,748
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	118,118	—	—	118,118	84	118,202
Profit for the year	—	—	—	—	—	305,851	305,851	1,649	307,500
Total recognised income and expense for the year	—	—	—	118,118	—	305,851	423,969	1,733	425,702
Recognition of equity-settled share-based payments	—	—	—	—	5,653	—	5,653	—	5,653
Transfer on cancellation of share options	—	—	—	—	(81)	81	—	—	—
Final dividend for the year ended 31st December, 2006	—	—	—	—	—	(40,300)	(40,300)	—	(40,300)
Shares issued on exercise of share options	1	25	—	—	—	—	26	—	26
Interim dividend declared	—	—	—	—	—	(49,602)	(49,602)	—	(49,602)
Transfer	—	—	19,088	—	—	(19,088)	—	—	—
Capital injection	—	—	—	—	—	—	—	1,800	1,800
At 31st December, 2007	62,002	116,067	94,580	189,910	6,607	1,114,931	1,584,097	930	1,585,027

Note: The PRC statutory reserve represents the appropriation of certain percentages of profit after taxation of subsidiaries in the People's Republic of China (the "PRC") as recommended by the directors of those subsidiaries.

# Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		<b>362,881</b>	182,089
Adjustments for:			
Allowance for inventories		<b>49,423</b>	6,454
Depreciation and amortisation of property, plant and equipment		<b>173,621</b>	144,495
Fair value change in derivative financial instruments		<b>1,468</b>	—
Financial costs		<b>37,554</b>	30,791
Gain on disposal of an investment property		—	(2,200)
Increase in fair value of investment properties		<b>(4,700)</b>	(6,900)
Interest income		<b>(5,180)</b>	(2,741)
Loss (gain) on disposal of property, plant and equipment		<b>956</b>	(59)
Loss on disposal of subsidiaries	30	—	445
PRC tax refund on capital investment		<b>(34,301)</b>	(8,441)
Release of prepaid lease payments		<b>1,029</b>	983
Reversal of impairment loss recognised in respect of trade receivables		<b>478</b>	259
Share-based payment expenses		<b>5,653</b>	1,035
Operating cash flows before movements in working capital		<b>588,882</b>	346,210
Increase in inventories		<b>(179,390)</b>	(92,250)
Increase in trade and other receivables		<b>(105,680)</b>	(92,297)
Decrease in bills receivable		<b>3,532</b>	5,807
Increase (decrease) in trade and other payables		<b>88,712</b>	(5,623)
Increase (decrease) in bills payable		<b>160</b>	(5,101)
Cash generated from operations		<b>396,216</b>	156,746
Income tax paid		<b>(47,745)</b>	(41,699)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>348,471</b>	115,047
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(92,522)</b>	(270,032)
PRC tax refund received		<b>34,301</b>	8,441
Deferred consideration received		<b>5,520</b>	12,000
Interest received		<b>5,051</b>	2,741
Proceeds on disposal of property, plant and equipment		<b>1,515</b>	4,978
Inception of land leases		—	(4,516)
Disposal of subsidiaries	30	—	(1,799)
Proceeds on disposal of an investment property		—	6,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(46,135)</b>	(242,187)

# Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<b>FINANCING ACTIVITIES</b>		
Repayment of bank borrowings	<b>(350,952)</b>	(49,812)
Dividends paid	<b>(89,888)</b>	(96,069)
Interest paid	<b>(37,554)</b>	(30,491)
New bank borrowings raised	<b>283,310</b>	463,180
Capital contributed by the minority shareholder of a subsidiary	<b>1,800</b>	300
Proceeds from new shares issued	<b>26</b>	1,083
Repayment of floating rate notes	<b>—</b>	(150,000)
Dividend paid to the minority shareholder of a subsidiary	<b>—</b>	(12,000)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(193,258)</b>	126,191
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>109,078</b>	(949)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>149,938</b>	148,785
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>2,099</b>	2,102
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<b>261,115</b>	149,938

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability 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 the principal place of business of the Company are disclosed in the section “Corporate Information” in the annual report.

The consolidated financial statements are presented in Hong Kong dollar, 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 manufacturing and marketing of mould bases, metal and parts.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1st January, 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new, revised and amended standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>5</sup> Effective for annual periods beginning on or after 1st July, 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. 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 Hong Kong Financial Reporting Standards 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal.

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.

### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of returns, allowances, discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values 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 consolidated income statement in the year in which the item is derecognised.

### Property, Plant and Equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or for administrative purposes (other than freehold land and construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is 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.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 consolidated income statement in the year in which the item is derecognised.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 consolidated 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.

#### *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 the respective 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 retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

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 dollar) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 profit as reported in the consolidated 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. 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 consolidated 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 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 profits 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 Costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

### Borrowing Costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **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 loans and receivables. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular 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.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

#### ***Loans and receivables***

Loans and receivables (including deferred consideration receivable, trade and other receivables, bills receivable and bank balances) 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 (see accounting policy on impairment loss on financial assets below).

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Financial instruments** *(continued)*

#### **Financial assets** *(continued)*

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Financial Instruments** *(continued)*

#### **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.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

#### *Financial liabilities*

Financial liabilities (including trade and other payables, bills payable, dividend payable and bank borrowings) are measured at amortised cost subsequent to initial recognition, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

#### **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 and receivable and is recognised in profit or loss.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based Payment Transactions

#### *Equity-settled share-based payment transactions*

##### *Share options granted to directors and employees*

*Share options granted to directors and employees after 7th November, 2002 and vested on or after 1st January, 2005*

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 options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

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

*Share options granted to directors and employees on or before 7th November, 2002, or granted after 7th November, 2002 and vested before 1st January, 2005*

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded 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 as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

#### **Impairment losses on tangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 4. CHANGE IN ACCOUNTING ESTIMATE

Prior to 1st January, 2007, buildings of the Group were depreciated over the shorter of 50 years or the term of the relevant land use right. As part of the annual review process, management has assessed the useful life of the buildings and considers that it is more appropriate to use 20 years as the estimated useful life. With effect from 1st January, 2007, buildings were depreciated over the shorter of 20 years or the term of the relevant land use right. This change in accounting estimate has increased the depreciation charge for the current year by approximately HK\$16,742,000.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The 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.

### *Estimated impairment of trade receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, the carrying amount of trade receivables is approximately HK\$580,146,000 (net of allowance for doubtful debts of approximately HK\$47,262,000).

### *Allowance for inventories*

The management of the Group reviews its inventories at each balance sheet date and make allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for obsolete items. As at 31st December, 2007, the carrying amount of inventories is approximately HK\$800,843,000 (net of allowance for inventories of approximately HK\$71,468,000).

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 26 net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, share premium, accumulated profits and other reserves.

The directors of the Company review the capital structure on a regular basis by considering the cost of capital and the risks associates with each class of capital. Based on recommendation of directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS

### 7a. Categories of Financial Instruments

	2007 HK\$'000	2006 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<b>913,506</b>	693,287
<b>Financial liabilities</b>		
Amortised cost	<b>887,113</b>	906,147
Derivative financial instruments	<b>1,468</b>	—

### 7b. Financial Risk Management Objectives and Policies

The Company's major financial instruments include trade and other receivables, bills receivable, bank balances, trade and other payables, bills payable and bank borrowings. 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market Risk

##### (a) Interest rate risk management

The Group's bank balances carry floating-rate of interests and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates. The directors of the Company consider the Group's exposure is not significant as those interest-bearing bank balances are within a short maturity period.

The Group's exposure to cash flow interest rate risk is mainly attributable to the variable-rate bank borrowings (see note 26 for details of these borrowings). It is the Group's policy to keep its borrowings at floating-rate of interests so as to minimise the fair value interest rate risk.

The Group currently does not have any interest rate hedging policy in relation to interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risks should the needs arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly sensitive to the fluctuation of rate of the People's Bank of China arising from the Group's RMB borrowings, Hong Kong Inter-bank Offered Rate arising from the Group's HKD borrowings and Singapore Inter-bank Offered Rate arising from the Group's SGD borrowings.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS *(continued)*

### 7b. Financial Risk Management Objectives and Policies *(continued)*

#### Market Risk *(continued)*

##### (a) Interest rate risk management *(continued)*

###### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would decrease/increase by approximately HK\$3,183,000 (2006: decrease/increase by approximately HK\$3,604,000).

##### (b) Currency risk

The Company's principal subsidiaries operate in the People's Republic of China (the "PRC") and most of the transactions of its PRC subsidiaries are denominated and settled in RMB. 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 uses forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, which are considered as significant by the management, at the reporting date are as follows:

	Liabilities		Assets	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
HKD	218,000	80,000	—	—
SGD	43,253	218,283	51	131
USD	27,035	21,683	56,366	48,996
EUR	4,967	995	25,354	13,221
JPY	43	40	19,354	45,801

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS *(continued)*

### 7b. Financial Risk Management Objectives and Policies *(continued)*

#### Market Risk *(continued)*

#### (b) Currency risk *(continued)*

##### *Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in HKD or RMB against the relevant foreign currencies monetary assets and liabilities (excluding derivatives). No analysis is presented for derivatives as the impact to the Group is not considered significant. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit for the year where HKD or RMB strengthen 5% against the relevant currency. For a 5% weakening of HKD or RMB against the relevant currency, there would be an equal and opposite impact on profit for the year, and the balances below would be negative.

	RMB against				HKD against					
	HKD Impact (i)		SGD Impact (i)		USD Impact (ii)		EUR Impact (ii)		JPY Impact (ii)	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the year	<b>10,381</b>	3,810	<b>2,057</b>	10,388	<b>(1,397)</b>	(1,301)	<b>(971)</b>	(582)	<b>(920)</b>	(2,179)

(i) This is mainly attributable to the exposure outstanding on HKD and SGD bank borrowings at year end.

(ii) This is mainly attributable to the exposure outstanding on trade receivables and trade payables in the respective foreign currency at year end.

#### Credit Risk

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of trade debt on a collective basis 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS *(continued)*

### 7b. Financial Risk Management Objectives and Policies *(continued)*

#### Credit Risk *(continued)*

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC. The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### Liquidity Risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2007, the Group has available unutilised short-term bank loan facilities of approximately HK\$444 million (2006: HK\$189 million).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments which require gross settlement, the undiscounted gross inflow and outflow on the derivatives are shown in the table.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS (continued)

### 7b. Financial Risk Management Objectives and Policies (continued)

#### Liquidity Risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2007 HK\$'000
<b>2007</b>							
Non-derivative financial liabilities:							
Trade and other payables	N/A	134,441	55,320	24,354	—	214,115	214,115
Bills payable	N/A	15,543	17,942	2,849	—	36,334	36,334
Bank borrowings	4.72	271,538	59,104	87,321	228,915	646,878	636,664
		421,522	132,366	114,524	228,915	897,327	887,113
Derivative settled gross:							
Foreign exchange forward contracts							
— inflow		15,604	15,604	7,802	—	39,010	39,010
— outflow		(16,192)	(16,192)	(8,094)	—	(40,478)	(40,478)
		(588)	(588)	(292)	—	(1,468)	(1,468)

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2006 HK\$'000
<b>2006</b>							
Non-derivative financial liabilities:							
Trade and other payables	N/A	87,724	37,709	24,171	—	149,604	149,604
Bills payable	N/A	18,760	17,063	—	—	35,823	35,823
Bank borrowings	4.84	361,637	110,572	10,361	252,468	735,038	720,720
		468,121	165,344	34,532	252,468	920,465	906,147

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 7. FINANCIAL INSTRUMENTS *(continued)*

### 7c. Fair Value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of derivative financial instruments is determined with reference to quoted prices from the relevant bank; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values.

## 8. TURNOVER

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Manufacturing and marketing of		
— mould bases	<b>2,520,152</b>	1,962,712
— metal and parts	<b>181,947</b>	172,648
	<b>2,702,099</b>	2,135,360

## 9. 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. The two divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Mould bases	—	Manufacturing and marketing of mould bases
Metal and parts	—	Manufacturing and marketing of metal and parts

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### (a) Business Segments *(continued)*

Segmental information about the two businesses is presented below.

<b>For the year ended 31st December, 2007</b>	<b>Mould bases HK\$'000</b>	<b>Metal and parts HK\$'000</b>	<b>Total HK\$'000</b>
<b>CONSOLIDATED INCOME STATEMENT</b>			
TURNOVER — External sales	2,520,152	181,947	2,702,099
RESULTS			
Segment results	400,364	14,157	414,521
Increase in fair value of investment properties			4,700
Unallocated income			45,636
Unallocated expenses			(64,422)
Finance costs			(37,554)
Profit before taxation			362,881
Income tax expense			(55,381)
Profit for the year			307,500
OTHER INFORMATION			
Allowance for inventories	45,120	4,303	49,423
Capital expenditure	86,443	3,554	89,997
Depreciation and amortisation of property, plant and equipment	170,379	3,242	173,621
Reversal of impairment loss recognised in respect of trade receivables	(141)	(62)	(203)

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### (a) Business Segments *(continued)*

<b>As at 31st December, 2007</b>	<b>Mould bases</b> HK\$'000	<b>Metal and parts</b> HK\$'000	<b>Total</b> HK\$'000
<b>CONSOLIDATED BALANCE SHEET</b>			
<b>ASSETS</b>			
Segment assets	2,195,764	179,110	2,374,874
Unallocated corporate assets			338,513
Consolidated total assets			2,713,387
<b>LIABILITIES</b>			
Segment liabilities	443,000	4,553	447,553
Unallocated corporate liabilities			680,807
Consolidated total liabilities			1,128,360

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### (a) Business Segments *(continued)*

	Mould bases	Metal and parts	Total
For the year ended 31st December, 2006	HK\$'000	HK\$'000	HK\$'000
<b>CONSOLIDATED INCOME STATEMENT</b>			
<b>TURNOVER — External sales</b>	<b>1,962,712</b>	<b>172,648</b>	<b>2,135,360</b>
<b>RESULTS</b>			
Segment results	218,347	18,661	237,008
Increase in fair value of investment properties			6,900
Unallocated income			20,954
Unallocated expenses			(51,537)
Finance costs			(30,791)
Loss on disposal of subsidiaries			(445)
Profit before taxation			182,089
Income tax expense			(31,021)
Profit for the year			151,068
<b>OTHER INFORMATION</b>			
Allowance for inventories	5,785	669	6,454
Capital expenditure	267,470	13,019	280,489
Depreciation and amortisation of property, plant and equipment	142,637	1,858	144,495
Reversal of impairment loss recognised in respect of trade receivables	(183)	(17)	(200)

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### (a) Business Segments *(continued)*

As at 31st December, 2006	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
CONSOLIDATED BALANCE SHEET			
ASSETS			
Segment assets	1,917,947	177,290	2,095,237
Unallocated corporate assets			215,447
Consolidated total assets			2,310,684
LIABILITIES			
Segment liabilities	286,403	24,484	310,887
Unallocated corporate liabilities			758,049
Consolidated total liabilities			1,068,936

### (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:

	<b>Turnover</b>	
	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
The PRC (including Hong Kong)	<b>2,317,309</b>	1,789,638
Other countries	384,790	345,722
<b>2,702,099</b>		2,135,360

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### (b) Geographical Segments *(continued)*

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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
The PRC (including Hong Kong)	<b>2,195,764</b>	1,917,947	<b>88,410</b>	276,505
Other countries	<b>179,110</b>	177,290	<b>1,587</b>	3,984
	<b>2,374,874</b>	2,095,237	<b>89,997</b>	280,489

## 10. OTHER INCOME

	2007 HK\$'000	2006 HK\$'000
PRC tax refund on capital reinvestment	<b>34,301</b>	8,441
Interest income	<b>5,180</b>	2,741
Rental income, net of direct outgoings of approximately HK\$244,000 (2006: HK\$257,000)	<b>2,455</b>	2,580
Gain on disposal of an investment property	—	2,200
Gain on disposal of property, plant and equipment	—	59
Sundry income	<b>3,700</b>	4,933
	<b>45,636</b>	20,954

## 11. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest on		
— bank borrowings wholly repayable within five years	<b>37,554</b>	29,564
— floating rate notes	—	927
Arrangement fee for bank loans	—	300
	<b>37,554</b>	30,791

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 12. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2006: nine) directors were as follows:

	<b>Siu Tit Lung</b>	<b>Siu Yuk Lung</b>	<b>Mak Koon Chi</b>	<b>Wai Lung Shing</b>	<b>Fung Wai Hing</b>	<b>Chan Chun Sing, Colin</b>	<b>Liu Wing Ting, Stephen</b>	<b>Lee Tat Yee</b>	<b>Lee Joo Hai</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2007</b>										
Fees	—	—	—	—	—	345	330	321	321	1,317
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 (Note)	5,750	5,750	7,000	7,000	4,500	—	—	—	—	30,000
Share-based payments	166	166	450	450	450	135	135	135	94	2,181
<b>Total emoluments</b>	<b>13,109</b>	<b>13,109</b>	<b>9,608</b>	<b>9,608</b>	<b>6,681</b>	<b>480</b>	<b>465</b>	<b>456</b>	<b>415</b>	<b>53,931</b>
<b>2006</b>										
Fees	—	—	—	—	—	585	430	469	391	1,875
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 (Note)	3,000	3,000	3,300	3,300	2,300	—	—	—	—	14,900
Share-based payments	23	23	77	77	77	23	23	23	15	361
<b>Total emoluments</b>	<b>10,216</b>	<b>10,216</b>	<b>5,535</b>	<b>5,535</b>	<b>4,108</b>	<b>608</b>	<b>453</b>	<b>492</b>	<b>406</b>	<b>37,569</b>

Note: The bonus is determined based on performance of the Group.

No directors waived any emoluments in the year ended 31st December, 2007.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 13. INCOME TAX EXPENSE

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	<b>45</b>	128
— underprovision in prior year	<b>—</b>	4,223
	<b>45</b>	4,351
Taxation in jurisdictions outside Hong Kong		
— current year	<b>53,003</b>	29,872
— under (over) provision in prior year	<b>699</b>	(3,202)
	<b>53,702</b>	26,670
Deferred taxation ( <i>Note 27</i> )	<b>1,634</b>	—
	<b>55,381</b>	31,021

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. The domestic tax rate applicable to the jurisdictions where the operation of the Group is substantially based for both years is 24%.

Pursuant to the relevant laws and regulations in the PRC, one (2006: one) of the Company's PRC subsidiaries is entitled to an exemption from PRC income tax for next two years starting from their first profit-making year, followed by a 50% reduction in tax rate for the next three years. 2007 is the first year of tax exemption granted to that subsidiary.

Pursuant to approvals by the relevant PRC tax authority, two (2006: one) of the Company's PRC subsidiaries are granted advanced-technology exemption from 50% PRC income tax for three years commenced from the respective year of grant. While the tax exemption granted to one of the two subsidiaries ended in 2007, another subsidiary continues to be under the tax exemption in the coming two years by enjoying the concessionary tax rate of 10%.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 24% to 25% for all subsidiaries in the PRC from 1st January, 2008, except for the two continuing tax exemption cases as mentioned above.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 13. INCOME TAX EXPENSE (continued)

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

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>362,881</b>	182,089
Tax at PRC income tax rate of 24% (Note)	<b>87,091</b>	43,701
Tax effect of non-deductible expenses	<b>20,261</b>	2,866
Tax effect of non-taxable income	<b>(6,042)</b>	(3,535)
Tax effect of utilisation of tax losses previously not recognised	<b>(4,283)</b>	(618)
Tax effect of unused tax losses not recognised	<b>3,814</b>	7,476
Underprovision in prior year	<b>699</b>	1,021
Tax effect of tax reduction granted to PRC subsidiaries	<b>(46,788)</b>	(22,311)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>629</b>	2,421
Tax charge for the year	<b>55,381</b>	31,021

Note: The domestic tax rate of 24% in the jurisdiction where the operation of the Group is substantially based is used.

Details of deferred taxation are set out in note 27.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 14. PROFIT FOR THE YEAR

	2007 HK\$'000	2006 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Allowance for inventories	49,423	6,454
Auditors' remuneration		
— current year	3,543	2,660
— under (over) provision in prior year	417	(192)
Fair value change in derivative financial instruments	1,468	—
Loss on disposal of subsidiaries	—	445
Loss (gain) on disposal of property, plant and equipment	956	(59)
Gross foreign exchange loss	11,147	9,890
Gross foreign exchange gain	(20,665)	(4,225)
Operating lease rentals in respect of		
— rented premises	11,085	9,179
— plant and machinery	109	76
Release of prepaid lease payments	1,029	983
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$1,141,000 (2006: HK\$1,282,000)	22,335	19,539
Reversal of impairment loss recognised in respect of trade receivables	(203)	(200)

## 15. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Dividends recognised as distribution during the year:		
2007 interim dividend of HK8 cents per share	49,602	—
2006 final dividend of HK6.5 cents per share	40,300	—
2006 interim dividend of HK4.5 cents per share	—	27,900
2005 final dividend of HK11 cents per share	—	68,180
	89,902	96,080

The board of directors have determined that a final dividend of HK15 cents (2006: HK6.5 cents) per share amounting to approximately HK\$93,002,000 (2006: HK\$40,300,000) should be paid to the shareholders of the Company whose names appear in the register of members on 5th May, 2008.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 16. EARNINGS PER SHARE

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

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>305,851</b>	150,463
	<b>2007</b>	2006
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>620,010,761</b>	619,917,084
Effect of dilutive potential ordinary shares on exercise of share options	<b>79,267</b>	71,399
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>620,090,028</b>	619,988,483

## 17. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2006	35,700
Increase in fair value recognised in the consolidated income statement	6,900
Disposal	(3,800)
At 31st December, 2006	38,800
Increase in fair value recognised in the consolidated income statement	4,700
At 31st December, 2007	43,500

The Group's investment properties are held under medium-term leases in Hong Kong and are held for rental income under operating leases.

The fair value of the Group's investment properties at 31st December, 2007 have been arrived at on the basis of a valuation carried out on that date by C S Surveyors Limited, an independent qualified professional valuer 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 18. 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
<b>AT COST</b>							
At 1st January, 2006	21,317	261,912	145,970	955,618	49,993	49,741	1,484,551
Currency realignment	—	10,490	4,825	39,295	1,314	2,042	57,966
Transfer	—	119,103	185	216	—	(119,504)	—
Additions	—	14,919	36,801	152,407	8,626	67,736	280,489
Disposal of subsidiaries	—	(4,031)	(5,210)	(53,920)	(724)	—	(63,885)
Disposals	—	(2,373)	(3,354)	(3,630)	(5,054)	—	(14,411)
At 31st December, 2006	21,317	400,020	179,217	1,089,986	54,155	15	1,744,710
Currency realignment	—	30,122	11,765	82,344	2,901	1	127,133
Transfer	—	5,967	2,200	—	—	(8,167)	—
Additions	—	2,327	16,349	42,172	7,703	21,446	89,997
Disposals	—	(757)	(27,642)	(7,729)	(1,833)	—	(37,961)
At 31st December, 2007	21,317	437,679	181,889	1,206,773	62,926	13,295	1,923,879
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2006	—	29,385	90,755	624,312	31,819	—	776,271
Currency realignment	—	1,201	3,112	29,096	1,005	—	34,414
Provided for the year	—	5,794	15,976	113,367	9,358	—	144,495
Disposal of subsidiaries	—	(900)	(4,364)	(41,431)	(643)	—	(47,338)
Eliminated on disposals	—	(648)	(3,093)	(1,301)	(4,450)	—	(9,492)
At 31st December, 2006	—	34,832	102,386	724,043	37,089	—	898,350
Currency realignment	—	3,481	6,956	60,651	2,341	—	73,429
Provided for the year	—	23,828	19,751	120,319	9,723	—	173,621
Eliminated on disposals	—	(131)	(27,149)	(6,628)	(1,582)	—	(35,490)
At 31st December, 2007	—	62,010	101,944	898,385	47,571	—	1,109,910
<b>CARRYING VALUES</b>							
At 31st December, 2007	21,317	375,669	79,945	308,388	15,355	13,295	813,969
At 31st December, 2006	21,317	365,188	76,831	365,943	17,066	15	846,360

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

Buildings	Over the shorter of 20 years (2006: 50 years) or the term of the relevant land use right
Furniture, fixtures and fittings	15%
Plant and machinery	20%
Motor vehicles	30%

Freehold land is not depreciated and construction in progress are also not depreciated until completion of construction and the properties are ready for their intended use.

The carrying value of land and buildings above comprises:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Freehold land outside Hong Kong	<b>21,317</b>	21,317
Building held under medium-term leases or land use rights outside Hong Kong	<b>375,669</b>	365,188
	<b>396,986</b>	386,505

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

## 19. PREPAID LEASE PAYMENTS

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

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Analysed for reporting purposes as:		
Non-current asset	<b>44,946</b>	42,760
Current asset	<b>1,077</b>	1,000
	<b>46,023</b>	43,760

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 20. DEFERRED CONSIDERATION RECEIVABLE

The consideration receivable is in connection with the disposal of certain subsidiaries during the year ended 31st December, 2006, details of which are set out in note 30. The amount is unsecured, interest-free and repayable by different instalments with final instalment due in December 2008. Fair value of the consideration receivable is determined using an effective interest rate of 5%.

The carrying amount is analysed for reporting purposes as follows:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Non-current asset	—	7,622
Current asset	<b>7,622</b>	5,391
	<b>7,622</b>	13,013

## 21. INVENTORIES

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Raw materials	<b>688,279</b>	484,919
Work in progress	<b>91,935</b>	122,726
Finished goods	<b>20,629</b>	16,035
	<b>800,843</b>	623,680

The cost of inventories recognised as an expense during the year by the Group amounted to approximately HK\$1,966,749,000 (2006: HK\$1,620,015,000).

## 22. TRADE, BILLS AND OTHER RECEIVABLES

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Trade receivables	<b>627,408</b>	512,889
Less: accumulated impairment	<b>(47,262)</b>	(46,874)
	<b>580,146</b>	466,015
Other receivables	<b>107,837</b>	77,336
Total trade and other receivables	<b>687,983</b>	543,351
Bills receivable	<b>40,349</b>	42,242

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 22. TRADE, BILLS AND OTHER RECEIVABLES (continued)

The Group allows a credit period ranging from 30 days to 90 days to its trade customers. An aged analysis of trade and bills receivables is presented below:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
0 to 60 days	<b>413,665</b>	342,926
61 to 90 days	<b>128,450</b>	94,885
Over 90 days	<b>78,380</b>	70,446
	<b>620,495</b>	508,257

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately HK\$61,738,000 (2006: HK\$54,607,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

An aged analysis of trade receivables which are past due but not impaired is presented below:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
91 to 180 days	<b>58,879</b>	53,364
over 180 days	<b>2,859</b>	1,243
Total	<b>61,738</b>	54,607

Other than the above trade receivables which are past due but not impaired, the Group has provided fully for all receivables over 90 days with reference to the subsequent settlement pattern of these receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 22. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

Movements in the allowance for doubtful debts:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of the year	<b>46,874</b>	48,051
Currency realignment	<b>3,405</b>	1,854
Impairment losses recognised on receivables	<b>2,282</b>	3,509
Amounts written off as uncollectible	<b>(1,945)</b>	(941)
Amounts recovered during the year	<b>(681)</b>	(459)
Impairment losses reversed	<b>(2,673)</b>	(3,324)
Disposal of subsidiaries	<b>—</b>	(1,816)
Balance at end of the year	<b>47,262</b>	46,874

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$2,676,000 (2006: HK\$1,273,000), which are considered irrecoverable by the management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

During the year, the Group has directly written-off certain irrecoverable trade receivables to the consolidated income statement of approximately HK\$869,000 (2006: HK\$74,000) as a result of the liquidation of the relevant debtors.

## 23. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at market interest rates and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 1.0% to 5.5% (2006: 1.8% to 7.9%).

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 24. TRADE, BILLS AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$196,118,000 (2006: HK\$133,771,000).

An aged analysis of trade and bills payables is presented below:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
0 to 60 days	<b>200,772</b>	120,409
61 to 90 days	<b>22,160</b>	29,194
Over 90 days	<b>9,520</b>	19,991
	<b>232,452</b>	169,594

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

The amount represents foreign currency forward contracts entered into by the Group as at 31st December, 2007, the major terms of which are as follows:

<b>Notional amount</b>	<b>Maturity</b>
Sell JPY577,500,000/Buy USD5,000,000	Various dates up to 28th April, 2008

## 26. UNSECURED BANK BORROWINGS

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Bank loans	<b>636,664</b>	720,720
Less: Amounts due within one year shown under current liabilities	<b>(416,664)</b>	(480,720)
Amounts due after one year	<b>220,000</b>	240,000

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 26. UNSECURED BANK BORROWINGS (continued)

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

	<b>Denominated in HKD</b>	<b>Denominated in SGD</b>
	HK\$'000	HK\$'000
As at 31st December, 2006	80,000	217,787
As at 31st December, 2007	218,000	43,213

The above borrowings carry interest at variable rates, thus exposing the Group to cash flow interest rate risk. The effective borrowing rate of the Group, ranged from 3.07% to 6.26% (2006: 2.63% to 5.83%) per annum.

As at 31st December, 2006, HK\$7,000,000 (2007: Nil) out of the above borrowings were guaranteed by the minority shareholder of a subsidiary of the Group.

During the year, the Group obtained new loans with an aggregate amounts of approximately HK\$283 million. The proceeds were used to finance the repayment of the existing bank loans and for working capital purpose.

## 27. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b>	<b>Revaluation of investment properties</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006	1,358	—	(1,358)	—
(Credit) charge for the year	(481)	598	(117)	—
At 31st December, 2006	877	598	(1,475)	—
(Credit) charge for the year	(23)	1,651	6	1,634
At 31st December, 2007	854	2,249	(1,469)	1,634

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 27. DEFERRED TAXATION *(continued)*

At the balance sheet date, the Group had unused tax losses of approximately HK\$145,781,000 (2006: HK\$140,057,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such tax losses of approximately HK\$8,392,000 (2006: HK\$8,428,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately HK\$137,389,000 (2006: HK\$131,629,000) due to the unpredictability of future profit streams. Most of unused tax losses may be carried forward indefinitely.

## 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, 2006	1,000,000,000	100,000	619,677,303	61,968
Shares issued on exercise of share options	—	—	328,000	33
At 31st December, 2006	1,000,000,000	100,000	620,005,303	62,001
Shares issued on exercise of share options	—	—	8,000	1
At 31st December, 2007	1,000,000,000	100,000	620,013,303	62,002

## 29. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 29. SHARE OPTION SCHEME (continued)

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.

During the year, 7,342,000 share options with an exercise price of HK\$3.60 per share were granted on 14th November, 2007. The estimated fair value of the options granted was approximately HK\$5,204,000 (HK\$0.71 per option). During the year ended 31st December, 2006, 6,680,000 share options with an exercise price of HK\$3.82 per share were granted on 3rd November, 2006. The estimated fair value of the options granted was approximately HK\$6,553,000 (HK\$0.98 per option).

These fair values were calculated using the Binomial Lattice Model. The inputs into the model are as follows:

	2007	2006
Closing price of the Company's share at the date of grant	<b>HK\$3.51</b>	HK\$3.82
Exercise price	<b>HK\$3.60</b>	HK\$3.82
Expected volatility	<b>35% per annum</b>	40% per annum
Expected life	<b>3.48 years</b>	3.49 years
Risk-free rate of interest	<b>2.69% per annum</b>	3.74% per annum
Expected dividend yield	<b>5% per annum</b>	5% per annum

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been taken into account the expected employee turnover and probability of early exercise behaviour.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 29. SHARE OPTION SCHEME (continued)

The Binomial Lattice Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate with the reference to a valuation report prepared by an independent valuer. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expenses of approximately HK\$5,653,000 (2006: HK\$1,035,000) for the year in relation to the share options granted by the Company.

At 31st December, 2007, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 13,502,000 (2006: 6,798,000), representing 2.2% (2006: 1.1%) 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 years ended 31st December, 2006 and 2007:

Exercise price	Date of grant	Vesting period	Exercisable period	Outstanding at 1.1.2006	Granted during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006 and 1.1.2007	Granted during the year ended 31.12.2007	Exercised during the year ended 31.12.2007	Lapsed during the year ended 31.12.2007	Cancelled during the year ended 31.12.2007	Outstanding at 31.12.2007
HK\$												
3.30	25.5.2004	6 months	25.11.2004–24.5.2007	446,000	–	(328,000)	118,000	–	(8,000)	(110,000)	–	–
3.82	3.11.2006	1 year	4.11.2007–3.11.2010	–	6,680,000	–	6,680,000	–	–	–	(520,000)	6,160,000
3.60	14.11.2007	1 year	14.11.2008–13.11.2011	–	–	–	–	7,342,000	–	–	–	7,342,000
Exercisable at the end of the year							118,000					6,160,000

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

Exercise price	Outstanding at 1.1.2006	Granted during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006 and 1.1.2007	Granted during the year ended 31.12.2007	Outstanding at 31.12.2007
HK\$						
3.30	150,000	–	(150,000)	–	–	–
3.82	–	2,350,000	–	2,350,000	–	2,350,000
3.60	–	–	–	–	3,100,000	3,100,000
Exercisable at the end of the year				–		2,350,000

During the year ended 31st December, 2007, the total amount of consideration received from the Participants for taking up the options granted was HK\$194 (2006: HK\$193).

In respect of the share options exercised during the year the weighted average closing price of the Company's shares immediately before the date of which the options were exercised was approximately HK\$3.65 (2006: HK\$5.003).

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 30. DISPOSAL OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 8th September, 2006 entered into between the minority shareholder of the Group and the Group, the Group agreed to dispose of its entire interests in certain subsidiaries at a consideration of HK\$25,800,000 as at 31st December, 2006. The net assets of disposed subsidiaries at the date of disposal were as follows:

	HK\$'000
Property, plant and equipment	16,547
Prepaid lease payments	1,532
Inventories	13,481
Trade and other receivables	23,596
Bills receivable	589
Bank balances and cash	13,799
Trade and other payables	(19,248)
Tax payable	(7,876)
Net assets	42,420
Minority interests	(16,962)
Loss on disposal of subsidiaries	(445)
<b>Total consideration</b>	<b>25,013</b>
Satisfied by:	
Cash consideration	12,000
Deferred consideration	13,013
	<b>25,013</b>
Net cash outflow arising on disposal:	
Cash consideration	12,000
Bank balances and cash disposed of	(13,799)
	<b>(1,799)</b>

The deferred consideration will be fully settled in cash by the minority shareholder on or before 31st December, 2008.

The subsidiaries disposed of during the year ended 31st December, 2006 did not have significant contribution to the Group's operating results and cash flows for that year.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 31. CAPITAL COMMITMENTS

	<b>2007</b>	2006
	<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 consolidated financial statements	<b>104,681</b>	13,893

## 32. OPERATING LEASES

### 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>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>6,382</b>	7,425
In the second to fifth year inclusive	<b>7,721</b>	12,911
	<b>14,103</b>	20,336

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\$2,699,000 (2006: HK\$2,837,000).

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:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>2,424</b>	965
In the second to fifth year inclusive	<b>1,453</b>	—
	<b>3,877</b>	965

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 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 the consolidated income statement of approximately HK\$21,194,000 (2006: HK\$19,539,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2007, contributions of approximately HK\$572,000 (2006: HK\$431,000) due in respect of the reporting period had not been paid over to the schemes.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 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:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>49,725</b>	35,183
Post-employment benefits	<b>2,025</b>	2,025
Share-based payment expenses	<b>2,181</b>	361
	<b>53,931</b>	37,569

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 35. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2007 is as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<b>ASSETS</b>		
Investment in a subsidiary	<b>55,856</b>	55,856
Loans to subsidiaries	<b>17,000</b>	17,000
Amounts due from subsidiaries	<b>370,421</b>	255,194
Prepayments	<b>310</b>	310
Bank balances	<b>223</b>	103
	<b>443,810</b>	328,463
<b>LIABILITIES</b>		
Accrued charges	<b>939</b>	846
Amount due to a subsidiary	<b>673</b>	227
Dividend payable	<b>39</b>	25
	<b>1,651</b>	1,098
<b>NET ASSETS</b>	<b>442,159</b>	327,365
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>62,002</b>	62,001
Reserves (Note)	<b>380,157</b>	265,364
	<b>442,159</b>	327,365

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 35. BALANCE SHEET OF THE COMPANY (continued)

Note:

	<b>Share premium</b> HK\$'000	<b>Share options reserve</b> HK\$'000	<b>Accumulated profits</b> HK\$'000	<b>Total</b> HK\$'000
At 1st January, 2006	114,992	—	27,033	142,025
Recognition of equity-settled share-based payments	—	1,035	—	1,035
Final dividend for the year ended 31st December, 2006	—	—	(68,180)	(68,180)
Shares issued on exercise of share options	1,050	—	—	1,050
Profit for the year	—	—	217,334	217,334
Interim dividend declared	—	—	(27,900)	(27,900)
At 31st December, 2006	116,042	1,035	148,287	265,364
Recognition of equity-settled share-based payments	—	5,653	—	5,653
Final dividend for the year ended 31st December, 2006	—	—	(40,300)	(40,300)
Shares issued on exercise of share options	25	—	—	25
Profit for the year	—	—	199,017	199,017
Interim dividend declared	—	—	(49,602)	(49,602)
At 31st December, 2007	116,067	6,688	257,402	380,157

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company as at 31st December, 2006 and 2007 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
河源龍記金屬製品有限公司 Heyuan Lung Kee Metal Products Co., Ltd.	The PRC	HK\$550,870,000 (2006: HK\$450,870,000) (Note a)	100	Manufacturing and marketing of mould bases
LKM Heatlock Company Limited	Hong Kong	HK\$7,000,000 (2006: HK\$1,000,000)	70	Trading of hot runner system
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 mould bases
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\$111,000,000 (Note a)	100	Manufacturing and marketing of mould bases

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

## 36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (continued)

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
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
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	US\$6,000,000 (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.

None of the subsidiaries had any debenture outstanding at the end of the year or at any time during the year.

# Financial Summary

## RESULTS

	Year ended 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
TURNOVER	1,209,613	1,599,505	1,899,482	2,135,360	<b>2,702,099</b>
PROFIT BEFORE TAXATION	187,449	268,692	286,102	182,089	<b>362,881</b>
INCOME TAX EXPENSE	(27,870)	(43,702)	(40,185)	(31,021)	<b>(55,381)</b>
PROFIT FOR THE YEAR	159,579	224,990	245,917	151,068	<b>307,500</b>
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	157,255	220,113	240,861	150,463	<b>305,851</b>
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	2,324	4,877	5,056	605	<b>1,649</b>
PROFIT FOR THE YEAR	159,579	224,990	245,917	151,068	<b>307,500</b>

## ASSETS AND LIABILITIES

	At 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
TOTAL ASSETS	1,830,757	1,997,743	2,006,002	2,310,684	<b>2,713,387</b>
TOTAL LIABILITIES	(965,005)	(985,340)	(845,048)	(1,068,936)	<b>(1,128,360)</b>
NET ASSETS	865,752	1,012,403	1,160,954	1,241,748	<b>1,585,027</b>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	853,983	991,541	1,136,497	1,244,351	<b>1,584,097</b>
MINORITY INTERESTS	11,769	20,862	24,457	(2,603)	<b>930</b>
TOTAL EQUITY	865,752	1,012,403	1,160,954	1,241,748	<b>1,585,027</b>

# Properties held for Investment

## Investment properties

<b>Location</b>	<b>Type of properties</b>	<b>Attributable interest</b>	<b>Lease term</b>
Workshop 6 on ground floor Kwong Sang Hong Centre Nos.151–153 Hoi Bun Road Kowloon	Office premises	100%	Medium-term lease
Workshop No.2 on ground floor and the yard adjoining thereto Hung Tat Industrial Building No.43 Hung To Road Kowloon	Factory	100%	Medium-term lease
Factory A, C on G/F Mai Hing Industrial Building Nos.16–18 Hing Yip Street Kowloon	Factory	100%	Medium-term lease
Car parking space No. L2 and L5 on G/F Mai Hing Industrial Building Nos.16–18 Hing Yip Street Kowloon	Carpark	100%	Medium-term lease

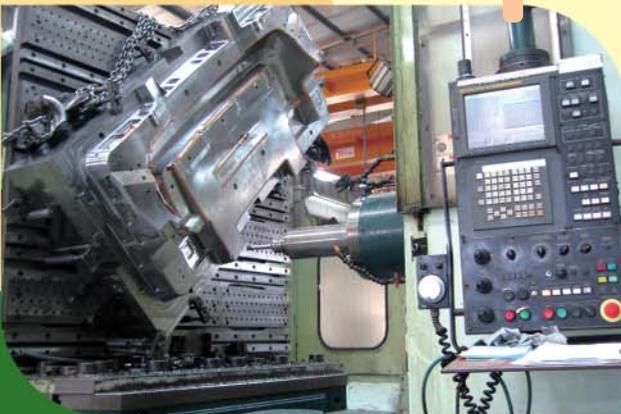


Rearranged custom made mould base assembly line enhancing the speed of production  
重新佈置的非標準模架組裝線加快了生產速度

Provision of better precision machinery by Lung Kee encouraging the simplification of mould design  
龍記提供的更高精度加工服務有助簡化模具設計



Mould base with complicated shape can be machined by using the 4th axis rotation on a horizontal machining center  
複雜形狀的模架可以透過第四軸轉動工作台在卧式加工中心上加工



Using the colour code to distinguish different steel types systematically  
使用顏色代碼有系統地分辨各種鋼材



Forging blocks and hot roll plates are the basic materials for large size mould base

大型鍛件及熱軋鋼塊乃大型模架的主要原材料



Using the vertical band saw to cut away the residual material in order to save time and cost in the milling process

使用大型立式帶鋸將餘料切走可省卻用於銑床的時間及成本



Production of mould base for the instrument panel of an automobile needs stock of big steel block together with proper heavy-duty machines

生產汽車儀表板的模架需要大型鋼塊存倉及配合適合的重切削機床

Using high speed and efficient machines to shorten the production time and enhance the surface finishing of mould base

使用高速及高效能切削機床可以縮短生產時間及提升模架表面光潔度

