# L.K. TECHNOLOGY HOLDINGS LIMITED

力勁科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 558)

ANNUAL REPORT

2010/11

# CORPORATE PROFILE

L.K. Technology Holdings Limited is the world's largest diecasting machines manufacturer. The Group engages in the design, manufacture and sale of three product lines, i.e. die-casting machines, plastic injection moulding machines and computerised numerical controlled (CNC) machining centres. The Group has manufacturing bases in Shenzhen, Zhongshan, Ningbo, Shanghai, Fuxin and Kunshan in the PRC and a R&D centre in Taiwan. To capture overseas markets, the Group acquired Idra Srl, Italy, one of the world's top die-casting machine manufacturers, in 2008. The Group also operates a casting factory in Fuxin for the production of cast iron/steel components.

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Ms. Chong Siw Yin *(Chairperson)*
Mr. Cao Yang *(Chief executive officer)*
Mr. Chung Yuk Ming

### Non-executive Director

Mr. Hu Yongmin

### Independent non-executive Directors

Dr. Low Seow Chay
Dr. Lui Ming Wah, *SBS, JP*
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael

## Company Secretary

Mr. Wong Kin Ming

## Authorised Representatives

Ms. Chong Siw Yin
Mr. Chung Yuk Ming

## Audit Committee

Mr. Tsang Yiu Keung, Paul
Dr. Lui Ming Wah, *SBS, JP*
Mr. Chan Wah Tip, Michael
Mr. Hu Yongmin

## Nomination Committee

Mr. Chan Wah Tip, Michael
Dr. Low Seow Chay
Dr. Lui Ming Wah, *SBS, JP*
Mr. Hu Yongmin

## Remuneration Committee

Dr. Lui Ming Wah, *SBS, JP*
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael
Mr. Hu Yongmin

## Auditor

PricewaterhouseCoopers

## Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Principal Place of Business in Hong Kong

Unit A, 8th Floor
Mai Wah Industrial Building
1 – 7 Wah Sing Street
Kwai Chung
New Territories
Hong Kong

## 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
Wanchai
Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Hang Seng Bank Limited
China Citic Bank
Shenzhen Development Bank Ltd
Intesa Sanpaolo Spa

## Stock Code

558

## Website

http://www.lktechnology.com

# CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors of L.K. Technology Holdings Limited, I hereby present the results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2011 (the "Year").

The Year was the year of recovery from the global economy crisis, and was also the year of breakthrough for all the business segments of the Group. As the leader in the PRC's die-casting machines industry and one of the major equipment suppliers of plastic injection moulding machines and computerised numerical controlled (CNC) machines, the Group has already captured the opportunities arisen during the recovery of the PRC's economy. Three business segments, namely die-casting machines, plastic injection moulding machines and CNC machines demonstrated a speedy growth, as a result, the total revenue, the profit and the revenue of each business segment of the Group reached a record high for the Year.

The Group recorded a revenue of HK$2,602,564,000, representing a significant increase of approximately 85% as compared to HK$1,408,364,000 of the corresponding period last year. Profit attributable to equity holders of the Company amounted to HK$259,365,000, demonstrating a remarkable increase of over ten fold as compared to a profit of HK$20,323,000 of the corresponding period last year. The outstanding performance for the Year was mainly attributable to: (1) the demand in investment in equipment of the domestic market surged as the PRC's economy rapidly recovered from the crisis and recorded a strong growth, the Group's revenue from the PRC as a result surpassed HK$2,000,000,000 for the first time;(2) the Group gained a fruitful result in the overseas markets, and the revenue from overseas markets reached a record high and exceeded HK$500,000,000 for the first time, representing an increase of approximately 123% as compared to the corresponding period last year, and contributed over 20% to the total revenue; (3) both plastic injection molding machines and CNC machines, the two business segments of the Group, showed rapid growth momentum and demonstrated an increase of approximately 119% and 262%, respectively.

The Group adopted a dynamic strategy in response to the changes in the market. We have achieved breakthroughs in the R&D of our three major products, namely die-casting machines, plastic injection moulding machines and CNC machines.

In respect of die-casting machines, we have upgraded our models and optimised our design in order to enhance the performance of our die-casting machines in the areas of operating efficiency, automation, control, energy saving and environmental protection, so as to help our customers to reduce their overall production costs. In addition, the software and hardware integration service capacity of the Group has also been enhanced. All these measures have improved further our competitiveness in the global market and strengthened our leading position in the global die-casting machine industry.

In respect of plastic injection moulding machines, our servo-driven energy-saving plastic injection moulding machines attained Grade 1 in the energy efficiency standard set out by the PRC Government after authoritative inspections and testings, and gained a leading position among counterparts in the industry. In addition to the first-in-the-world nano-standard upward injection high precision plastic micro-injection moulding machine, which was awarded the "Creation Prize (創新獎)" at the China International Industry Fair and "Gold Medal Award (金獎)" at Geneva, Switzerland, the Group has also introduced large tonnage two platen plastic injection moulding machines and second generation direct-clamp plastic injection moulding machines to the market. During the Year, the 3000-tonnage two platen plastic injection moulding machines produced by the Group have been successfully delivered to its customers. The Group would benefit from the breakthrough in large plastic injection moulding machines by entering into the segmented markets such as automobile, large home appliances, large logistics packaging and expand the customer base accordingly.

In respect of CNC machines, our "TC" series CNC machines continue to receive good responses from the market and are widely used by the renowned international OEM manufacturers for processing the famous brands smart phone components. According to the report of Gartner, an international market researcher, the sales of smart phone for 2010 amounted to approximately 297,000,000 units globally, representing an increase of approximately 72% as compared to 2009. As the market resumed its rapid growth, manufacturers of new brands smart phones and new application systems smart phones emerged successively, which may lead to another new investment cycle in equipment and provide a development opportunity for our CNC machines business. At the same time, we have successfully launched "MV" series CNC machines to meet the demand of automobile component processing. Since the PRC has become the largest automobile market in the world, together with the growing trend on the automatisation in automobile industry in the PRC, the utilisation of CNC machines will increase. It will provide another great market opportunity for the development of our CNC machines. Furthermore, the Group has introduced "HT" series horizontal CNC machines and has promoted it to our customers gradually. The Group believes that, with extensive experiences in machines manufacturing, we will achieve breakthrough in the development of large horizontal CNC machines after continuous improvement and with feedback from our customers.

Both plastic injection moulding machine and CNC machine businesses have become another two new growth engines for the Group, and are also the two major business sectors for continuous development.

Look forward to the year ahead, the macro economic environment will be filled with mixed trends and challenges. The soaring commodity prices in the global market, continuous austerity policies and the increasing labour cost in the PRC have exerted great pressure for downstream manufacturers and may have impact on the business of the Group. All these challenges will continue to test the enterprises' ability to adapt to the changing environment. However, I believe that our Group enjoys its significant advantages in brand name and comprehensive product portfolio together with strong yet diverse customer base, as such our Group will be capable to encounter those challenges ahead.

On behalf of the Board and our management team, I would like to take this opportunity to express my appreciation to our customers, suppliers, bankers, business partners and shareholders for their great support and encouragement to the Group. My heartfelt gratitude also goes to our dedicated Board members and committed staff, for their diligence in the past year. I believe, with your support, encouragement and assistance, the Group will be able to grasp every opportunity and march forward in strides.

**Chong Siw Yin**
*Chairperson*

29 June 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

For the year ended 31 March 2011 (the 'Year'), the Group recorded an encouraging result. Both revenue and profit have reached a record high. The Group recorded a revenue of HK$2,602,564,000, representing an increase of approximately 85% as compared to HK$1,408,364,000 of the corresponding period last year. Profit attributable to owners of the parent amounted to HK$259,365,000, demonstrating a remarkable increase for over ten fold as compared to a profit of HK$20,323,000 in the corresponding period last year.

## Business Review

During the Year, the Group maintained the strong momentum of recovery. Three business segments, namely die-casting machines, plastic injection moulding machines and computerised numerical controlled (CNC) machines demonstrated a significant increase and reached a new record. During the Year, the Group recorded a revenue of HK$2,602,564,000, representing an increase of approximately 85% as compared to the corresponding period last year.

During the Year, with the continuing strong growth in macro economy in the PRC, the Group's revenue from the PRC reached HK$2,000,000,000 for the first time to HK$2,065,388,000, demonstrating an increase of over 77% as compared to the corresponding period last year. Although the overall recovery of European and the USA economy remained slow, the performance of Idra S.r.l. ("Idra") in the European market showed improvement, the delivery of General Motors' order in the USA and the outstanding performance in the emerging market doubled the Group's revenue among the European, North American and the emerging market. The Group's revenue from overseas markets for the year amounted to HK$537,176,000, representing a remarkable increase of approximately 123% as compared to HK$240,399,000 in the corresponding period last year.

### Die-casting machines

For the first half of 2010, the accumulated automobile production and sales in the PRC exceeded 8.47 million units and 7.18 million units respectively, representing year-on-year increases of over 44% and 30% respectively. Such booming production and sales levels in the PRC automobile market stimulated the die-casting machine business of the Group. For the second half of Year, with the termination of the "Automobiles for the Rural Residents"(汽車下鄉) and "Trade-in" (以舊換新) subsidy stimulation policies, the production and sales of automobile market remained steady, and the growth in investment in die-casting machines slowed down accordingly. On the other hand, the increasing application for the die-casting machines in products such as kitchenware, radiators, transport equipment and energy saving LED/LNP encouraged the growth of die-casting machine business. The revenue of the die-casting machines for the Year increased by more than 65%.

With the recovery of the sales orders from the overseas market and the increasing sales orders from the emerging market, the revenue of the die-casting machines of the Group from the overseas market for the Year increased by more than 104%.

Although facing with the slow recovery in the European market, Idra, the Group's subsidiary in Italy recorded a remarkable increase in revenue of approximately 65%, as the synergy with the Group gradually took shape and the income from the PRC market recorded a significant increase. The business of Idra showed noticeable sign of improvement.

### Plastic injection moulding machine

For the business of plastic injection moulding machines, the Group has achieved major breakthroughs in four types of plastic injection moulding machines, namely large tonnage plastic injection moulding machines, servo control energy-saving plastic injection moulding machines, sophisticated direct-clamp plastic injection moulding machines and micro-injection moulding machines. Coupled with the recovery of the electric appliances and toy markets in the PRC, the revenue of plastic injection moulding machine business of the Group continued a significant increase of approximately 119% as compared to the corresponding period last year, and reached a record high again in despite of the gradual termination of stimulation policies of the PRC in the second half of the Year.

### Computerised numerical controlled (CNC) machines

The CNC machine business is a major growth potential business of the Group and is also one of the focuses for the future growth of the Group. With the competitive price performance ratio, a number of the Group's new products, especially those used to produce the components for smart phones and tablets personal computers, are well-received in the market and have successfully secured bulk orders from renowned customers such as BYD Auto and Foxconn. The revenue of the Group's CNC machines for the Year achieved a significant increase of approximately 262% as compared to the corresponding period last year and showed a continuing high growth trend.

### Cast components

The Group's large-scale modernised casting factory located in Fuxin County, Liaoning Province has commenced commercial production with number of models and volume of cast components increasing continuously. Apart from supplying high quality cast components for die-casting machines, plastic injection moulding machines and (CNC) machines of the Group, the factory also supplies to other customers.

## Research and Development ("R&D")

### R&D of die-casting machines

After the development of the 4,000-tonne super-large cold chamber die-casting machine, the Group have successfully developed a two platen energy-saving die-casting machines. It was showed in big exhibitions in Shenzhen and other cities, and received good appreciation. The Group once again has shown its leading R&D capability to the industry.

*The first 900-tonne two platen energy-saving die-casting machine in China developed by the Group*

Apart from the above, the Group has continued to enhance the provision of integrated services to its die casting machine customers, and has reaped tangible progress in the integration service of hardware and software. On top of providing high end die casting machines to its customers, the Group also provides peripheral accessories such as sprayers, ladles, extractors, trim presses, component conveyer belts and dedusting facilities, as well as professional software systems.

## R&D of plastic injection moulding machines

The Group continued to invest in the R&D of plastic injection moulding machines and it has attained major breakthroughs in large-tonnage plastic injection moulding machines. The large-tonnage plastic injection moulding machines produced by the Group can be used in the manufacture of large plastic accessories such as automobile instrument panels, large home appliances and large logistics containers. The breakthroughs achieved by the Group of large tonnage plastic injection moulding machines expands the product coverage, and extends to major industries such as large home appliances, automobile, large packaging container, and have helped the Group to gain new growth engines from these specific segments.

Meanwhile, the EFFORT series direct-clamp plastic injection moulding machine has been upgraded to EFFORT II high speed servo driven energy-saving series by the Group. This EFFORT II series incorporates an advance injection system, higher precision and better energy saving, with the overall performance closes to the European and USA standards. The machine has successfully established presence in the production of the high-end food and cosmetics packaging boxes in overseas market.

In response to the requirement of energy saving product in the market, the servo driven energy-saving series has been incorporated as the Group's standard feature and all the existing plastic injection moulding machines are upgraded accordingly. The Group has received good responses from the market.

In order to achieve a comprehensive enhancement in the Group's R&D capability in plastic injection moulding machine, the Group has entered into a technology development agreement with Beijing University of Chemical Technology, a well-known university in the PRC. The parties will collaborate in R&D of micro plastic injection moulding formation technology and its application. Micro plastic injection moulding machines will be widely used in the production of medical components and sophisticated electric components.

*The 3,000-tonne two platen large-tonnage plastic injection moulding machine produced by the Group*

## R&D of CNC machines

With an outstanding R&D efficiency, the Group's R&D centre in Taiwan has successfully developed numerous new models to suit the needs of different customers, and have demonstrated strong competitiveness on the market in just several years. Apart from the well-received "TC510", "TC710" and "TC1200" series of small size vertical drilling CNC machines specialised for post die-casting processing, new model series of "MV650", "MV850", "MV1050" and "MV-1680" vertical CNC machines were also developed. The MV model series is suitable for fine processing of automobile components. For the horizontal CNC machines, apart from the developed "HT400" and HT500" series, the Group also added new models "HT630" and "HT800".

*The HT630 two-platform horizontal CNC machine developed by the Group's Taiwan R&D centre*

## Prospects

Looking forward, the PRC, other emerging economies and developed economies will demonstrate growth momentum in different ways.

In respect of the PRC's economy, the PRC Government is trying to strike balance among growth, inflation and economic transition. The PRC have tightened its monetary policies for over half year. Inflation in the PRC has been under control in the second half of 2010, and it is expected that those monetary policies will be loosened, which will benefit small and medium-sized enterprises to obtain credit facilities and to invest in equipment. On the other hand, due to increasing labour shortage in the PRC, manufacturers are prompted to use more automatic equipments such as CNC machines, which will promote continuous growth of our CNC machine business. The large-scale construction of indemnificatory housing projects such as "comfortable housing" and "affordable housing" by the governments at different levels in the PRC will contribute to the new orders from customers in the construction materials industry and the home appliances industry. Meanwhile, it is expected that the "12th Five-Year Plan" issued by the PRC will continue to support equipment manufacturing industry as one of the core industries, so as to provide growth potentials for the equipment manufacturers, including the Group.

In addition, as our die-casting machines enjoy a high price performance ratio, are increasingly well-received in the developed countries such as the USA.

To meet the customer demands for large-tonnage die-casting machines and large-tonnage plastic injection moulding machines, the Group's new phase of factory in Shenzhen has commenced production, and the production capacity for large-tonnage die-casting machines and large-tonnage plastic injection moulding machines have been increased. Meanwhile, to cope with the rapid growth of the Group's CNC machine business, the Group's phase I new factory in Kunshan City, Jiangsu Province has also commenced production. The production capacity of the new factory in Kunshan City has been increased gradually and it is expected that the production capacity of CNC machines will be doubled by the end of 2011.

Although the global economy is undergoing recovery, uncertainties still exist which would impose an extraordinary challenge for the business development of equipment manufacturers. Firstly, European Debt Crisis and the slack recovery of economy in developed countries has slowed down the investment requirement in equipment. Secondly, the loose monetary policy in the USA together with its high inflation and low growth impose volatility risk for the global economy. Thirdly, the PRC government has initiated control measures such as raising both the reserve requirement ratio and borrowing interest rate several times in order to control the rise in prices. If the PRC implements too strict tightening measures to address inflation, it will be difficult for small and medium-sized enterprises to obtain credit facilities. Fourthly, other emerging economies other than the PRC are presently facing issues such as overheated economy and high inflation rate, thus controlling the development progress and inflation will be the future trend. Each of the above uncertainties may have impact to the business development of the Group in the PRC and emerging countries. At the same time, it may also impact the export business of the Group and the business performance of Idra.

Notwithstanding the above concerns, the management believes that the three product categories of the Group are all widely utilised in the manufacturing of consumer products with strong demands in the PRC market. Moreover, leveraging on the Group's leading position in the die-casting machine industry, significant progress achieved from its plastic injection moulding machine and the CNC machine businesses, plus advanced technology, large production scale and brand effect together with a solid and vast customer base, the management believes that the Group enjoys an optimistic outlook for future growth. The management will also closely monitor the macro-economy and market situation to seek for other development opportunities in prudent manner. Meanwhile, the Group will focus on R&D and talent pool, to strengthen the professional team in different sectors, so as to sustain the healthy growth of the Group.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## Directors

**Ms. Chong Siw Yin**, aged 55, is the chairperson of the Board and an executive Director of the Company. Ms. Chong joined the Group in March 1988, and was appointed as an executive Director in August 2004. She is also a director of certain subsidiaries of the Company. Ms. Chong is responsible for the strategic planning, administration and human resources management of the Group and has over 23 years of management experience.

**Mr. Cao Yang**, aged 44, is an executive Director and chief executive officer of the Company. Prior to joining the Group, he worked for the Ganzhou education bureau in Jiangxi Province. He joined the Group in December 1991 as supervisor of human resources and administration department and plant manager of L.K. Machinery (Shenzhen) Co. Ltd. and became the general manager of both L.K. Machinery (Shenzhen) Co. Ltd. in 2000 and Shenzhen Leadwell Technology Co. Ltd. since its establishment. He was appointed as an executive Director in September 2004. Mr. Cao is also a director of certain subsidiaries of the Company. He is responsible for the strategic planning as well as the overall manufacturing planning and sales activities of all manufacturing subsidiaries of the Group in the PRC. He has more than 19 years of experience in the manufacturing business. Mr. Cao graduated from the Mathematics faculty of Gannan Institute of Education and obtained an Executive MBA Degree from Huazhong University of Science and Technology. He currently serves as Vice President of Shenzhen Youth Federation, President of Shenzhen Hi-Tech Talents Association, Vice Director General of Guangdong Die-Casting Association, Vice President of Shenzhen Machinery Association. In addition, Mr. Cao is also the Vice President of Shenzhen Hi-Tech Industry Association and the Youth Entrepreneur Association.

**Mr. Chung Yuk Ming**, aged 63, is an executive Director of the Company. Mr. Chung joined the Group in February 2001 as a director of L.K. Machinery Company Limited. He was appointed as an executive Director in September 2004. Mr. Chung is also a director of certain subsidiaries of the Company. He is responsible for the strategic planning, the finance and investment of the Group. Mr. Chung has over 29 years of working experience in various sectors, including automobile, toys, electronics and telecommunication. Before joining the Group, he was an executive director of Kader Holdings Company Limited and Kader Investment Company Ltd. (now known as Shougang Concord Grand (Group) Limited), both of which are publicly listed companies in Hong Kong. Mr. Chung holds a master degree in Business Administration from the University of East Asia of Macau. He is a fellow member of the Hong Kong Institute of Directors.

**Mr. Hu Yongmin**, aged 41, was appointed as a non-executive Director of the Company in February 2011. Mr. Hu graduated from Fudan University. He is a co-founder of FountainVest. Prior to the founding of FountainVest, Mr. Hu was a managing director of Temasek Holdings Pte Ltd. Mr. Hu was also a member of Temasek's global investment committee, and head of its real estate investment. Previously an investment banker, Mr. Hu was a director and head of China telecom, media and technology investment banking for Credit Suisse First Boston (Hong Kong) Limited and Shanghai Chief Representative for Bear Stearns Asia Limited. Mr. Hu is currently a non-executive director of Central China Real Estate Limited, a company listed on the Hong Kong Stock Exchange, and an independent director of Home Inns & Hotels Management Inc., a company listed on NASDAQ.

**Dr. Low Seow Chay**, aged 61, was appointed as an independent non-executive Director of the Company in September 2004. He is the associate professor of the Nanyang Technological University of Singapore and has more than 29 years of teaching (and research) experience in mechanical engineering. He is a former member of the Parliament of Singapore serving the term from 1988 to 2006, and is the board member of three publicly listed companies in Singapore, namely CASA Holdings Limited, Hor Kew Corporation Limited and Hai Leck Holdings Limited. Dr. Low received a Doctor of Philosophy Degree from The Victoria University of Manchester, U.K..

**Dr. Lui Ming Wah, *SBS, JP***, aged 73, was appointed as an independent non-executive Director of the Company in September 2004. Dr. Lui is an established industrialist serving as the Honorary Chairman of The Hong Kong Electronic Industries Association Ltd. and the Honorary President of The Chinese Manufacturers' Association of Hong Kong, the founder chairman of Hong Kong Shandong Business Association and a member of The Hong Kong International Arbitration Center Advisory Council. In the PRC, he is a member of the National Committee of The Chinese People's Political Consultative Conference and a member of China Overseas Friendship Association. He was elected to the First, Second and Third Legislative Council of the HKSAR in 1998, 2000 and 2004 respectively. He is the managing director of Keystone Electronics Co., Limited. Besides, he is currently an independent non-executive director of AV Concept Holdings Limited, Glory Mark Hi-tech (Holdings) Limited, Gold Peak Industries (Holdings) Limited, S.A.S Dragon Holdings Limited (all being listed companies on the Stock Exchange in Hong Kong) and Asian Citrus Holdings Limited (also listed on the London Stock Exchange). Dr. Lui obtained a master degree in Applied Science from the University of New South Wales in Australia and a PhD from the University of Saskatchewan in Canada.

**Mr. Tsang Yiu Keung, Paul**, aged 57, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Tsang holds a higher diploma in Accountancy from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). He is a professional accountant and a fellow member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Secretaries and Administrators. Mr. Tsang was with KPMG for more than 27 years, where he was a senior banking partner until he retired from the firm on 31 March 2003. Mr. Tsang is currently an independent non-executive director of Guotai Junan International Holdings Limited, a listed company on the Stock Exchange in Hong Kong, and CITIC Bank International Limited (formerly known as CITIC Ka Wah Bank Limited), a licensed bank in Hong Kong and CITIC International Financial Holdings Limited.

**Mr. Chan Wah Tip, Michael**, aged 58, was appointed as an independent non-executive Director of the Company in September 2004. He has practiced as a solicitor in Hong Kong for over 33 years. Mr. Chan graduated with Bachelor of Laws (LL.B) from the University of Hong Kong in 1975 and received a Postgraduate Certificate of Laws (P.C.LL) from the University of Hong Kong in 1976. Mr. Chan is a partner of Wilkinson & Grist. Mr. Chan is currently a non-executive director of Shougang Concord Technology Holdings Limited and High Fashion International Limited, both of which are listed on the Stock Exchange in Hong Kong.

## Senior Management

**Mr. Chan Kwok Keung**, aged 45, is the engineering manager of the Group. He joined the Group in December 1998 and is responsible for the technical support, customer services and product development. He has 22 years of experience in mechanical engineering and customer service. He is an associate member of the Hong Kong Institution of Engineers. Prior to joining the Group, he was the customer service executive of Fong's National Engineering Co. Ltd.. Mr. Chan graduated from Newcastle Upon Tyne Polytechnic with a bachelor degree in Mechanical Engineering and obtained a degree of master of Science in Management from The Hong Kong Polytechnic University.

**Mr. Chan Yin Sau, Dennis**, aged 44, is the corporate development director of the Group. He joined the Group in June 2010 and is responsible for the strategic planning and corporate development of the Group. He has extensive experience in financial management and corporate development. Mr. Chan is a fellow member of both of the Hong Kong Institute of Certified Public Accountants and the CPA of Australia. He graduated from James Cook University in Australia with a bachelor degree of Commerce in Accounting and Deakin University in Australia with master degree in Business Administration.

**Mr. Fung Chi Yuen**, aged 45, joined the Group in 2007 as general manager and chief engineer of Injection Molding Machine Business Unit. Mr. Fung holds a master degree and a bachelor degree of science in Engineering from the University of Hong Kong. He has 22 years' solid experience in product design, production and research and development of plastic injection molding machines both locally and overseas. Before joining the Group, Mr. Fung was the acting operation manager and engineering manager of Husky Injection Molding Systems Ltd., Machine Business Unit, Shanghai, Asia Pacific, a Canadian base company.

**Mr. Li Pin Zhang**, aged 49, is the general manager of Shanghai Atech Machinery Co., Ltd. and is responsible for the production and sales, marketing and operation of the company. He has over 19 years of experience in production, quality control, engineering, customer service and sales. He joined the Group in February 1991 and served various positions, including customer services officer of L.K. Machinery (Shenzhen) Co. Ltd., manager of Fujian sales office, plant manager of Zhongshan L.K. Machinery Co. Ltd. and deputy general manager of Shanghai Atech Machinery Co., Ltd. Prior to joining the Group, he worked as an engineer at Fujian Nam Ping Electric Machinery Factory, a state-owned enterprise in the PRC. Mr. Li received a Diploma in Industrial Electrical Automation from Fujian Mechanical & Electrical Institute. Mr. Li was appointed the honorary president of the 10th Executive Committee of the Shanghai Die-Casting Association, a member of the Sixth Executive Committee of China Foundry Association and the deputy officer of the 4th Executive Committee of the Die-Casting Technical Committee, Foundry Institution of the Chinese Mechanical Engineering Society. Mr. Li was awarded the title of Excellent Entrepreneur in the Fifth National Association of Casting Industry.

**Mr. Te Yi Ming**, aged 48, is the sales controller of L.K. Machinery International Limited and is responsible for the sales and marketing in South China. After graduation from the Liuzhou Heavy Industrial Technical School, he worked in Liuzhou Compressor Factory in Guangxi Province until he joined the Group in March 1989 where he once served as customer services supervisor, sales officer and sales manager. He has 22 years of experience in customer services, sales and marketing. Mr. Te is a fellow of The Professional Validation Council of Hong Kong Industries and currently serves as vice president of Hong Kong (SME) Economic and Trade Promotional Association, vice president of Hong Kong Diecasting and Foundry Association and vice president of Shenzhen Plastics & Rubber Association. He is a member of the Chinese People's Political Consultative Conference, Liuzhou City.

**Mr. Tse Siu Sze**, aged 43, is the general manager of Zhongshan L.K. Machinery Co. Ltd. and is responsible for the management, production, sales and marketing of this company. He joined the Group in July 1990 and served several positions in the Group, including supervisor of technical support department, manager of customer service department and manager of sales and marketing department. He has over 17 years of rich experience in business management. Mr. Tse currently serves as vice president of the Tenth Executive Committee of the Hong Kong Plastic Machinery Association, member of the Executive Committee of the Foreign Invested Enterprises Association of Zhongshan, vice president of the Executive Committee of the Association of Commerce of Dongshen County, Zhongshan. He is also a fellow of The Professional Validation Council of Hong Kong Industries. Mr. Tse was awarded fellow of Business Administration by Asian Knowledge Management Association in 2005 and received his MBA Degree from the Lincoln University, U.S..

**Mr. Wang Xin Liang**, aged 43, is the general manager of both Ningbo L.K. Machinery Co. Ltd. and Ningbo L.K. Technology Co. Ltd. and is responsible for the production and sales, marketing and operation of these companies. He joined the Group in July 1993 and served a number of positions in L.K. Machinery (Shenzhen) Co. Ltd., including customer services supervisor, customer services manager and marketing manager. He has over 16 years of experience in customer support services and sales. Prior to joining the Group, he was an assistant engineer of Tao Jiang Machinery Factory. He graduated from Changsha Ferrous Metal Technical School.

**Mr. Yang Yi Zhong**, aged 68, is the Group's chief internal auditor and is responsible for the internal audit of the subsidiaries in the PRC. Prior to joining the Group, he was a senior accountant of Jiaozuo Electrochemistry Group. He joined the Group as the financial controller of all the PRC subsidiaries of the Group in November 1999. Mr. Yang graduated from Henan Radio & Television University with a diploma in Accounting and has over 46 years of experience in finance and accounting. Mr. Yang is a member of The Chinese Institute of Certified Public Accountants and is entitled Senior Accountant.

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance practices and procedures. The Company has applied the principles and complied with code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2011 save as disclosed below.

The Company does not fully comply with code provision A.4.1 in the CG Code. Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Hu Yongmin, being a non-executive director of the Company, has not been appointed for a specific term but is subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company.

## Board of Directors

The Board currently comprises three Executive Directors, one non-executive Director and four Independent Non-executive Directors. The Independent Non-executive Directors are appointed for a fixed term of three years and are subject to retirement by rotation in accordance with the Company's Articles of Association. There is a strong independent element on the Board as the number of Independent Non-executive Directors represents more than one-third of the Board. They bring independent judgment and provide the Company with invaluable guidance and advice on the Group's development. They also review the financial information and operational performance of the Company on a regular basis. The present structure of the Board ensures the independence and objectivity of the Board and provides a system of checks and balances to safeguard the interests of the shareholders as a whole.

All the Independent Non-executive Directors meet the requirements of independence under the Listing Rules. The Company has received from each of the Independent Non-executive Directors the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of them to be independent. Biographical details of each board member are set out in pages 10 to 11 of this report. There is no relationship (including financial, business, family or other material relationship) among members of the Board.

The Board of Directors meets at least four times a year at approximately quarterly intervals to review operational and financial performance and approves matters specially reserved to the Board of Directors for its decision. The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. Dates of the regular board meeting are scheduled earlier. Notice of at least 14 days is given for regular board meetings. For ad hoc board meetings, reasonable notice will be given. All the Directors actively participated in the board meetings during the year.

The Company Secretary is responsible for ensuring compliance of Board procedures and advising the Board on matters concerning corporate governance and regulatory compliance. All Directors have access to the advice and services of the Company Secretary. Directors are consulted as to matters to be included in the agenda for regular board meetings. Other than exceptional circumstances, related board meeting materials are sent to all Directors in a timely manner and at least three days before the date of the scheduled board meeting. Directors are provided with complete and adequate information to enable them to make an informed decision. Draft and final versions of minutes of Board meetings are sent to all Directors for comment and records within a reasonable time after the Board meeting is held. The minutes of the Board meetings record in sufficient details the matters considered by the Board, including concerns raised by the Directors. All minutes of Board meetings are kept by the Company Secretary and are open for inspection by any Director.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board meeting and the interested shareholder or Director shall not vote nor be counted in the quorum present at the relevant meeting. Independent Non-executive Directors who, and whose associates, have no material interest in the transaction shall be present at such Board meeting.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Company reviews the insurance coverage from time to time to ensure adequate coverage. There is a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses in order to assist them to discharge their duties to the Company.

The roles of the Chairperson and Chief Executive Officer of the Company are segregated and are not exercised by the same individual. Ms. Chong Siw Yin is the Chairperson and Mr. Cao Yang is the Chief Executive Officer. The segregation of duties of the Chairperson and the Chief Executive Officer ensures a clear distinction in the Chairperson's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The division of responsibilities between the Chairperson and the Chief Executive Officer are set out in writing.

## Attendance at meetings

The attendance records of the Directors at Board meetings, Audit Committee meetings, Nomination Committee meetings and Remuneration Committee meetings during the year are as follows:

| | Number of meetings attended/held | | | |
|---|---|---|---|---|
| | **Board meeting** | **Audit Committee meeting** | **Nomination Committee meeting** | **Remuneration Committee meeting** |
| **Executive Directors** | | | | |
| Ms. Chong Siw Yin | 4/4 | N/A | N/A | N/A |
| Mr. Cao Yang | 4/4 | N/A | N/A | N/A |
| Mr. Chung Yuk Ming | 4/4 | N/A | N/A | N/A |
| Ms. Wong Pui Chun (resigned on 1 February 2011) | 1/4 | N/A | N/A | N/A |
| **Non-executive Director** | | | | |
| Mr. Hu Yongmin (appointed on 25 February 2011) | 1/4 | 1/4 | 1/3 | 1/3 |
| **Independent Non-executive Directors** | | | | |
| Dr. Low Seow Chay | 4/4 | N/A | 3/3 | N/A |
| Dr. Lui Ming Wah, *SBS, JP* | 3/4 | 3/4 | 3/3 | 3/3 |
| Mr. Tsang Yiu Keung, Paul | 4/4 | 4/4 | N/A | 3/3 |
| Mr. Chan Wah Tip, Michael | 4/4 | 4/4 | 3/3 | 3/3 |

## Board Committees

### Remuneration Committee

The Remuneration Committee currently comprises three Independent Non-executive Directors, namely Dr. Lui Ming Wah, Mr. Chan Wah Tip, Michael and Mr. Tsang Yiu Keung, Paul and a Non-executive Director, namely Mr. Hu Yongmin. Dr. Lui Ming Wah is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages of Directors and senior management, determining the award of bonuses and considering the grant of options under the share option scheme of the Company. Under its terms of reference, the Remuneration Committee shall meet at least twice a year.

The Remuneration Committee held three meetings during the year. The members of the Remuneration Committee considered and determined the remuneration package of the newly appointed Non-executive Director. They also discussed and reviewed the salary, bonus and benefit of the Executive Directors.

### Nomination Committee

The Nomination Committee currently comprises three Independent Non-executive Directors, namely Mr. Chan Wah Tip, Michael, Dr. Low Seow Chay and Dr. Lui Ming Wah and a Non-executive Director, namely Mr. Hu Yongmin. Mr. Chan Wah Tip, Michael is the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors and the management of the board succession. The Nomination Committee can reasonably ensure that only candidates with capability and relevant experience will be appointed as future directors. Such monitoring by the Nomination Committee will lower the possibility for appointment of someone that may affect the independence of the Board. Under its terms of reference, the Nomination Committee shall meet at least twice a year.

During the year, the Nomination Committee held three meetings. They discussed and considered the resignation of an Executive Director and the appointment of a Non-executive Director. They also assessed the independence of the Independent Non-executive Directors and reviewed the structure, size and composition of the Board.

### Strategy Committee

The Strategy Committee was established on 24 February 2011 to oversee certain strategy-related matters of the Company, including without limitation, the Company's future expansion strategies (both domestic or international), major merger and acquisitions, and other significant investment activities of the Company. The Strategy Committee comprises three Executive Directors namely, Ms. Chong Siw Yin, Mr. Cao Yang and Mr. Chung Yuk Ming, a Non-executive Director, namely Mr. Hu Yongmin and an Independent non-Executive Director, namely Mr. Tsang Yiu Keung, Paul.

### Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. Tsang Yiu Keung, Paul, Dr. Lui Ming Wah and Mr. Chan Wah Tip, Michael and a Non-executive Director, namely Mr. Hu Yongmin. Mr. Tsang Yiu Keung, Paul is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. Under its terms of reference, the Audit Committee shall meet at least four times a year. The Internal Audit Department reports directly to the Audit Committee.

During the year, the Audit Committee held four meetings with the representatives of the management, the internal auditors and the external auditor of the Company to discuss the auditing, financial reporting and internal control matters. The Audit Committee also met with the external auditor in the absence of management to discuss and make enquiries on various financial and operational matters.

The following is a summary of works performed by the Audit Committee during the year:

(i) review of the Group's interim and annual results before submission to the Board for approval;

(ii) review of external auditor's audit plan, the external auditor's reports and other matters raised by the external auditor;

(iii) making recommendation to the Board on the appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

(iv) review of the quarterly reports submitted by the Internal Audit Department and make recommendations; and

(v) review of the system of internal control and working procedures of the Group.

### Auditor's Remuneration

The financial statements of the Group for the year ended 31 March 2011 have been audited by PricewaterhouseCoopers. The remuneration paid/payable to PwC is set out as follows:

| | **Fee paid/payable** |
|---|---|
| | *HK$'000* |
| Financial audit services | 2,650 |
| Non-audit services | 103 |
| | 2,753 |

The remuneration paid to BDO Limited for non-audit services (the preceding auditor) during the year was HK$450,000.

The non-audit services are mainly for interim results review and tax compliance.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. The Directors have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the year.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or the Company's securities.

## Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2011.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 28 and 29.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## Internal Control

The Board has overall responsibility for the maintenance of sound and effective internal control systems within the Group.

The internal audit department (the "IAD") of the Company reports direct to the Audit Committee. The functions and responsibilities of the IAD include, among others, formulating audit plan, reviewing monthly management accounts, preparing and performing audit field work, preparing quarterly audit reports. Quarterly reports are prepared and submitted to the Audit Committee for review. The head of the IAD attends all the Audit Committee meetings and report to the Audit Committee regarding the work done and findings made by the IAD. The IAD is required to incorporate recommendations from the Audit Committee into the workflow or procedures of the IAD. When the IAD identifies any irregularities, it will report them to the Audit Committee and depending on the nature of the irregularities, recommend corresponding precautionary measures. All recommendations from the IAD will be properly followed up to ensure that they are implemented within a reasonable timeframe.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system and considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## Shareholder Rights and Investor Relations

The Company maintains various communication channels with its shareholders. The Company's annual general meeting provides a good opportunity for shareholders to exchange views with the Board. The chairperson of the Board and the chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee will attend the annual general meeting and ready to answer shareholders' questions.

In order to promote effective communication, the Company maintains a website www.lktechnology.com which includes past and present information relating to the Group and its businesses.

The Company regards communications with its investors as being vital. The Company continues to enhance investor relations. Designated members of the Board and senior management of the Company are given the specific responsibilities to maintain regular contact with institutional investors, potential investors, financial analysts and fund managers. During the year, plant visits and meetings were held to keep them better understand the Group's operations and developments. Press releases were issued to provide with the most updated business development of the Group to the public.

# DIRECTORS' REPORT

The Directors submit their annual report together with the audited consolidated financial statements for the year ended 31 March 2011.

## Principal Activities

The Company acts as an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines, CNC machines and related accessories. The Group is also engaged in steel casting. The activities of the Company's principal subsidiaries are set out in notes 10 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 March 2011 are set out in the consolidated income statement on page 33.

The Directors recommended a final dividend of HK5 cents per ordinary share for the year ended 31 March 2011.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

## Investment Properties

Details of the movements in investment properties are set out in note 8 to the consolidated financial statements.

## Share Capital

Details of the movements in share capital of the Company are set out in note 19 to the consolidated financial statements.

## Donations

During the year, the Group made charitable or other donations totalling HK$137,000.

## Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 21 to the consolidated financial statements respectively.

## Distributable Reserves of the Company

As at 31 March 2011, the Company's reserves available for distribution to shareholders of the Company were HK$572.8 million, representing share premium of HK$497.8 million, share option reserve of HK$1.2 million and retained profits of HK$73.8 million.

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provision of the Company's Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group is set out on page 112.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Directors

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

### Executive Directors

Ms. Chong Siw Yin *(Chairperson)*
Mr. Cao Yang *(Chief executive officer)*
Mr. Chung Yuk Ming
Ms. Wong Pui Chun (resigned on 1 February 2011)

### Non-executive Director

Mr. Hu Yongmin (appointed on 25 February 2011)

### Independent Non-executive Directors

Dr. Low Seow Chay
Dr. Lui Ming Wah, *SBS, JP*
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael

The biographical details of the Directors are set out on page 10 to page 11 of this annual report.

In accordance with Article 87 of the Company's Articles of Association, Ms. Chong Siw Yin, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Hu Yongmin who has been appointed on 25 February 2011, holds office until the forthcoming general meeting, and being eligible, offers himself for re-election.

The three Executive Directors, namely Ms. Chong Siw Yin, Mr. Cao Yang and Mr. Chung Yuk Ming, have entered into service contracts with the Company for a term of three years commenced on 16 October 2009.

The Non-executive Director, namely Mr. Hu Yongmin who was appointed on 25 February 2011, has not entered into any service contract with the Company but is subject to the requirements of rotation, retirement and re-election under the articles of association of the Company.

The Independent Non-executive Directors, namely Dr. Low Seow Chay, Dr. Lui Ming Wah, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael whose service contracts expired in September 2010, were re-appointed for a term of three years in September 2010. Each of the Independent Non-executive Directors or the Company may terminate the appointment at any time during the three-year term by giving the other party at least three months' notice in writing.

Each of the Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors being 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 employing company within one year without payment of compensation, other than statutory compensation.

## Directors' Interest in Contracts

No contract of significance, to which the Company, its holding company, any of its subsidiaries or fellow 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 any time during the year except for those disclosed under "Continuing Connected Transaction" below.

## Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 March 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of SFO (including any interests which were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

| Name of director | Name of company | Capacity | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|---|
| Ms. Chong Siw Yin ("Ms. Chong") | the Company | See Note (1) | 645,097,500[(1)] Long position | 57.03% |
| | the Company | Beneficial owner | 1,050,000 Long position | 0.09% |
| | the Company | Beneficial owner | 1,500,000[(2)] Long position | 0.13% |
| Mr. Cao Yang | the Company | Beneficial owner | 2,000,000 Long position | 0.18% |
| Mr. Chung Yuk Ming | the Company | Beneficial owner | 2,000,000 Long position | 0.18% |

*Notes:*

1. These 645,097,500 shares are owned by Girgio Industries Limited ("Girgio"). Girgio is owned as to 95% by Fullwit Profits Limited ("Fullwit") as trustee of The Liu Family Unit Trust and 5% by Mr. Liu Siong Song ("Mr. Liu"), the spouse of Ms. Chong. Fullwit is wholly-owned by Ms. Chong. Ms. Chong is deemed to be interested in the shares held by Girgio through Fullwit and Mr. Liu.

2. Such interest in shares is held pursuant to options granted under the Pre-IPO Share Option Scheme, details of which are described in the paragraph headed "Share Option Schemes" in this report.

Save as disclosed above, none of the Directors and chief executive of the Company had registered any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Interests and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 March 2011, the persons, other than the Directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

| Name | Capacity | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Girgio | Beneficial owner | 645,097,500[(1)] Long position | 57.03% |
| Mr. Liu | See Note (2) | 645,097,500[(2)] Long position | 57.03% |
| | | 1,050,000[(2)] Long position | 0.09% |
| | | 1,500,000[(2)] Long position | 0.13% |
| Fullwit | See Note (1) | 645,097,500[(1)] Long position | 57.03% |
| HSBC International Trustee Limited | See Note (3) | 645,097,500[(3)] Long position | 57.03% |
| FountainVest China Growth Partners GP, Ltd. ("FountainVest") | Beneficial owner | 112,000,000[(4)] | 9.90% |
| | See Note (4) | 58,000,000[(4)] | 5.13% |
| | | 25,600,000[(4)] | 2.26% |
| Kui Tang | Investment manager | 112,000,000[(4)] | 9.90% |
| | See Note (5) | 58,000,000[(4)] | 5.13% |
| | | 25,600,000[(4)] | 2.26% |

*Notes:*

1. These 645,097,500 shares are owned by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. Fullwit is wholly-owned by Ms. Chong.

2. Mr. Liu is the spouse of Ms. Chong and is deemed to be interested in the shares held by Ms. Chong. Besides, Mr. Liu holds 5% interest in Girgio.

3. HSBC International Trustee Limited is the trustee of The Liu Family Trust. The Liu Family Trust was established by Mr. Liu on 22 February 2002 as an irrevocable discretionary trust for the benefit of Ms. Chong and the children of Mr. Liu and Ms. Chong. HSBC International Trustee Limited as trustee of The Liu Family Trust owns 99.9% of the units issued under The Liu Family Unit Trust and Ms. Chong owns the remaining 0.1% of the units.

## Interests and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations *(continued)*

4. On 26 January 2011, the Company and China Machinery Investment Holdings Limited ("China Machinery") entered into an investment agreement relating to, amongst other things, the issue of new subscription shares, the issue of perpetual convertible securities at an aggregate principal amount of HK$145,000,000 ("Perpetual Convertible Securities") and the issue of warrants entitling China Machinery to subscribe for a maximum 25,600,000 Shares ("Warrants"). China Machinery is wholly owned by FountainVest indirectly. Based on the initial conversion price of HK$2.50 per Share and assuming full conversion of the Perpetual Convertible Securities at such conversion price, the Perpetual Convertible Securities will be convertible into 58,000,000 Shares (the "Conversion Shares"). The Warrants entitle China Machinery to subscribe for a maximum of 25,600,000 Shares (the "Warrant Shares") at the initial exercise price of HK$3.125 per Share. As at the date of this report, none of the Conversion Shares and/or the Warrant Shares was issued by the Company to China Machinery. For further details, please refer to the Company's announcements dated 26 January 2011 and 25 February 2011.

5. Kui Tang is deemed to be interested in the shares held by FountainVest by virtue of his 34% interest in FountainVest through One Venture Limited.

Save as disclosed above, the Directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who has interest in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

## Share Option Schemes

A Pre-IPO Share Option Scheme was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 23 September 2006. Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 March 2011 were as follows:

| | | | | Number of shares subject to options | | | |
|---|---|---|---|---|---|---|---|
| **Name/category of participant** | **Date of grant** | **Exercise price** HK$ | **Exercise period** | **Outstanding as at 01/04/10** | **Exercised during the year** | **Lapsed during the year** | **Outstanding as at 31/03/11** |
| **The Directors** | | | | | | | |
| Ms. Chong | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 2,500,000 | (1,000,000) | – | 1,500,000 |
| Mr. Cao Yang | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 2,000,000 | (2,000,000) | – | – |
| Mr. Chung Yuk Ming | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 1,500,000 | (1,500,000) | – | – |
| | | | | 6,000,000 | (4,500,000) | – | 1,500,000 |
| **Other Employees** | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 4,010,000 | (3,110,000) | – | 900,000 |
| | | | | 10,010,000 | (7,610,000) | – | 2,400,000 |

## Share Option Schemes *(continued)*

Each of the grantees to whom options were granted under the Pre-IPO Share Option Scheme would be subject to the following restrictions on the exercise of the options granted to him/her:

| Period (as from 16 October 2006, the day on which the shares of the Company commenced trading on the Stock Exchange, the "Listing Date") | Maximum cumulative percentage of the shares under option exercisable by the grantee |
|---|---|
| First 6 months | 0% |
| Second 6 months | 33% |
| Third 6 months | 66% |
| For the remaining option period | 100% |

Save as disclosed above, no further options were granted under the Pre-IPO Share Option Scheme as the right to do so had ended on the day on which the prospectus of the Company dated 29 September 2006 (the "Prospectus") was registered with the Registrar of Companies in Hong Kong.

The fair value of the options granted under the Pre-IPO Share Option Scheme amounting to HK$18,480,000 was determined at the Listing Date under the Binominal Option Pricing Model by an independent valuer. The assumptions used to calculate the fair value of the options are disclosed in note 20 to the consolidated financial statements.

The fair value of the options granted is expensed over the respective vesting periods.

The weighted average closing price immediately before the dates on which the options were exercised during the year was HK$2.84.

In addition, a share option scheme (the "Share Option Scheme") was also adopted pursuant to the written resolution passed by the sole shareholder of the Company on 23 September 2006. No options had been granted under the Share Option Scheme since its date of adoption and up to 31 March 2011.

## Share Option Schemes *(continued)*

### A. Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme (as summarised in section B below) except that:

(a) the subscription price for the shares is HK$0.666;

(b) the total number of shares subject to the Pre-IPO Share Option Scheme is 36,800,000 shares and there are no similar requirements on granting options to connected persons as detailed in the Share Option Scheme;

(c) only employees, executive directors, non-executive directors and independent non-executive directors are eligible for the grant of options under the Pre-IPO Share Option Scheme;

(d) save for the options which have been granted (with details set out in the Prospectus), no further options will be granted as the right to do so has ended on the day on which the Prospectus was registered with the Registrar of Companies in Hong Kong;

(e) the options granted under the Pre-IPO Share Option Scheme will not be exercised within the first six months of the Listing Date;

(f) the grantees will not exercise any option as a result of which the Company will not be able to comply with the public float requirement of the Listing Rules; and

(g) each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme is subject to the restrictions on the exercise of the options granted to him/her as mentioned in the preceding paragraph.

### B. The Share Option Scheme

*(a) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group.

*(b) Participants of the Share Option Scheme*

The Board may, at its absolute discretion, invite any employees (whether full time or part time), any executive directors, any non-executive directors, any independent non-executive directors, or any consultant, suppliers or customers of the Group (the "Participants") to take up options to subscribe for shares at a price calculated in accordance with paragraph (g) below.

*(c) Maximum number of shares available for issue under the Share Option Scheme*

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme(s) of the Group, if this will result in such 30% limit being exceeded.

## Share Option Schemes *(continued)*

### B. The Share Option Scheme *(continued)*

(d) *Maximum entitlement of each Participant under the Share Option Scheme*

The total number of shares issued and which may fall to be issued on the exercise of options granted under the Share Option Scheme and any other share option scheme(s) of the Group (including both exercised and outstanding options) to each Participant shall not exceed 1% of the total issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the approval of the shareholders of the Company in general meeting with such Participant and his associates abstaining from voting.

(e) *Amount payable upon acceptance of the option*

The Participant must pay HK$10 to the Company by way of a non-refundable nominal consideration for the grant thereof. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Participant together with the said consideration of HK$10 is received by the Company.

(f) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined on the date of grant and to be notified by the Directors to each grantee which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than 10 years from the date of grant, subject to the provisions for early termination thereof. An option may not be exercised after the expiry of ten years from the date of grant. The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to), if appropriate, the minimum period for which an option must be held or may be exercised. All of the options must be held for a period of six months (the "Six-Months period") from the date of grant and no option may be exercised within the Six-Months Period.

The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to) a performance target (as determined by the Board from time to time) which must be achieved before an option can be exercised.

(g) *Basis of determining the exercise price*

The subscription price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant, which must be a business day; and (iii) the nominal value of the shares on the date of grant of option.

(h) *Period of the Share Option Scheme*

Subject to earlier termination by the Company by ordinary resolution in general meeting, the Share Option Scheme will remain in force for a period of ten years commencing from 23 September 2006 after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all aspect.

## Arrangements to Purchase Shares or Debentures

Other than the Company's share option schemes disclosed above, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debentures, of the Company or any other body corporate.

## Management Contracts

No contracts concerning the management and administration of the whole or any part of the business of the Company were entered into or existed during the year.

## Competing Business

Each of Mr. Liu, Girgio, Ms. Chong, Mr. Liu Zhou Ming and Fullwit has provided a written confirmation, which has been reviewed and confirmed by the Independent Non-executive Directors of the Company, confirming compliance with the terms the Non-competition Undertaking entered into between them and the Company.

## Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year.

## Continuing Connected Transaction

A related party transaction as detailed below and disclosed in note 36(a) to the consolidated financial statements constituted a connected transaction under the Listing Rules which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

On 29 August 2008, L.K. Machinery International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Wheelfit Investment Limited ("Wheelfit") to renew the tenancy of Unit A, Ground floor (with a gross floor area of approximately 12,104 sq.ft.), Mai Wah Industrial Building, Nos. 1-7 Wah Sing Street, Kwai Chung, New Territories (the "Premises") for a term of two years from 1 September 2008 to 31 August 2010 at a monthly rental of HK$100,000 (the "Tenancy Agreement"). Since Wheelfit is a company directly owned as to 50% by Mr. Liu, a substantial shareholder of the Company and 50% by an independent third party, the Tenancy Agreement constitutes a continuing connected transaction of the Company ("Continuing Connected Transaction"). The Tenancy Agreement expired on 31 August 2010. During the year, the rentals paid by the Group to Wheelfit pursuant to the Tenancy Agreement amounted to HK$500,000. The Group did not enter into any further tenancy agreement with Wheelfit in respect of the renewal of the tenancy of the Premises.

The Independent Non-executive Directors have reviewed and confirmed that the Continuing Connected Transaction disclosed above was entered in the ordinary and usual course of business of the Group and on normal commercial terms and in accordance with the relevant agreement governing the transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has also received a letter from the external auditor in respect of the Continuing Connected Transaction stating that:

(1) it has been approved by the Board;

(2) it has been entered into in accordance with the relevant agreement governing the transaction; and

(3) the aggregate amount of the Continuing Connected Transaction has not exceeded the annual cap that has been previous announced.

## Staff and Remuneration Policies

As at 31 March 2011, the Group employed approximately 3,900 full time staff. The staff costs for current year amounted to HK$409.0 million (2010: HK$265.0 million). The remuneration policies of the Group are determined based on market trends, future plans and the performance of individuals. In addition, the Group also provides to staff other staff benefits such as mandatory provident fund, state-managed social welfare scheme and share option schemes.

## Sufficiency of Public Float

As at the latest practicable date prior to the issue of this report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

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

Neither the Company nor any of its subsidiaries, fellow subsidiaries and holding company has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 March 2011.

## Continuing Disclosure Requirement Under Rule 13.21 of Chapter 13 of the Listing Rules

In accordance with the requirements of Rule 13.21 of Chapter 13 of the Listing Rules, the following is the details of the facility agreement with a covenant relating to specific performance of the controlling shareholder of the Company at 31 March 2011.

On 18 July 2008, L.K. Machinery Company Limited as borrower, and the Company as a guarantor, entered into a facility agreement with, inter alia, The Hongkong and Shanghai Banking Corporation Limited as the mandated coordinating arranger and the agent and other financial institutions as lenders for a three-year term loan/revolving credit facility of up to HK$500 million (the "Facility Agreement"), the Facility Agreement imposes a covenant relating to specific performance of the controlling shareholder of the Company.

The Facility Agreement provides that it would constitute an event of default under the Facility Agreement if Ms. Chong Siw Yin (a controlling shareholder of the Company held as to approximately 74% of equity interests in the Company as at the date of the Facility Agreement) does not or ceases to hold (directly or indirectly) beneficially and legally, more than 50% of the shares and equity interests in the Company.

The aforesaid obligation continued to exist at 31 March 2011.

## Auditor

BDO Limited ("BDO") audited the Company's financial statements for the year ended 31 March 2010. BDO has resigned as the auditor of the Company with effect from 25 March 2011. PricewaterhouseCoopers ("PwC") has been appointed as the auditor of the Company with effect from 25 March 2011 to fill the casual vacancy occasioned by the resignation of BDO.

PwC retires and being eligible, offer itself for re-reappointment. A resolution to re-appoint PwC as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board
**Cao Yang**
*Chief Executive Officer*

Hong Kong, 29 June 2011

PRICEWATERHOUSECOOPERS

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF L.K. TECHNOLOGY HOLDINGS LIMITED**

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

We have audited the consolidated financial statements of L.K. Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 30 to 111, which comprise the consolidated and Company statements of financial position as at 31 March 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that gives a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 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 about 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 of consolidated financial statements that give a true and fair view 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.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2011 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.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 29 June 2011

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) | 2009<br>HK$'000<br>(Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 6 | 14,463 | 16,191 | 14,999 |
| Property, plant and equipment | 7 | 719,408 | 594,210 | 632,280 |
| Investment properties | 8 | 32,240 | 25,910 | 22,140 |
| Land use rights | 9 | 142,273 | 140,313 | 83,353 |
| Deposits paid | 17 | 29,652 | 28,568 | 21,935 |
| Interest in an associate | 14 | – | 71,397 | 75,476 |
| Deferred income tax assets | 11 | 20,553 | 11,073 | 16,951 |
| Trade and bills receivables | 12 | 4,069 | 6,156 | – |
| Derivative financial instruments | 13 | – | 2,771 | 4,744 |
| Restricted bank balances | 18(b) | 13,542 | 6,873 | 6,092 |
| Interest in a jointly controlled entity | | – | – | 3,078 |
| **Total non-current assets** | | 976,200 | 903,462 | 881,048 |
| **Current assets** | | | | |
| Inventories | 15 | 861,932 | 534,861 | 454,410 |
| Available-for-sale financial assets | 16 | – | 10,418 | 9,091 |
| Trade and bills receivables | 12 | 787,790 | 487,352 | 351,737 |
| Other receivables, prepayments and deposits | 17 | 177,094 | 155,944 | 55,064 |
| Amount due from an associate | | – | 340 | – |
| Derivative financial instruments | 13 | 37 | 2,670 | 34 |
| Restricted bank balances | 18(b) | 66,374 | 27,137 | 21,632 |
| Cash and cash equivalents | 18(a) | 444,303 | 398,074 | 330,265 |
| | | 2,337,530 | 1,616,796 | 1,222,233 |
| Non-current assets held-for-sale | 14 | 73,918 | – | – |
| **Total current assets** | | 2,411,448 | 1,616,796 | 1,222,233 |
| **Total assets** | | 3,387,648 | 2,520,258 | 2,103,281 |
| **Equity** | | | | |
| Share capital | 19 | 113,107 | 102,146 | 101,284 |
| Reserves | 21 | 880,931 | 460,274 | 449,190 |
| Retained earnings | | | | |
| – Proposed final dividend | 32 | 56,553 | – | – |
| – Others | | 466,406 | 322,909 | 302,757 |
| Equity attributable to owners of the parent | | 1,516,997 | 885,329 | 853,231 |
| Non-controlling interests | | 3,439 | 3,443 | 14,396 |
| **Total equity** | | 1,520,436 | 888,772 | 867,627 |

| | Note | 2011 HK$'000 | 2010 HK$'000 (Restated) | 2009 HK$'000 (Restated) |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Deferred income tax liabilities | *11* | **4,475** | 8,595 | 3,708 |
| Derivative financial instruments | *13* | **–** | 1,168 | 2,236 |
| Borrowings | *22* | **91,765** | 72,080 | – |
| Other payables | | **9,513** | 10,654 | 10,503 |
| **Total non-current liabilities** | | **105,753** | 92,497 | 16,447 |
| **Current liabilities** | | | | |
| Trade and bills payable, other payables, deposits and accruals | *23* | **957,825** | 682,739 | 330,434 |
| Amount due to holding company | *36(c)* | **–** | 40,000 | – |
| Amount due to an associate | | **–** | – | 40,909 |
| Derivative financial instruments | *13* | **60,347** | 2,322 | 3,307 |
| Borrowings | *22* | **713,951** | 810,065 | 844,076 |
| Current income tax liabilities | | **29,336** | 3,863 | 481 |
| **Total current liabilities** | | **1,761,459** | 1,538,989 | 1,219,207 |
| **Total liabilities** | | **1,867,212** | 1,631,486 | 1,235,654 |
| **Total equity and liabilities** | | **3,387,648** | 2,520,258 | 2,103,281 |
| **Net current assets** | | **649,989** | 77,807 | 3,026 |
| **Total assets less current liabilities** | | **1,626,189** | 981,269 | 884,074 |

Approved by the Board of Directors on 29 June 2011 and signed on behalf of the Board by:

**Cao Yang**
*Chief Executive Officer*

**Chung Yuk Ming**
*Executive Director*

The notes on pages 38 to 111 are an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | *10(a)* | **65,000** | 65,000 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | | **257** | 194 |
| Amounts due from subsidiaries | *10(b)* | **748,235** | 282,794 |
| Cash and cash equivalents | *18(a)* | **21,147** | 1,444 |
| **Total current assets** | | **769,639** | 284,432 |
| **Total assets** | | **834,639** | 349,432 |
| **EQUITY** | | | |
| Share capital | *19* | **113,107** | 102,146 |
| Reserves | *21* | **658,356** | 244,483 |
| **Total equity** | | **771,463** | 346,629 |
| **Current liabilities** | | | |
| Other payables, deposits and accruals | | **3,577** | 2,803 |
| Derivative financial instruments | *13* | **59,599** | – |
| **Total current liabilities** | | **63,176** | 2,803 |
| **Total equity and liabilities** | | **834,639** | 349,432 |
| **Net current assets** | | **706,463** | 281,629 |
| **Total assets less current liabilities** | | **771,463** | 346,629 |

Approved by the Board of Directors on 29 June 2011 and signed on behalf of the Board by:

**Cao Yang**
*Chief Executive Officer*

**Chung Yuk Ming**
*Executive Director*

The notes on pages 38 to 111 are an integral part of these financial statements.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **2,602,564** | 1,408,364 |
| Cost of sales | 26 | **(1,758,970)** | (1,025,452) |
| Gross profit | | **843,594** | 382,912 |
| Other income | 24 | **34,430** | 21,683 |
| Other gains – net | 25 | **5,208** | 3,873 |
| Selling and distribution expenses | 26 | **(237,471)** | (123,999) |
| General and administration expenses | 26 | **(285,844)** | (218,172) |
| Operating profit | | **359,917** | 66,297 |
| Finance income | 29 | **2,450** | 1,678 |
| Finance costs | 29 | **(42,931)** | (35,790) |
| Finance costs – net | 29 | **(40,481)** | (34,112) |
| Share of loss of an associate | | **–** | (4,079) |
| Share of loss of a jointly controlled entity | | **–** | (964) |
| Profit before income tax | | **319,436** | 27,142 |
| Income tax expense | 30 | **(60,298)** | (23,907) |
| Profit for the year | | **259,138** | 3,235 |
| Profit attributable to: | | | |
| Owners of the parent | | **259,365** | 20,323 |
| Non-controlling interests | | **(227)** | (17,088) |
| | | **259,138** | 3,235 |
| Earnings per share for profit attributable to owners of the parent during the year (expressed in HK cents per share) | 31 | | |
| – Basic | | **25.0** | 2.0 |
| – Diluted | | **24.8** | 2.0 |

The notes on pages 38 to 111 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Profit for the year | **259,138** | 3,235 |
| Other comprehensive income for the year: | | |
| Currency translation difference | **36,430** | 6,149 |
| (Loss)/gain on fair value changes of available-for-sale financial assets | **(759)** | 1,327 |
| Reversal arising from the disposal of available-for-sale financial assets | **(568)** | – |
| Total comprehensive income for the year, net of tax | **294,241** | 10,711 |
| Attributable to: | | |
| – Owners of the parent | **294,468** | 26,357 |
| – Non-controlling interests | **(227)** | (15,646) |
| | **294,241** | 10,711 |

The notes on pages 38 to 111 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Share reserve HK$'000 | Exchange translation reserve HK$'000 | Statutory reserve HK$'000 | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Perpetual convertible securities HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 April 2009** | 101,284 | 235,755 | 9,360 | 13,771 | 104,810 | 83,294 | – | 2,200 | – | 302,757 | 853,231 | 14,396 | 867,627 |
| **Profit for the year** | – | – | – | – | – | – | – | – | – | 20,323 | 20,323 | (17,088) | 3,235 |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Currency translation differences | – | – | – | – | 4,707 | – | – | – | – | – | 4,707 | 1,442 | 6,149 |
| Gain on available-for-sale financial assets | – | – | – | – | – | – | 1,327 | – | – | – | 1,327 | – | 1,327 |
| **Total comprehensive income** | – | – | – | – | 4,707 | – | 1,327 | – | – | 20,323 | 26,357 | (15,646) | 10,711 |
| **Transactions with owners** | | | | | | | | | | | | | |
| Issue of shares upon exercise of share options | 862 | 4,879 | – | – | – | – | – | – | – | – | 5,741 | – | 5,741 |
| Transfer to share premium upon exercise of share options | – | 4,313 | (4,313) | – | – | – | – | – | – | – | – | – | – |
| Transfer to reserve | – | – | – | – | – | 171 | – | – | – | (171) | – | – | – |
| Capital contribution from non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 4,693 | 4,693 |
| **At 31 March 2010** | 102,146 | 244,947 | 5,047 | 13,771 | 109,517 | 83,465 | 1,327 | 2,200 | – | 322,909 | 885,329 | 3,443 | 888,772 |

| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Share reserve HK$'000 | Exchange translation reserve HK$'000 | Statutory reserve HK$'000 | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Perpetual convertible securities HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 April 2010** | 102,146 | 244,947 | 5,047 | 13,771 | 109,517 | 83,465 | 1,327 | 2,200 | – | 322,909 | 885,329 | 3,443 | 888,772 |
| **Profit for the year** | – | – | – | – | – | – | – | – | – | 259,365 | 259,365 | (227) | 259,138 |
| **Other comprehensive income** | | | | | | | | | | | | | |
| Currency translation differences | – | – | – | – | 36,430 | – | – | – | – | – | 36,430 | – | 36,430 |
| Loss on fair value change of available-for-sale financial assets | – | – | – | – | – | – | (759) | – | – | – | (759) | – | (759) |
| Reversal arising from disposal of available-for-sale financial assets | – | – | – | – | – | – | (568) | – | – | – | (568) | – | (568) |
| **Total comprehensive income** | – | – | – | – | 36,430 | – | (1,327) | – | – | 259,365 | 294,468 | (227) | 294,241 |
| **Transactions with owners** | | | | | | | | | | | | | |
| Issue of subscription shares and perpetual convertible securities *(Note 19)* | 10,200 | 244,800 | – | – | – | – | – | – | 85,401 | – | 340,401 | – | 340,401 |
| Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder | – | – | – | – | – | – | – | – | – | (8,269) | (8,269) | 223 | (8,046) |
| Issue of shares upon exercise of share options | 761 | 4,307 | – | – | – | – | – | – | – | – | 5,068 | – | 5,068 |
| Transfer to share premium upon exercise of share options | – | 3,808 | (3,808) | – | – | – | – | – | – | – | – | – | – |
| Transfer to reserve | – | – | – | – | – | 51,046 | – | – | – | (51,046) | – | – | – |
| **At 31 March 2011** | 113,107 | 497,862 | 1,239 | 13,771 | 145,947 | 134,511 | – | 2,200 | 85,401 | 522,959 | 1,516,997 | 3,439 | 1,520,436 |

The notes on pages 38 to 111 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | 39,773 | 128,252 |
| Interest paid | | (46,325) | (36,077) |
| Income tax paid | | (48,093) | (9,760) |
| Net cash (used in)/generated from operating activities | | (54,645) | 82,415 |
| **Cash flow from investing activities** | | | |
| Payments for intangible assets | | (3,720) | (4,363) |
| Purchases of property, plant and equipment | | (197,521) | (74,435) |
| Deposits for acquisition of property, plant and equipment | | (350) | (7,853) |
| Payment for land use rights | | (113) | (40,102) |
| Deposits for acquisition of land use rights | | (734) | (19,049) |
| Government subsidy received for acquisition of property, plant and equipment | | – | 39,236 |
| Proceeds from disposals of property, plant and equipment | 33 | 1,345 | 651 |
| Proceeds from disposal of a jointly controlled entity | | – | 2,773 |
| Interest received | | 2,450 | 1,678 |
| Proceeds from disposal of available-for-sale financial assets | 16 | 9,980 | – |
| Net cash used in investing activities | | (188,663) | (101,464) |
| **Cash flow from financing activities** | | | |
| Acquisition of additional interest in a subsidiary from a non-controlling shareholder | 10(a) | (8,046) | – |
| Proceeds from issue of shares | | 405,068 | 5,741 |
| Inception of new bank borrowings | | 553,178 | 250,005 |
| Repayment of bank borrowings | | (657,234) | (258,000) |
| Net increase in trust receipt loans | | 27,627 | 46,064 |
| (Decrease)/increase in amount due to holding company | | (40,000) | 40,000 |
| Capital contribution from non-controlling shareholders of subsidiaries | | – | 1,273 |
| Net cash generated from financing activities | | 280,593 | 85,083 |
| Net increase in cash and cash equivalents | | 37,285 | 66,034 |
| Cash and cash equivalents at beginning of year | | 398,074 | 330,265 |
| Exchange gains on cash and cash equivalents | | 8,944 | 1,775 |
| Cash and cash equivalents at end of year | 18 | 444,303 | 398,074 |

The notes on pages 38 to 111 are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 General Information

L.K. Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 October 2006. The address of the registered office is in Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-111 Cayman Islands. The immediate and ultimate holding company of the Company is Girgio Industries Limited, a company incorporated in the British Virgin Islands.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture, and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines, computerised numerical controlled ("CNC") machining centre and related accessories. The Group is also engaged in steel casting.

These financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 June 2011.

## 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of L.K. Technology Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. 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 (the "Listing Rules") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

*2.1.1 Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to Hong Kong Accounting Standard ("HKAS") 27, 'Separate financial statements', HKAS 28, 'Investments in associates and joint ventures', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.1 Changes in accounting policy and disclosures (Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- HKAS 27 (revised) "Separate Financial Statements", HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings. The Group has applied the revised standard to account for the acquisition of additional equity interest in a subsidiary from a non-controlling shareholder as set out in Note 10(a).

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest where title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term. The change in accounting policy has no material impact on the Group's consolidated financial statements.

- HKAS 32 (amendment) 'Classification of rights issues', this amendment issued in October 2009, addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment is applied retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. The change in accounting policy has no material impact on the Group's consolidated financial statements.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.1 Changes in accounting policy and disclosures (Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

- In November 2010 the HKICPA issued Hong Kong Interpretation 5 'Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause'. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 'Presentation of Financial Statements'. It sets out the conclusion reached by the HKICPA that a bank loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

  In order to comply with the requirements of Hong Kong Interpretation 5, the Group has changed its accounting policy on the classification of bank loans that contain a repayment on demand clause. Under the new policy, bank loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated statement of financial position. Previously such bank loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

  The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 April 2009, with consequential reclassification adjustments to comparatives for the year ended 31 March 2010. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

  Effect of adoption of Hong Kong Interpretation 5 on the consolidated statement of financial position:

| | **31 March 2011 HK$'000** | 31 March 2010 HK$'000 | 1 April 2009 HK$'000 |
|---|---|---|---|
| Increase/(decrease) in | | | |
| **Current liabilities** | | | |
| Bank borrowings | **20,046** | 13,075 | 2,923 |
| **Non-current liabilities** | | | |
| Bank borrowings | **(20,046)** | (13,075) | (2,923) |

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.1 Changes in accounting policy and disclosures (Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

- HKFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held-for-sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. In addition, the improvement related to HKFRS 5 in the 2008 improvement to HKFRS is effective for annual period on or after 1 July 2009. The Group has applied the revised standard to account for the non-current assets held-for-sale as set out in Note 14.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 April 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, 'Financial instruments: Recognition and measurement'.
- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation'.
- HK(IFRIC) 17, 'Distribution of non-cash assets to owners'.
- HK(IFRIC) 18, 'Transfers of assets from customers'.
- HKAS 1 (amendment), 'Presentation of financial statements'.
- HKAS 36 (amendment), 'Impairment of assets'.
- HKAS 39 (amendment), 'Eligible hedge items'.
- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions'.
- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2011.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.1 Changes in accounting policy and disclosures (Continued)*

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 April 2010 and have not been early adopted.

The Group's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 1 (amendment), 'Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters', (effective for annual periods beginning on or after 1 April 2011).
- HKFRS 1 (amendment), 'Severe Hyperinflation and Removal of Fixed Dates for First-time adopters', (effective for annual periods beginning on or after 1 April 2012).
- HKFRS 7 (amendment), 'Disclosures – Transfers of Financial Assets', (effective for annual periods beginning on or after 1 April 2012).
- HKFRS 9, 'Financial instruments', (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 11, 'Joint Arrangements', (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013).
- HKAS 12 (amendment), 'Deferred tax: Recovery of underlying assets', (effective the annual periods beginning on or after 1 January 2012).
- HKAS 24 (revised), 'Related party disclosures', (effective for annual periods beginning on or after 1 January 2011).
- HKAS 27, 'Separate Financial Statements', (effective for annual periods beginning on or after 1 April 2013).
- HKAS 28, 'Investments in Associates and Joint Ventures', (effective for annual periods beginning on or after 1 April 2013).
- 'Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) – Int 14), (effective for annual periods beginning on or after 1 January 2011).

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

*2.1.1 Changes in accounting policy and disclosures (Continued)*

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 April 2010 and have not been early adopted. *(Continued)*

- HK (IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments', (effective for annual periods beginning on or after 1 July 2010).

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA (effective for annual periods beginning on or after 1 January 2011).

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRSs would have a significant impact to its results of operations and financial position.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March.

*(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.2 Consolidation *(Continued)*

(a) *Subsidiaries (Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income (Note 2.8).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Transactions with non-controlling interests*

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Starting from 1 April 2010, the Group has adopted HKAS 27 (revised) 'Consolidated and Separate Financial Statements', under which the Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. The Group has applied this accounting policy prospectively.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.2 Consolidation *(Continued)*

(c) *Associates (Continued)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

### 2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within 'other gains – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

## 2 Summary Of Significant Accounting Policies *(Continued)*

### 2.4 Foreign currency translation *(Continued)*

*(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

### 2.5 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Land classified as financial lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.5 Property, plant and equipment *(Continued)*

Land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

| | |
|---|---|
| Land and buildings | Over the shorter of the unexpired lease term of lease and their estimated useful lives of no more than 50 years |
| Leasehold improvements | 5% – 20% or over the lease term, whichever is shorter |
| Plant and machinery | 10% – 20% |
| Furniture, fixtures and office equipment | 5% – 20% |
| Motor vehicles | 20% – 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

### 2.6 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less impairment losses. Historical expenditure that is directly attributable to the construction comprises construction costs, the cost of plant and machinery and applicable borrowing costs incurred during the construction period. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5.

### 2.7 Investment properties

Investment properties, principally comprising land and office buildings, are held for long-term rental yields and are not occupied by the Group. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are initially measured at cost, including related transaction costs. After initial recognition at cost investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of valuation gain or loss in 'other gains-net'.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.8 Intangible assets

*(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

*(b) Trademarks*

Trademarks are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives of not more than ten years.

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

*(c) Patents*

Patents are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their remaining useful lives of sixteen years.

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

*(d) Research and development expenditures*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life of not more than five years, and carried at cost less subsequent accumulated amortisation and accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to consolidated income statement in the period in which it is incurred.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.9 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 44 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

### 2.10 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries and associated companies is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries and associated companies in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.11 Financial assets

*2.11.1 Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables' (Note 2.14), 'other receivables and deposits', restricted bank balances, and 'cash and cash equivalents' (Note 2.15) in the statement of financial position.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.11 Financial assets *(Continued)*

*2.11.1 Classification (Continued)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group has designated its unlisted investment fund as available-for-sale financial assets.

*2.11.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'gain or loss on disposal of available-for-sale financial assets' in 'other gains – net'.

Interest in available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.11 Financial assets *(Continued)*

*2.11.2 Recognition and measurement (Continued)*

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.11 Financial assets *(Continued)*

*2.11.2 Recognition and measurement (Continued)*

(a) Assets carried at amortised cost *(Continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria as disclosed in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

### 2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within 'other gains – net'.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value represents the estimated selling price in the ordinary and usual course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write down is made for deteriorated, damaged, obsolete and slow moving inventories.

### 2.14 Trade and bills receivables

Trade and bills receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 2.11).

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

### 2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.17 Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and bills payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.18 Perpetual convertible securities

Perpetual convertible securities issued by the Group gives the right to the holder to convert these securities into a fixed number of the Company's shares at any time at a fixed exercise price per share. The perpetual convertible securities have no maturity date and are not redeemable. These securities are equity instruments.

### 2.19 Financial liabilities

*(i)* *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date and the initial measurement, less amortisation calculated to recognise in the consolidated income statement the fee income earned on a straight-line basis over the life of the guarantee. These estimates are determined based on experience of similar transactions and debtors' payment history, supplemented by the judgement of management of the Group.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.19 Financial liabilities *(Continued)*

*(ii) Other financial liabilities*

Other financial liabilities of the Group are measured at amortised cost, using the effective interest method.

Subsequently to initial recognition, the financial liability is carried at amortised cost using the effective interest method. The accretion of the discount on the financial liability and any adjustments to estimated amounts of the final redemption amount are recognised as a finance charge in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference is recognised in consolidated income statement.

### 2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.21 Current and deferred income tax *(Continued)*

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except for the deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.22 Employee benefits

*Pension obligations*

The Group operates various defined contribution plans for its employers in Hong Kong and The People's Republic of China (the "PRC"). A defined contribution plan is a pension plan under which the Group pays fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the relevant regulations of the PRC government, the subsidiaries in the PRC participate in local municipal government retirement benefits schemes (the "Schemes"), whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of those employees of the subsidiaries in the PRC. Contributions under the Schemes are charged to the consolidated income statement as incurred.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.23 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions are recorded in the Group's other payables, deposits and accruals balance.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### 2.26 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) *Sale of goods*

Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) *Rental income*

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(iii) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

## 2 Summary of Significant Accounting Policies *(Continued)*

### 2.27 Government subsidies and value added tax refunded

Government subsidies are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and all the attaching conditions will be complied with. Subsidies relating to expenses incurred by the Group are deferred and recognised in the consolidated income statement over the period necessary to match them with the expenses they are intended to compensate. Subsidies relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset so that the subsidies are recognised as income over the lives of the corresponding depreciable assets by way of a reduced depreciation charge.

Value added tax refund is recognised when there is reasonable assurance that it will be received and the Group will comply with the conditions attaching to it.

### 2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain properties out under an operating lease and lease income is recognised over the term of the lease on a straight-line basis.

### 2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.30 Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale when the carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### 2.31 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amount, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## 3 Financial Risk Management

### 3.1 Financial risk factors

*(a) Market risk*

The Group's activities expose it to the financial risks in relation to changes in interest rates and foreign currency exchange rates as discussed below. There has been no material change in the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank balances, cash and cash equivalents and borrowings which are carried at prevailing market interest rates as shown in Notes 18 and 22. Management will consider hedging significant interest rate exposure should the need arise.

The Group has used interest rate swap contracts, classified under derivative financial instruments (see Note 13(b)), to mitigate its exposure to cash flow interest rate risk.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits and borrowings at the end of the reporting period. For variable rate borrowings and bank deposits, the analysis is prepared assuming the amount of liability/asset outstanding at the end of reporting period was outstanding for the whole year. A 100 basis point increase or decrease in HIBOR 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 100 basis points higher/lower with all other variables held constant, the Group's pre-tax profit for the year ended 31 March 2011 would decrease/increase by HK$8,362,000/HK$6,187,000 (2010: pre-tax profit decrease/increase by HK$8,086,000/HK$6,617,000).

(ii) Foreign exchange risk

The functional currencies of the Group's respective principal subsidiaries are Renminbi ("RMB"), European dollars ("EUR") and Hong Kong dollars. Majority of the purchases and sales of the local operations are transacted in local functional currency and therefore foreign exchange transactional risks are minimal.

For companies with HK$ as their functional currency

As at 31 March 2011, there are no significant assets and liabilities denominated in currencies other than HK$ and the United States dollars ("US$). Since HK$ is pegged to US$, there is no significant foreign currency exposure between those two currencies to the Group.

## 3 Financial Risk Management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(a) Market risk (Continued)*

(ii) Foreign exchange risk *(Continued)*

For companies with RMB as their functional currency

As at 31 March 2011, if US$ had weakened/strengthened by 5% against RMB with all other variables held constant, pre-tax profit for the year then ended would have been approximately HK$1,539,000 lower/higher (2010: HK$20,000 higher/lower), mainly as a result of the foreign exchange losses/gains on translation of US$ denominated cash and bank deposits and bank borrowings.

The Group does not have a foreign currency hedging policy. However management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*(b) Credit risk*

The Group's credit risk is primarily attributable to its trade and other receivables, deposits placed with banks and guarantees given by the Group for its customers. The Group has no significant concentrations of credit risk. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

For banks and financial institutions, deposits are only placed with reputable banks. For credit exposures to customers, the Group has policies in place to ensure that sales are made and guarantees are granted to reputable and credit-worthy customers with an appropriate financial strength and credit history. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly recoverable amount of each individual trade and other receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

*(c) Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its requirements in the short and longer term. If breach of loan covenants is anticipated, the Group will communicate with the lenders to obtain waiver and/or rectify the breach in due course. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as raising of loans and investment of surplus cash.

## 3 Financial Risk Management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(c) Liquidity risk (Continued)*

The following table details the Group's contractual maturities of its financial liabilities at the end of reporting period. The table has been drawn up based on the undiscounted cash flows and the earliest date on which the Group can be required to pay:

| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **As at 31 March 2011** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Bank borrowings subject to a repayment on demand clause | 587,333 | – | – | – | 587,333 |
| Other bank borrowings *(Note i)* | – | 133,332 | 37,140 | 62,493 | 232,965 |
| Trade and bills payables, other payables, deposits and accruals | – | 957,825 | – | – | 957,825 |
| | 587,333 | 1,091,157 | 37,140 | 62,493 | 1,778,123 |
| **Derivative financial liabilities** | | | | | |
| Interest rate swap contract | – | 748 | – | – | 748 |
| Put option | – | 9,342 | – | – | 9,342 |
| | – | 10,090 | – | – | 10,090 |
| | 587,333 | 1,101,247 | 37,140 | 62,493 | 1,788,213 |
| **Financial guarantees issued** | | | | | |
| Financial guarantees *(Note 35)* | – | 193,610 | – | – | 193,610 |

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 March 2011, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 March 2011.

# 3 Financial Risk Management *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### *(c)* *Liquidity risk* *(Continued)*

| | On demand HK$'000 | Within 1 year HK$'000 | (Restated) More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **As at 31 March 2010** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Bank borrowings subject to a repayment on demand clause | 435,063 | – | – | – | 435,063 |
| Other bank borrowings *(Note i)* | – | 382,337 | 73,267 | – | 455,604 |
| Trade and bills payables, other payables, deposits and accruals | – | 682,739 | – | – | 682,739 |
| Amount due to the holding company | – | 40,000 | – | – | 40,000 |
| | 435,063 | 1,105,076 | 73,267 | – | 1,613,406 |
| **Derivative financial liabilities** | | | | | |
| Interest rate swap contract | – | 1,350 | 346 | – | 1,696 |
| Put options | – | 8,505 | 8,930 | – | 17,435 |
| | – | 9,855 | 9,276 | – | 19,131 |
| | 435,063 | 1,114,931 | 82,543 | – | 1,632,537 |
| **Financial guarantees issued** | | | | | |
| Financial guarantees *(Note 35)* | – | 106,651 | – | – | 106,651 |

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 March 2010, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 March 2010.

## 3 Financial Risk Management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(c)* *Liquidity risk* *(Continued)*

Maturity Analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments

| | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 | Total outflows HK$'000 |
|---|---|---|---|---|---|
| At 31 March 2011 | 567,287 | 3,208 | 16,838 | – | 587,333 |
| At 31 March 2010 | 421,988 | 7,070 | 6,005 | – | 435,063 |

The Company's contractual undiscounted cash flows of its financial liabilities approximate the carrying amount of other payables and accruals included in current liabilities, which are payable within one year, as the effect of discounting is insignificant. The amount of financial guarantees issued by the Company is disclosed in Note 35.

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. Total equity is shown in the consolidated statement of financial position.

During 2011, the Groups' strategy, which was unchanged from 2010, was to maintain the gearing ratio below 75%. The gearing ratio was as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Total borrowings *(Note 22)* | **805,716** | 882,145 |
| Less: cash and cash equivalents | **(444,303)** | (398,074) |
| Net debt | **361,413** | 484,071 |
| Total equity | **1,520,436** | 888,772 |
| Gearing ratio | **23.7%** | 54.5% |

The decrease in the gearing ratio resulted primarily from increase in total equity arising from the shares issued pursuant to the Investment Agreement (Note 19) and profit for the year.

## 3 Financial Risk Management *(Continued)*

### 3.3 Fair value estimation

The different levels for analysis of financial instruments carried at fair value, by valuation method are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2011.

**As at 31 March 2011**

| | Group | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Financial assets** | | | | |
| Derivative financial instruments: | | | | |
| Interest rate swap contract | – | 37 | – | 37 |
| **Financial liabilities** | | | | |
| Derivative financial instruments: | | | | |
| Interest rate swap contract | – | 748 | – | 748 |
| Warrants | – | – | 22,569 | 22,569 |
| Subscription Options | – | – | 37,030 | 37,030 |
| Total | – | 748 | 59,599 | 60,347 |

## 3 Financial Risk Management *(Continued)*

### 3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2010:

**As at 31 March 2010**

| | Group | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | |
| Derivative financial instruments: | | | | |
| Call options | – | – | 5,254 | 5,254 |
| Interest rate swap contract | – | 187 | – | 187 |
| Available-for-sale financial assets | – | 10,418 | – | 10,418 |
| Total | – | 10,605 | 5,254 | 15,859 |
| **Financial liabilities** | | | | |
| Derivative financial instruments: | | | | |
| Put option | – | – | 1,358 | 1,358 |
| Interest rate swap contract | – | 2,132 | – | 2,132 |
| Total | – | 2,132 | 1,358 | 3,490 |

There were no transfers of financial assets between levels 1 and 2 value hierarchy classifications.

Reconciliation of Level 3 fair value measurements of financial assets:

| | **Call options** |
|---|---|
| | HK$'000 |
| Balance at 1 April 2010 | 5,254 |
| Losses recognised in profit or loss | (5,254) |
| Balance at 31 March 2011 | – |

## 3 Financial Risk Management *(Continued)*

### 3.3 Fair value estimation *(Continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities:

| | Put options HK$'000 | Warrants HK$'000 | Subscription Options HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Balance at 1 April 2010 | 1,358 | – | – | 1,358 |
| Additions | – | 22,569 | 37,030 | 59,599 |
| Gains recognised in profit or loss | (1,358) | – | – | (1,358) |
| Balance at 31 March 2011 | – | 22,569 | 37,030 | 59,599 |

There were no transfers into or out of Level 3 value hierarchy during the year.

## 4 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

### (a) Provision for impairment of inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, management identifies, using their judgment, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market price for similar items.

### (b) Provision for impairment of receivables

Trade and bills receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Impairment loss on a trade receivables is recognised in consolidated income statement when there is objective evidence that the asset is impaired. The Group adopts a prudent approach in selecting its customers in order to minimise its credit risk. All new customer accounts with credit terms are reviewed by the finance department in areas including credit ratings, credit history, and sales amount, etc for the purpose of making an assessment of the payment term or assigning a credit limit if applicable.

The Group has implemented a credit policy with an aim to maintain the trade receivables at an acceptable level. The trade receivables will be reviewed by the Group's senior management of the finance department on a monthly basis. Impairment loss is recognised and estimated when the recoverability of the outstanding debts is uncertain after taking into account various consideration including the aging of the debts, the current creditworthiness, the historical loss experience for debts with similar credit risk characteristics and the current market condition. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and bills receivables and the impairment losses on receivables in the period in which such estimate is changed.

## 4 Critical Accounting Estimates and Judgments *(Continued)*

### (c) Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

### (d) Provision for loss on guarantees

The Group provides guarantees for loans granted by the PRC banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer defaults on a loan, the Group is obliged to settle the payable amounts. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different judgements or estimates could significantly affect the provision amounts and materially impact the results of operations.

### (e) Fair value of derivatives and other instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on forecast business performance and the respective market conditions.

### (f) Estimate of useful lives of property, plant and equipment

The Group has significant property, plant and equipment. The Group determines the estimated useful lives and residual values in order to ascertain the amount of depreciation charges for each reporting period. These estimates are based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives or residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## 5 Segment Information

The Group determines its operating segments based upon the internal reports reviewed by the chief operating decision maker ("CODM") that are used to make strategic decisions. Segment results represent the profit for the period in each reportable segment. This is the measure reported to the Group's management for the purpose of resource allocation and assessment of segment performance.

The measure used for reporting segment results is "profit from operations", i.e. profit before finance income, finance costs and income taxes. To arrive at the profit from operations, the Group's profit is further adjusted for items not specifically attributed to individual segments.

The Group is organised into two main reportable segments.

(i) Manufacture and sales of machinery and equipment

(ii) Steel casting

The segment results for the year ended 31 March 2011 are as follows:

| | Manufacture and sales of machinery and equipment HK$'000 | Steel casting HK$'000 | Total segments HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | 2,582,058 | 20,506 | 2,602,564 | – | 2,602,564 |
| Inter-segment sales | 476 | 83,879 | 84,355 | (84,355) | – |
| Total sales | 2,582,534 | 104,385 | 2,686,919 | (84,355) | 2,602,564 |
| Other income | 34,389 | 41 | 34,430 | – | 34,430 |
| Total revenue and other income | 2,616,923 | 104,426 | 2,721,349 | (84,355) | 2,636,994 |
| Result | | | | | |
| Segment results | 362,354 | (2,437) | 359,917 | – | 359,917 |
| Finance income | | | | | 2,450 |
| Finance costs | | | | | (42,931) |
| Profit before income tax | | | | | 319,436 |

## 5 Segment Information *(Continued)*

The segment results for the year ended 31 March 2010 are as follows:

| | Manufacture and sales of machinery and equipment HK$'000 | Steel casting HK$'000 | Total segments HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | 1,397,997 | 10,367 | 1,408,364 | – | 1,408,364 |
| Inter-segment sales | 44 | 15,749 | 15,793 | (15,793) | – |
| Total sales | 1,398,041 | 26,116 | 1,424,157 | (15,793) | 1,408,364 |
| Other income | 21,679 | 4 | 21,683 | – | 21,683 |
| Total revenue and other income | 1,419,720 | 26,120 | 1,445,840 | (15,793) | 1,430,047 |
| Result | | | | | |
| Segment results | 73,939 | (7,642) | 66,297 | – | 66,297 |
| Finance income | | | | | 1,678 |
| Finance costs | | | | | (35,790) |
| Share of loss of an associate | | | | | (4,079) |
| Share of loss of a jointly controlled entity | | | | | (964) |
| Profit before income tax | | | | | 27,142 |

Sales between segments are carried out at arm's length basis. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

## 5 Segment Information *(Continued)*

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

**As at 31 March 2011**

| | Manufacture and sales of machinery and equipment HK$'000 | Steel casting HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| Segment assets | 2,996,615 | 296,525 | 3,293,140 |
| Unallocated assets | | | 94,508 |
| Consolidated total assets | | | 3,387,648 |
| **Liabilities** | | | |
| Segment liabilities | 1,676,727 | 96,327 | 1,773,054 |
| Unallocated liabilities | | | 94,158 |
| Consolidated total liabilities | | | 1,867,212 |

**As at 31 March 2010**

| | Manufacture and sales of machinery and equipment HK$'000 | Steel casting HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| Segment assets | 2,217,665 | 200,978 | 2,418,643 |
| Unallocated assets | | | 101,615 |
| Consolidated total assets | | | 2,520,258 |
| **Liabilities** | | | |
| Segment liabilities | 1,523,564 | 91,974 | 1,615,538 |
| Unallocated liabilities | | | 15,948 |
| Consolidated total liabilities | | | 1,631,486 |

## 5 Segment Information *(Continued)*

### Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than corporate assets, non-current assets held-for-sale, interest in an associate, interest in a jointly controlled entity, amount due from an associate, derivative financial instruments, available-for-sale financial assets and deferred tax assets.

– all liabilities are allocated to reportable segments other than corporate liabilities, derivative financial instruments, current income tax liabilities and deferred income tax liabilities.

– liabilities for which segments are jointly liable are allocated in proportion to segment assets.

### Other segment information

The following amounts are included in the measure of segment results or assets:

**For the year ended 31 March 2011**

| | **Manufacture and sales of machinery and equipment HK$'000** | **Steel casting HK$'000** | **Total HK$'000** |
|---|---|---|---|
| Additions to non-current assets[1] | **194,591** | **10,157** | **204,748** |
| Depreciation and amortisation | **91,949** | **9,792** | **101,741** |
| Write down of inventories | **9,002** | **94** | **9,096** |
| Provision for impairment of trade receivables | **2,844** | **722** | **3,566** |

For the year ended 31 March 2010

| | Manufacture and sales of machinery and equipment HK$'000 | Steel casting HK$'000 | Total HK$'000 |
|---|---|---|---|
| Additions to non-current assets[1] | 68,427 | 79,080 | 147,507 |
| Depreciation and amortisation | 82,549 | 4,907 | 87,456 |
| Write down of inventories | 3,940 | – | 3,940 |
| Provision for impairment of trade receivables | 5,554 | 395 | 5,949 |
| Provision for impairment of intangible assets | 1,499 | – | 1,499 |
| Provision for impairment of property, plant and equipment | 3,501 | – | 3,501 |

[1] Non-current assets exclude interest in an associate, deferred income tax assets and derivative financial instruments.

## 5 Segment Information *(Continued)*

### Other segment information *(Continued)*

None of the customers of the Group individually accounted for 10% or more of the Group's revenue for both of the years ended 31 March 2010 and 2011.

| **Analysis of revenue by category** | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Sales of machinery and equipment | **2,582,058** | 1,397,997 |
| Steel casting | **20,506** | 10,367 |
| | **2,602,564** | 1,408,364 |
| Other revenue | **34,430** | 21,683 |
| | **2,636,994** | 1,430,047 |

### Geographical information

The Group's revenue by geographical location is determined by the final destination of delivery of the products and the geographical location of non-current assets is determined by where the assets are located and are detailed below:

| | **Revenue from external customers** | | **Non-current assets[1]** | |
|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Mainland China | **2,065,388** | 1,167,966 | **864,092** | 809,107 |
| Hong Kong | **–** | – | **30,146** | 23,543 |
| Europe | **231,006** | 114,139 | **30,876** | 40,870 |
| Central America and South America | **75,724** | 38,198 | **–** | – |
| North America | **137,211** | 50,450 | **303** | 556 |
| Other countries | **93,235** | 37,611 | **12,619** | 2,513 |
| | **2,602,564** | 1,408,364 | **938,036** | 876,589 |

[1] Non-current assets exclude non-current portion of trade receivables, restricted bank balances, deferred income tax assets and derivative financial instruments.

## 6 Intangible Assets – Group

| | Goodwill HK$'000 *(Note)* | Trademarks HK$'000 | Patents HK$'000 | Development costs and others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2009 | | | | | |
| Cost | 2,799 | 4,512 | – | 13,583 | 20,894 |
| Accumulated amortisation and impairment | – | (1,762) | – | (4,133) | (5,895) |
| Net book amount | 2,799 | 2,750 | – | 9,450 | 14,999 |
| Year ended 31 March 2010 | | | | | |
| Opening net book amount | 2,799 | 2,750 | – | 9,450 | 14,999 |
| Exchange difference | – | 242 | – | 762 | 1,004 |
| Additions | – | – | 3,420 | 4,363 | 7,783 |
| Amortisation | – | (1,211) | (178) | (4,707) | (6,096) |
| Impairment loss | – | (229) | – | (1,270) | (1,499) |
| Closing net book amount | 2,799 | 1,552 | 3,242 | 8,598 | 16,191 |
| At 31 March 2010 | | | | | |
| Cost | 2,799 | 4,827 | 3,420 | 18,953 | 29,999 |
| Accumulated amortisation and impairment | – | (3,275) | (178) | (10,355) | (13,808) |
| Net book amount | 2,799 | 1,552 | 3,242 | 8,598 | 16,191 |
| Year ended 31 March 2011 | | | | | |
| Opening net book amount | 2,799 | 1,552 | 3,242 | 8,598 | 16,191 |
| Exchange difference | – | (40) | – | (84) | (124) |
| Additions | – | – | – | 3,720 | 3,720 |
| Amortisation | – | (701) | (214) | (4,409) | (5,324) |
| Closing net book amount | 2,799 | 811 | 3,028 | 7,825 | 14,463 |
| At 31 March 2011 | | | | | |
| Cost | 2,799 | 4,823 | 3,420 | 22,727 | 33,769 |
| Accumulated amortisation and impairment | – | (4,012) | (392) | (14,902) | (19,306) |
| Net book amount | 2,799 | 811 | 3,028 | 7,825 | 14,463 |

*Note:*

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified according to operating segments.

An operating segment level summary of the goodwill allocation is presented below:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Manufacture and sales of machinery and equipment | **2,799** | 2,799 |

## 6 Intangible Assets – Group *(Continued)*

The recoverable amount of a CGU is determined based on a value-in-use calculation. The calculation uses pre-tax cash flow projection based on five-year financial budget approved by management using the estimated growth rate of 15%. Cash flows beyond five-year period are extrapolated assuming no growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 13% (2010: 10%) and management believes it reflects specific risks relating to the segment. Management believes that any reasonably possible change in any of the key assumptions would not result in the impairment provision of goodwill. There was no impairment provision for intangible assets for the year ended 31 March 2011 (2010: HK$1,499,000).

## 7 Property, Plant and Equipment – Group

| | Land and buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2009 | | | | | | | |
| Cost | 233,069 | 189,042 | 50,945 | 388,678 | 47,771 | 35,236 | 944,741 |
| Accumulated depreciation and impairment losses | (60,829) | – | (16,678) | (180,472) | (30,828) | (23,654) | (312,461) |
| Net book amount | 172,240 | 189,042 | 34,267 | 208,206 | 16,943 | 11,582 | 632,280 |
| Year ended 31 March 2010 | | | | | | | |
| Opening net book amount | 172,240 | 189,042 | 34,267 | 208,206 | 16,943 | 11,582 | 632,280 |
| Additions | 13,523 | 24,791 | 1,601 | 31,726 | 5,478 | 2,979 | 80,098 |
| Government subsidy received | – | – | – | (39,236) | – | – | (39,236) |
| Disposals | – | – | (257) | (92) | (115) | (435) | (899) |
| Depreciation charge | (15,413) | – | (7,050) | (43,890) | (7,862) | (4,479) | (78,694) |
| Impairment losses | – | – | (2,435) | (712) | (354) | – | (3,501) |
| Exchange difference | 360 | – | 1,803 | 1,577 | 401 | 21 | 4,162 |
| Reclassification | 94,067 | (180,686) | 233 | 85,825 | 556 | 5 | – |
| Closing net book amount | 264,777 | 33,147 | 28,162 | 243,404 | 15,047 | 9,673 | 594,210 |
| At 31 March 2010 | | | | | | | |
| Cost | 341,033 | 33,147 | 54,547 | 468,462 | 53,929 | 35,678 | 986,796 |
| Accumulated depreciation and impairment losses | (76,256) | – | (26,385) | (225,058) | (38,882) | (26,005) | (392,586) |
| Net book amount | 264,777 | 33,147 | 28,162 | 243,404 | 15,047 | 9,673 | 594,210 |
| Year ended 31 March 2011 | | | | | | | |
| Opening net book amount | 264,777 | 33,147 | 28,162 | 243,404 | 15,047 | 9,673 | 594,210 |
| Additions | 650 | 121,233 | 5,272 | 61,822 | 6,207 | 5,731 | 200,915 |
| Disposals | (187) | – | (19) | (759) | (167) | (466) | (1,598) |
| Depreciation charge | (22,488) | – | (7,866) | (51,262) | (7,191) | (4,504) | (93,311) |
| Exchange difference | 9,379 | 1,170 | 137 | 7,780 | 413 | 313 | 19,192 |
| Reclassification | – | (19,521) | 825 | 19,682 | (986) | – | – |
| Closing net book amount | 252,131 | 136,029 | 26,511 | 280,667 | 13,323 | 10,747 | 719,408 |
| At 31 March 2011 | | | | | | | |
| Cost | 353,503 | 136,029 | 58,136 | 562,444 | 57,788 | 38,047 | 1,205,947 |
| Accumulated depreciation and impairment losses | (101,372) | – | (31,625) | (281,777) | (44,465) | (27,300) | (486,539) |
| Net book amount | 252,131 | 136,029 | 26,511 | 280,667 | 13,323 | 10,747 | 719,408 |

## 7 Property, Plant and Equipment – Group *(Continued)*

Depreciation charge of HK$65,979,000 (2010: HK$56,848,000) has been charged in "cost of sales", HK$2,712,000 (2010: HK$2,738,000) in "selling and distribution expenses" and HK$24,620,000 (2010: HK$19,108,000) in "general and administration expenses".

Certain property, plant and equipment are pledged to secure bank borrowings of the Group as detailed in Note 22.

## 8 Investment Properties – Group

| | HK$'000 |
|---|---|
| **At fair value** | |
| At 1 April 2009 | 22,140 |
| Increase in fair value during the year | 3,770 |
| At 31 March 2010 | 25,910 |
| Increase in fair value during the year | 5,821 |
| Exchange difference | 509 |
| **At 31 March 2011** | **32,240** |

The Group's interests in investment properties at their carrying values are analysed as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Land and buildings in Hong Kong under leases of between 10 to 50 years | **16,600** | 11,500 |
| Land and buildings in the PRC under leases of between 10 to 50 years | **15,640** | 14,410 |
| | **32,240** | 25,910 |

As at 31 March 2011, the fair values of the investment properties have been arrived at on the basis of a valuation carried out by Messrs Jones Lang LaSalle Sallmanns Limited, independent professional surveyors and valuers. Messrs Jones Lang LaSalle Sallmanns Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"), and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to the HKIS Valuation Standard on Properties (First Edition), was made on market value basis calculated by reference to net rental income allowing for reversionary income potential of the properties or direct comparison approach by making reference to comparable sales transaction as available in the relevant market.

One of the investment properties is pledged to secure bank borrowings of the Group as detailed in Note 22.

## 9 Land Use Rights – Group

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2009 | 90,980 |
| Additions | 59,626 |
| At 31 March 2010 | 150,606 |
| Additions | 113 |
| Exchange difference | 5,315 |
| **At 31 March 2011** | **156,034** |
| **Amortisation** | |
| At 31 March 2009 | 7,627 |
| Amortisation | 2,666 |
| At 31 March 2010 | 10,293 |
| Amortisation | 3,106 |
| Exchange difference | 362 |
| **At 31 March 2011** | **13,761** |
| **Net book value** | |
| **At 31 March 2011** | **142,273** |
| At 31 March 2010 | 140,313 |

Amortisation charge of HK$3,106,000 (2010: HK$2,666,000) has been charged in "general and administration expenses".

The Group's interest in land use rights at their carrying values are analysed as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Land use rights in the PRC under leases of between 10 to 50 years | 129,679 | 128,020 |
| Land use rights in the PRC under leases of over 50 years | 12,594 | 12,293 |
| | 142,273 | 140,313 |

Certain land use rights are pledged to secure bank borrowings of the Group as detailed in Note 22.

## 10 Investment in Subsidiaries – Company

### (a) Investments in subsidiaries

| | Company 2011 HK$'000 | Company 2010 HK$'000 |
|---|---|---|
| Investments in unlisted shares, at cost | **65,000** | 65,000 |

Details of the Company's principal subsidiaries as at 31 March 2011 are as follows:

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries directly held by the Company** | | | | | |
| Best Truth Enterprises Limited | Corporation | British Virgin Islands | 2 ordinary shares of US$1 each | 100% | Investment holding |
| Cyberbay Pte Ltd. | Corporation | Singapore | 2 ordinary shares of S$1 each | 100% | Investment holding |
| **Subsidiaries indirectly held by the Company** | | | | | |
| 重慶力勁機械有限公司 Chongqing L.K. Machinery Co. Ltd. [1] | Wholly Foreign-owned ("WFOE") | PRC | US$2,000,000 | 100% | Sale of die-casting machines |
| 阜新力勁北方機械有限公司 Fuxin L.K. Northern Machinery Co. Ltd. [1] | WFOE | PRC | HK$30,000,000 | 100% | Manufacture and sale of die-casting machines |
| Gold Millennium Ltd. | Corporation | British Virgin Islands | 1 ordinary share of US$1 | 100% | Investment holding |
| Gold Progress Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Investment holding |
| L.K. Machinery Company Limited | Corporation | Hong Kong | 10,000,000 ordinary shares of HK$1 each | 100% | Investment holding |
| L.K. Machinery International Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Sale of die-casting machines and plastic injection moulding machines |

## 10 Investment in Subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries indirectly held by the Company** | | | | | |
| 力勁機械股份有限公司<br>L.K. Machinery Corp. | Corporation | Taiwan | 21,100,000 ordinary shares of NT$10 each | 100% | Manufacture and sale of CNC machines |
| L.K. Machinery, Inc. | Corporation | USA | 1,000 shares with US$10 paid up | 100% | Sale of die-casting machines and plastic injection moulding machines |
| 力勁機械(深圳)有限公司<br>L.K. Machinery (Shenzhen) Co. Ltd.[1] | WFOE | PRC | HK$69,500,000 | 100% | Manufacture and sale of die-casting machines |
| 力勁精密機械(昆山)有限公司<br>L.K. Precision Machinery (Kunshan) Co. Ltd.1 | WFOE | PRC | US$6,900,095 | 100% | Manufacture and sale of CNC machines |
| 力勁科技(天津)有限公司<br>L.K. Tech (Tianjin) Co. Ltd.[1] | WFOE | PRC | US$2,000,000 | 100% | Sale of die-casting machines |
| Lucky Prosper Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Investment holding |
| 寧波力勁機械有限公司<br>Ningbo L.K. Machinery Co. Ltd.[1] | WFOE | PRC | US$1,660,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| 寧波力勁科技有限公司<br>Ningbo L.K. Technology Co. Ltd.[1] | WFOE | PRC | US$13,600,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| Power Excel International Limited | Corporation | Hong Kong | 2 ordinary shares of HK$1 each | 100% | Investment holding |

## 10 Investment in Subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries indirectly held by the Company** | | | | | |
| 上海一達機械有限公司 Shanghai Atech Machinery Co. Ltd.[1] | WFOE | PRC | US$4,900,000 | 100% | Manufacture and sale of die-casting machines |
| 深圳領威科技有限公司 Shenzhen Leadwell Technology Co. Ltd.[1] | WFOE | PRC | RMB127,000,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| 中山力勁機械有限公司 Zhongshan L.K. Machinery Co. Ltd.[1] | WFOE | PRC | US$5,580,000 | 100% | Manufacture and sale of plastic injection moulding machines |
| 阜新力達鋼鐵鑄造有限公司 Fuxin Lida Steel Casting Co. Ltd.[1] | WFOE | PRC | HK$90,000,000 | 100% | Steel casting |
| Idra S.r.l *(Note i)* | Corporation | Italy | €5,032,661 | 85% | Design, manufacture and sale of die-casting machines and equipment |

(i) In August 2010, as detailed in Note 13, the non-controlling shareholder exercised the first put option in relation to Idra S.r.l., requiring the Group to acquire an additional 15% interest in Idra S.r.l at a cash consideration of HK$8,046,000. As a result of this acquisition, the Group's interest in Idra S.r.l has increased from 70% to 85%.

[1] The English name is made for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results, assets, or liabilities of the Group. To give details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### (b) Amounts due from subsidiaries

The amounts are interest free, unsecured and repayable on demand. Their carrying values approximate their fair values.

## 11 Deferred Income Tax – Group

The analysis of deferred income tax assets and liabilities is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Deferred income tax assets: | | |
| – Deferred income tax assets to be recovered after more than 12 months | **20,553** | 11,073 |
| Deferred income tax liabilities | | |
| – Deferred income tax liabilities to be settled after more than 12 months | **(4,475)** | (8,595) |
| Deferred income tax assets, net | **16,078** | 2,478 |

The gross movement on the deferred income tax account is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| At the beginning of the year | **2,478** | 13,243 |
| Exchange differences | **332** | – |
| Credited/(charged) to the consolidated income statement *(Note 30)* | **13,268** | (10,765) |
| At the end of the year | **16,078** | 2,478 |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Tax losses<br>HK$'000 | Impairment losses and other allowances<br>HK$'000 | Decelerated tax depreciation<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| At 1 April 2009 | 3,467 | 7,270 | 5,682 | 16,419 |
| (Charged)/credited to consolidated income statement | (1,776) | 893 | 794 | (89) |
| At 1 April 2010 | 1,691 | 8,163 | 6,476 | 16,330 |
| (Charged)/credited to consolidated income statement | (245) | 5,764 | 1,831 | 7,350 |
| Exchange differences | – | 272 | 254 | 526 |
| **At 31 March 2011** | **1,446** | **14,199** | **8,561** | **24,206** |

## 11 Deferred Income Tax – Group *(Continued)*

| | Revaluation of investment properties HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| At 1 April 2009 | (966) | (2,210) | (3,176) |
| Charged to consolidated income statement | (110) | (10,566) | (10,676) |
| At 1 April 2010 | (1,076) | (12,776) | (13,852) |
| (Charged)/credited to consolidated income statement | (151) | 6,069 | 5,918 |
| Exchange differences | (36) | (158) | (194) |
| At 31 March 2011 | (1,263) | (6,865) | (8,128) |

Deferred income tax asset is recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

At the end of reporting period, the Group has the following unutilised tax losses available for offsetting against future taxable profits for which no deferred tax asset is recognised:

| | Group | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Tax losses expiring: | | |
| Within 5 years | **76,175** | 107,528 |
| Over 5 years | **27,557** | 24,594 |
| Without expiry date | **42,985** | 37,629 |
| | **146,717** | 169,751 |

No deferred tax asset has been recognised in respect of the above tax losses due to unpredictability of future profit streams.

Dividends out of profits earned on or after 1 January 2008 for the PRC subsidiaries distributed to the Group will be subject to dividend withholding tax. As at 31 March 2011, deferred tax liabilities of HK$3,997,000 (2010: HK$8,595,000) have been recognized and are included in 'others' within the deferred tax liabilities.

Deferred income tax liabilities of HK$16,516,000 (2010: Nil) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled HK$410,265,000 at 31 March 2011 (2010: HK$171,900,000).

## 12 Trade and Bills Receivables – Group

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Trade receivables | **722,434** | 467,757 |
| Less: Provision for impairment | **(39,604)** | (37,760) |
| | **682,830** | 429,997 |
| Bills receivable | **109,029** | 63,511 |
| | **791,859** | 493,508 |
| Less: Balance due after one year shown as non-current assets | **(4,069)** | (6,156) |
| Trade and bills receivables, net | **787,790** | 487,352 |

The amount of provision for impaired trade receivables was HK$39,604,000 (2010: HK$37,760,000). The individually impaired receivables mainly relate to individual customers, the recoverability of which was in doubt.

The aging analysis of gross trade receivables based on invoice date at the end of reporting date is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within 90 days | **459,409** | 287,735 |
| 91 – 180 days | **103,039** | 76,344 |
| 181 – 365 days | **80,312** | 24,117 |
| Over one year | **79,674** | 79,561 |
| | **722,434** | 467,757 |

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

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

## 12 Trade and Bills Receivables – Group *(Continued)*

The following is an analysis of trade receivables net of provision for impairment:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Not past due | **455,332** | 309,117 |
| Past due: | | |
| Within 90 days | **115,800** | 53,783 |
| 91 – 180 days | **47,570** | 31,904 |
| 181 – 365 days | **46,687** | 12,927 |
| Over one year | **17,441** | 22,266 |
| Balances past due but not impaired | **227,498** | 120,880 |
| Total trade receivables net of provision for impairment | **682,830** | 429,997 |

Receivables that were past due but not impaired relate to a large number of customers for whom there was no recent history of default and they are in continuous trading with the Group. Based on experience, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant deterioration in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Movements in provision for impairment of trade receivables:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Beginning of the year | **37,760** | 31,862 |
| Exchange realignment | **927** | 38 |
| Provision for impairment losses recognised | **3,566** | 5,949 |
| Amounts written off as uncollectible | **(2,649)** | (89) |
| End of the year | **39,604** | 37,760 |

The Group has recognised a provision of HK$3,566,000 (2010: HK$5,949,000) for impairment of trade receivables for the year ended 31 March 2011. The Group has written off impaired receivables of HK$2,649,000 (2010: HK$89,000) against prior year provision during the year ended 31 March 2011. The provision for impairment of trade receivables has been included in “general and administration expenses” in the consolidated income statement.

## 12 Trade and Bills Receivables – Group *(Continued)*

The carrying amounts of the trade and bills receivables are denominated in the following currencies:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| RMB | **538,178** | 343,263 |
| US$ | **116,689** | 49,317 |
| EUR | **123,231** | 86,227 |
| Other currencies | **13,761** | 14,701 |
| Trade and bills receivables, net | **791,859** | 493,508 |

## 13 Derivative Financial Instruments – Group

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Balance classified as non-current assets | | |
| Call options *(Note (a))* | **–** | 2,771 |
| Balance classified as current assets | | |
| Call options *(Note (a))* | **–** | 2,483 |
| Interest rate swap contract *(Note (b))* | **37** | 187 |
| | **37** | 2,670 |
| Balance classified as current liabilities | | |
| Put options *(Note (a))* | **–** | 190 |
| Warrants *(Note (c))* | **22,569** | – |
| Subscription Options *(Note (c))* | **37,030** | – |
| Interest rate swap contract *(Note (b))* | **748** | 2,132 |
| | **60,347** | 2,322 |
| Balance classified as non-current liabilities | | |
| Put options *(Note (a))* | **–** | 1,168 |

## 13 Derivative Financial Instruments – Group *(Continued)*

### Derivative financial instruments – Company

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Warrants *(Note (c))* | **22,569** | – |
| Subscription Options *(Note (c))* | **37,030** | – |
| | **59,599** | – |

### (a) Call and put options

*Call options*

On 2 April 2008, the Group entered into a call option agreement with the non-controlling shareholder of a subsidiary under which the Group has been granted a first call option to purchase 15% equity interest in the subsidiary held by the non-controlling shareholder within the first option period which commenced from the approval date of the financial statements of the subsidiary for the year ended 31 December 2009 for a period of 90 days. The first exercise price (the "First Exercise Price") will be the higher of (a) 50% of 8 times the non-controlling shareholder's share of the subsidiary's net profit after tax for the year ended 31 December 2009, provided that in no case the above value shall exceed €2,500,000; and (b) 50% of the share of capital injection of €1,500,000 paid in by the non-controlling shareholder, as yearly adjusted with the interest rate of 5% per annum. Subject to the exercise of the first call option, the Group will have a second call option to purchase the remaining 15% equity interest in the subsidiary held by the non-controlling shareholder within the second option period which commence from the approval date of the financial statements of the subsidiary for the year ended 31 December 2010 for a period of 90 days.

The second exercise price (the "Second Exercise Price") is the higher of (a) 100% of 8 times the non-controlling shareholder's share of the subsidiary's net profit after tax for the year ended 31 December 2010, provided that in no case the above value shall exceed €2,500,000; and (b) 50% of the share of capital injection of €1,500,000 paid in by the non-controlling shareholder, as yearly adjusted with the interest rate of 5% per annum. The call options were not exercised and lapsed in August 2010.

*Put options*

On 2 April 2008, the Group also entered into a put option agreement with the same non-controlling shareholder under which the non-controlling shareholder has been granted a first put option to require the Group to purchase 15% equity interest in the subsidiary held by the non-controlling shareholder within the first option period which commenced from the approval date of the financial statements of the subsidiary for the year ended 31 December 2009 for a period of 90 days. The first exercise price will be the same as the First Exercise Price of the call options. Subject to the exercise of the first put option, the non-controlling shareholder will have a second put option to require the Group to purchase the remaining 15% equity interest in the subsidiary held by the non-controlling shareholder within the second option period which commence from the approval date of the financial statements of the subsidiary for the year ended 31 December 2010 for a period of 90 days. The second exercise price is the same as the Second Exercise Price of the call options.

The non-controlling shareholder exercised the first put option in August 2010 and since then, the Group's interest in the subsidiary increased from 70% to 85%. Up to the date of approval of these financial statements, the non-controlling shareholder has not yet exercised the second put option.

## 13 Derivative Financial Instruments – Group *(Continued)*

### (b) Interest rate swap contracts

The Group has entered into two interest rate swap contracts to manage its exposure to interest rate movements on its bank borrowings. One interest rate swap contract of notional amount of HK$50,000,000 was entered into to swap floating-rate borrowings to fixed rate borrowings at interest rate of 3% per annum. Another interest rate swap contract of notional amount of HK$50,000,000 was entered into to swap its floating-rate borrowings to another floating-rate borrowings which is considered by management to be more favourable under their expectation of future market conditions.

The interest rate swap contracts are measured at the fair value provided by the counterparty banks.

### (c) Warrants and Subscription Options

On 26 January 2011, the Company and a third party investor (the "Investor") entered into an investment agreement (the "Investment Agreement"), pursuant to which the Investor agreed to subscribe for the HK$255 million "Subscription Shares" and the HK$145 million "Perpetual Convertible Securities", at a total cash consideration of HK$400 million. The Company has also issued the "Warrants" and the "Subscription Options" to the Investor at nil consideration as part of the transaction. Pursuant to the terms of the Warrants and the Subscription Options as stipulated in the Investment Agreement, the Warrants and the Subscription Options are regarded as derivatives in accordance with the Group's accounting policies (Note 2.12). Further details of the Investment Agreement are set out in Note 19.

*Valuation of Warrants and Subscription Options*

The Warrants and the Subscription Options are measured at their respective fair value upon their date of grant.

(i) Warrants

The estimate of the fair value of the Warrants is measured using the binomial tree model. The key assumptions used for the valuation are as follows:

| | |
|---|---|
| Expected dividend | 0% |
| Expected volatility | 54% |
| Risk free interest rate | 0.86% |

(ii) Subscription Options

The estimate of the fair value of the Subscription Options is measured using the lattice model. The key assumptions used for the valuation are as follows:

| | |
|---|---|
| Risk free interest rate (%) | 0.87 |
| Expected exercise year | 2.5 years following the grant |
| Discount rate | 13.03 to 16.76 |
| Gross margin | 27% to 28% |
| Long term average growth rate | 0% to 5.16% |

## 14 Non-Current Assets Held-for-sale – Group

As at 31 March 2010, the Group had 35% equity interest in Fuxin Li Chang Steel & Iron Foundry Co. Ltd. ("Fuxin Li Chang"), which was accounted for as "interest in an associate" in accordance with the accounting policy as set out in Note 2.2(c).

On 1 April 2010, the directors of the Company decided to dispose of its interest in Fuxin Li Chang and since then, the investment in Fuxin Li Chang has been reclassified as "non-current assets held-for-sale" in the consolidated statement of financial position. On 20 March 2011, the Group entered into a letter of intent with the controlling shareholder of Fuxin Li Chang, pursuant to which, the Group will dispose of its interest in Fuxin Li Chang. It is management intention to complete the disposal of investment in Fuxin Li Chang by the year ending 31 March 2012.

The details of the investment are as follows:

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| Fuxin Li Chang Steel & Iron Foundry Co., Ltd. | Limited liability company | PRC | RMB60,000,000 | 35% | Iron ore mining and smelting |

The carrying amount of the non-current asset held-for-sale as at 31 March 2011 was HK$73,918,000.

## 15 Inventories – Group

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Raw materials | **416,768** | 294,728 |
| Work in progress | **287,412** | 185,707 |
| Finished goods | **201,132** | 88,710 |
| | **905,312** | 569,145 |
| Less: Provision for impairment of inventories | **(43,380)** | (34,284) |
| | **861,932** | 534,861 |

The cost of inventories recognised as expense and included in cost of sales amounted to HK$1,397,097,000 (2010: HK$775,665,000).

## 16 Available-for-sale Financial Assets – Group

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Unlisted equity securities | | |
| Unlisted investment fund, at fair value | – | 10,418 |

During the year, the Group disposed of its available-for-sale financial assets at a cash consideration of HK$9,980,000.

## 17 Other Receivables, Prepayments and Deposits – Group

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Non-current | | |
| Deposits for acquisition of land use rights | 21,510 | 20,776 |
| Deposits for acquisition of property, plant and equipment | 8,142 | 7,792 |
| | 29,652 | 28,568 |
| Current | | |
| Other receivable for goods purchased on behalf of a customer | 9,003 | 65,793 |
| Value added tax refund receivable from government | 5,990 | 4,901 |
| Value added tax receivable | 54,509 | 23,385 |
| Trade deposits | 45,709 | 21,144 |
| Advances to staff for business purpose | 4,845 | 3,807 |
| Sundry, rental and utility deposits | 3,476 | 2,721 |
| Others | 53,562 | 34,193 |
| | 177,094 | 155,944 |
| Total | 206,746 | 184,512 |

## 18 Cash and Cash Equivalents and Restricted Bank Balances – Group and Company

### (a) Cash and cash equivalents

*Group*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Cash at bank and on hand | **368,303** | 323,642 |
| Short-term bank deposits | **76,000** | 74,432 |
| Cash and bank deposits | **444,303** | 398,074 |
| Cash and cash equivalents in the consolidated statement of cash flows | **444,303** | 398,074 |

*Company*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Cash at bank and on hand | **21,147** | 1,444 |

The Group and the Company's cash and cash equivalents and bank deposits are denominated in the following currencies:

*Group*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| US$ | **94,720** | 17,066 |
| HK$ | **79,258** | 49,430 |
| RMB | **258,064** | 308,043 |
| Other currencies | **12,261** | 23,535 |
| | **444,303** | 398,074 |

*Company*

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| HK$ | **21,135** | 1,432 |
| Other currencies | **12** | 12 |
| | **21,147** | 1,444 |

The effective interest rate on short-term bank deposits was 1.13% (2010: 1.40%) per annum; these deposits have an average maturity period of 38 days (2010: 66 days).

## 18 Cash and Cash Equivalents and Restricted Bank Balances – Group and Company *(Continued)*

### (b) Restricted bank balances

Restricted bank balances of the Group represent deposits placed in banks to secure banking facilities granted by banks to certain customers, the finance facilities for issuing letters of credit and bank's acceptance bill by banks.

At the end of reporting period, the restricted bank balances carry interest at market rates which ranged from 0.00% to 2.25% (2010: 0.03% to 2.79%) per annum.

## 19 Share Capital

| | Number of ordinary shares of HK$0.1 each | Amount HK$'000 |
|---|---|---|
| **Authorised:** | | |
| At 1 April 2009, 31 March 2010 and 31 March 2011 | 3,000,000,000 | 300,000 |
| **Issued and fully paid:** | | |
| At 1 April 2009 | 1,012,835,000 | 101,284 |
| Shares issued upon exercise of share options *(Note 20(a))* | 8,620,000 | 862 |
| At 31 March 2010 | 1,021,455,000 | 102,146 |
| Shares issued upon exercise of share options *(Note 20(a))* | 7,610,000 | 761 |
| Shares issued pursuant to the Investment Agreement *(Note)* | 102,000,000 | 10,200 |
| **At 31 March 2011** | **1,131,065,000** | **113,107** |

*Note:* On 26 January 2011, the Company and the Investor entered into the Investment Agreement, pursuant to which the Investor agreed to subscribe for the HK$255 million "Subscription Shares" and the HK$145 million "Perpetual Convertible Securities", at a total cash consideration of HK$400 million. The Company has also issued the "Warrants" and the "Subscription Options" to the Investor at nil consideration as part of the transaction. The Investment Agreement was completed on 25 February 2011.

Pursuant to the terms of Subscription Shares as stipulated in the Investment Agreement, the Company alloted and issued a total of 102,000,000 ordinary shares at HK$2.5 each to the Investor. The Subscription Shares were issued and fully paid and rank pari passu with the other ordinary shares of the Company.

Pursuant to the terms of Perpetual Convertible Securities as stipulated in the Investment Agreement, the Company issued the Perpetual Convertible Securities to the Investor. The Investor has the right to convert the Perpetual Convertible Securities into 58,000,000 ordinary shares of the Company at any time at the exercise price of HK$2.5 per share. The Perpetual Convertible Securities has no maturity date and is not redeemable. If the Company declares any dividend, each holder of Perpetual Convertible Securities shall be entitled to receive distributions in an amount equal to the aggregate amount of the dividends attributable to the relevant financial year which would have been paid (based on a dividend per share equal to that which the Company has declared) in respect of the number of shares into which the securities held by the holder would convert as at the record date for determining the shareholders of the Company eligible to receive such dividend.

Pursuant to the terms of the Warrants as stipulated in the Investment Agreement, the Company issued a total of 25,600,000 Warrants to the Investor, enabling the Investor to subscribe for a maximum of HK$80,000,000 worth of the Company's shares at an initial exercise price of HK$3.125 per share.

## 19 Share Capital *(Continued)*

Pursuant to the terms of the Subscription Options as stipulated in the Investment Agreement, the Investor has been granted the Subscription Options to acquire from the Group any of its existing subsidiaries' equity interests for up to HK$240,000,000, except for those subsidiaries engaged in the die-casting machines business. The Investor may exercise the Subscription Options at any time until 24 February 2016. In addition, the aggregate of the subsidiaries' equity interests at any one time shall never exceed 30% of the ordinary share capital of the then relevant subsidiary of the Group. The investment amount pursuant to an exercise of the Subscription Options shall be determined by a multiple of 10 times of the net income of the to be acquired subsidiary for the financial year immediately preceding the exercise date.

Upon the completion of the transaction, the Group has received cash consideration of HK$400 million, and also recorded the following in its consolidated statement of financial position:

– Share capital of HK$10,200,000;

– Share premium of HK$244,800,000;

– Perpetual convertible securities of HK$85,401,000; and

– Derivative financial instruments arising from the Warrants and the Subscription Options of HK$22,569,000 and HK$37,030,000, respectively.

## 20 Share Option Schemes

### (a) Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme (further details of which are set out in the Company's directors' report) was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 23 September 2006. Details of the movements of options granted under the Pre-IPO Share Option Scheme during the year are as follows:

| | | | Number of shares subject to options | | |
|---|---|---|---|---|---|
| Category of grantee | Exercise price HK$ | Exercise period | Outstanding as at 1 April 2010 | Exercised during the year | Outstanding as at 31 March 2011 |
| Directors | 0.666 | 16 April 2007 – 15 October 2016 | 6,000,000 | (4,500,000) | 1,500,000 |
| Employees | 0.666 | 16 April 2007 – 15 October 2016 | 4,010,000 | (3,110,000) | 900,000 |
| | | | 10,010,000 | (7,610,000) | 2,400,000 |

## 20 Share Option Schemes *(Continued)*

### (a) Pre-IPO Share Option Scheme *(Continued)*

| Category of grantee | Exercise price HK$ | Exercise period | Number of shares subject to options: Outstanding as at 1 April 2009 | Exercised during the year | Outstanding as at 31 March 2010 |
|---|---|---|---|---|---|
| Directors | 0.666 | 16 April 2007 – 15 October 2016 | 7,600,000 | (1,600,000) | 6,000,000 |
| Employees | 0.666 | 16 April 2007 – 15 October 2016 | 11,030,000 | (7,020,000) | 4,010,000 |
| | | | 18,630,000 | (8,620,000) | 10,010,000 |

During the year, 7,610,000 (2010: 8,620,000) share options were exercised. The weighted average closing price on the dates on which the options were exercised was HK$2.84 (2010: HK$1.68).

Each of the grantees to whom options were granted under the Pre-IPO Option Scheme would be subject to the following restrictions on the exercise of the options granted to him/her:

| Period (as from 16 October 2006, the date on which the shares of the Company commenced trading on the Stock Exchange) | Maximum cumulative percentage of the shares under option exercisable by the grantee |
|---|---|
| First six months | 0% |
| Second six months | 33% |
| Third six months | 66% |
| For the remaining option period | 100% |

The fair value of the options granted under the Pre-IPO Share Option Scheme amounting to HK$18,480,000 was determined at the grant date under the Binominal Option Pricing Model.

Save as disclosed above, no further options were granted under the Pre-IPO Share Option Scheme as the right to do so had ended on the day on which the prospectus of the Company dated 29 September 2006 was registered with the Registrar of Companies in Hong Kong.

## 20 Share Option Schemes *(Continued)*

### (b) Share Option Scheme

Another share option scheme (further details of which are set out in the Company's directors' report) is also adopted pursuant to the written resolution passed by the sole shareholder of the Company on 23 September 2006. No options were granted under the share option scheme since its date of adoption and up to 31 March 2011.

## 21 Reserves – Group and Company

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Share option reserve HK$'000 | Share reserve HK$'000 *(Note i)* | Exchange translation reserve HK$'000 | Statutory reserve HK$'000 *(Note ii)* | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| At 1 April 2009 | 235,755 | 9,360 | 13,771 | 104,810 | 83,294 | – | 2,200 | 302,757 | 751,947 |
| Profit for the year | – | – | – | – | – | – | – | 20,323 | 20,323 |
| Exchange differences arising on translation of foreign operations | – | – | – | 4,707 | – | – | – | – | 4,707 |
| Gain on fair value changes of available-for-sale financial assets | – | – | – | – | – | 1,327 | – | – | 1,327 |
| Arising from issue of shares upon exercise of share options | 4,879 | – | – | – | – | – | – | – | 4,879 |
| Transfer to share premium upon exercise of share options | 4,313 | (4,313) | – | – | – | – | – | – | – |
| Transfer to reserve | – | – | – | – | 171 | – | – | (171) | – |
| At 31 March 2010 | 244,947 | 5,047 | 13,771 | 109,517 | 83,465 | 1,327 | 2,200 | 322,909 | 783,183 |

## 21 Reserves – Group and Company *(Continued)*

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Share option reserve HK$'000 | Share reserve HK$'000 *(Note i)* | Exchange translation reserve HK$'000 | Statutory reserve HK$'000 *(Note ii)* | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Perpetual convertible securities HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| At 1 April 2010 | 244,947 | 5,047 | 13,771 | 109,517 | 83,465 | 1,327 | 2,200 | – | 322,909 | 783,183 |
| Profit for the year | – | – | – | – | – | – | – | – | 259,365 | 259,365 |
| Exchange differences arising on translation of foreign operations | – | – | – | 36,430 | – | – | – | – | – | 36,430 |
| Loss on fair value changes of available-for-sale financial assets | – | – | – | – | – | (759) | – | – | – | (759) |
| Arising from issue of shares upon exercise of share options | 4,307 | – | – | – | – | – | – | – | – | 4,307 |
| Transfer to share premium upon exercise of share options | 3,808 | (3,808) | – | – | – | – | – | – | – | – |
| Arising from issue of Subscription Shares and Perpetual Convertible Securities *(Note 19)* | 244,800 | – | – | – | – | – | – | 85,401 | – | 330,201 |
| Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder | – | – | – | – | – | – | – | – | (8,269) | (8,269) |
| Reversal arising from disposal of available-for-sale financial assets | – | – | – | – | – | (568) | – | – | – | (568) |
| Transfer to reserve | – | – | – | – | 51,046 | – | – | – | (51,046) | – |
| **At 31 March 2011** | **497,862** | **1,239** | **13,771** | **145,947** | **134,511** | **–** | **2,200** | **85,401** | **522,959** | **1,403,890** |

*Notes:*

(i) Share reserve represents the difference between the share capital and capital reserve of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of corporate reorganisation.

(ii) The statutory reserve is the reserve of the Company's subsidiaries operating as foreign investment enterprises in the PRC. The use to this reserve is governed by relevant regulations of the PRC and the articles of association of these subsidiaries.

## 21 Reserves – Group and Company *(Continued)*

| | Company | | | | |
|---|---|---|---|---|---|
| | Share premium HK$'000 | Share option reserve HK$'000 | Perpetual convertible securities HK$'000 | Retained earnings/ (accumulated losses) HK$'000 | Total HK$'000 |
| At 1 April 2009 | 235,755 | 9,360 | – | 4,809 | 249,924 |
| Loss for the year | – | – | – | (10,320) | (10,320) |
| Arising from issue of shares upon exercise of share options | 4,879 | – | – | – | 4,879 |
| Transfer to share premium upon exercise of share options | 4,313 | (4,313) | – | – | – |
| At 1 April 2010 | 244,947 | 5,047 | – | (5,511) | 244,483 |
| Profit for the year | – | – | – | 79,365 | 79,365 |
| Arising from issue of shares upon exercise of share options | 4,307 | – | – | – | 4,307 |
| Transfer to share premium upon exercise of share options | 3,808 | (3,808) | – | – | – |
| Arising from issue of subscription shares and perpetual convertible securities *(Note 19)* | 244,800 | – | 85,401 | – | 330,201 |
| **At 31 March 2011** | **497,862** | **1,239** | **85,401** | **73,854** | **658,356** |

The consolidated profit for the year attributable to owners of the Company includes a profit of HK$79,365,000 (2010: loss of HK$10,320,000) which has been dealt with in the financial statements of the Company.

## 22 Borrowings – Group

The borrowings of the Group comprise:

| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) | 2009<br>HK$'000<br>(Restated) |
|---|---|---|---|
| Non-current | | | |
| Bank borrowings | **91,765** | 72,080 | – |
| Current | | | |
| Bank borrowings | **665,592** | 803,884 | 844,076 |
| Trust receipt loans | **48,359** | 6,181 | – |
| | **713,951** | 810,065 | 844,076 |
| | **805,716** | 882,145 | 844,076 |

| | 2011<br>HK$'000 | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Secured: | | | |
| Bank borrowings | **441,369** | 240,715 | 51,932 |
| Trust receipt loans | **48,359** | 6,181 | – |
| | **489,728** | 246,896 | 51,932 |
| Unsecured: | | | |
| Bank borrowings | **193,881** | 498,591 | 695,370 |
| Other borrowings | **122,107** | 136,658 | 96,774 |
| | **315,988** | 635,249 | 792,144 |
| | **805,716** | 882,145 | 844,076 |

## 22 Borrowings – Group *(Continued)*

At 31 March 2011, the Group's borrowings were repayable as follows:

| | Trust receipt loans | | | Bank borrowings | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at 31 March | | As at 1 April | As at 31 March | | As at 1 April | As at 31 March | | As at 1 April |
| | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 | **2011** | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 | **HK$'000** | HK$'000 | HK$'000 | **HK$'000** | HK$'000 | HK$'000 |
| Within 1 year | **48,359** | 6,181 | – | **645,546** | 790,809 | 841,153 | **693,905** | 796,990 | 841,153 |
| Bank borrowings due for repayment after one year *(Note)*: | | | | | | | | | |
| After 1 year but within 2 years | **–** | – | – | **36,149** | 79,150 | 1,949 | **36,149** | 79,150 | 1,949 |
| After 2 years but within 5 years | **–** | – | – | **75,662** | 6,005 | 974 | **75,662** | 6,005 | 974 |
| After 5 years | **–** | – | – | **–** | – | – | **–** | – | – |
| | **–** | – | – | **111,811** | 85,155 | 2,923 | **111,811** | 85,155 | 2,923 |
| | **48,359** | 6,181 | – | **757,357** | 875,964 | 844,076 | **805,716** | 882,145 | 844,076 |

*Note:* The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The carrying amounts of the borrowings are denominated in the following currencies:

| | As at 31 March | | As at 1 April |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| | **HK$'000** | HK$'000 | HK$'000 |
| HK$ | **186,352** | 480,903 | 630,693 |
| US$ | **35,178** | 12,311 | 5,359 |
| RMB | **457,616** | 252,273 | 111,250 |
| EUR | **122,516** | 136,658 | 96,774 |
| Other currencies | **4,054** | – | – |
| | **805,716** | 882,145 | 844,076 |

## 22 Borrowings – Group *(Continued)*

The effective interest rates at the statement of financial position date are as follows:

| | As at 31 March 2011 | | | | As at 31 March 2010 | | | | As at 1 April 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **US$** | **HK$** | **RMB** | **EUR** | US$ | HK$ | RMB | EUR | US$ | HK$ | RMB | EUR |
| Bank borrowings | **2.28%** | **3.09%** | **5.55%** | **2.52%** | 2.29% | 3.08% | 5.51% | 2.96% | – | 1.59% | 6.85% | 2.87% |
| Trust receipt bank loans | **2.20%** | **2.05%** | **–** | **2.21%** | – | 2.18% | – | – | – | 1.75% | – | – |

The carrying amounts of the assets of the Group pledged to secure its borrowings or financial guarantees are as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Restricted bank balances | **58,693** | 34,010 |
| Land use rights | **117,064** | 81,914 |
| Investment properties | **9,570** | 7,290 |
| Property, plant and equipment | **186,834** | 230,330 |
| | **372,161** | 353,544 |

## 23 Trade and Bills Payables, Other Payables, Deposits and Accruals – Group

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Trade payables | **548,857** | 432,597 |
| Bills payable | **43,158** | 158 |
| Trade and other deposits and receipts in advance | **173,101** | 132,861 |
| Accrued salaries, bonuses and staff benefits | **39,161** | 26,533 |
| Accrued sales commission | **40,057** | 22,980 |
| Value added tax payable | **8,422** | 12,656 |
| Provision for a legal claim | **701** | 1,359 |
| Others | **104,368** | 53,595 |
| | **957,825** | 682,739 |

## 23 Trade and Bills Payables, Other Payables, Deposits and Accruals – Group *(Continued)*

The following is the aging analysis of the trade payables:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within 90 days | **479,121** | 393,615 |
| 91 – 180 days | **54,643** | 27,791 |
| 181 – 365 days | **6,366** | 1,446 |
| Over one year | **8,727** | 9,745 |
| | **548,857** | 432,597 |

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| US$ | **3,425** | 6,186 |
| HK$ | **6,699** | 15,979 |
| RMB | **372,618** | 341,166 |
| EUR | **103,555** | 47,276 |
| Taiwan dollars | **86,129** | 19,925 |
| Other currencies | **19,589** | 2,223 |
| | **592,015** | 432,755 |

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

## 24 Revenue and Other Income

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of machinery and equipment | **2,582,058** | 1,397,997 |
| Steel casting | **20,506** | 10,367 |
| | **2,602,564** | 1,408,364 |
| Other income | | |
| Value added tax refund | **22,027** | 11,634 |
| Other subsidies from government | **5,169** | 6,814 |
| Rental income | **2,154** | 1,410 |
| Sundry income | **5,080** | 1,825 |
| | **34,430** | 21,683 |
| Total revenue and other income | **2,636,994** | 1,430,047 |

## 25 Other Gains, Net

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Net foreign exchange gain/(loss) | **2,875** | (986) |
| Increase in fair value of investment properties | **5,821** | 3,770 |
| Net fair value (loss)/gain on derivative financial instruments | **(4,007)** | 1,330 |
| Loss on disposals of property, plant and equipment | **(253)** | (248) |
| Gain on disposal of a jointly controlled entity | **–** | 659 |
| Gain on disposal of available-for-sale financial assets | **889** | – |
| Others | **(117)** | (652) |
| | **5,208** | 3,873 |

## 26 Expense by Nature

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Raw materials and consumables used | 1,182,970 | 753,662 |
| Change in inventories of finished goods and work in progress | 214,127 | 22,003 |
| Staff costs[3] *(Note 27)* | 409,356 | 264,958 |
| Amortisation of land use rights | 3,106 | 2,666 |
| Amortisation of trademarks[1] | 701 | 1,211 |
| Amortisation of patents[1] | 214 | 178 |
| Amortisation of development costs and others[2] | 4,409 | 4,707 |
| Depreciation of property, plant and equipment | 93,311 | 78,694 |
| Research and development costs | 23,617 | 10,802 |
| Transportation expenses | 59,889 | 23,742 |
| Auditor's remuneration | 3,100 | 3,018 |
| Provision for impairment of intangible assets[1] | – | 1,499 |
| Provision for impairment of property, plant and equipment[1] | – | 3,501 |
| Provision for impairment of trade receivables | 3,566 | 5,949 |
| Write down of inventories[2] | 9,096 | 3,940 |
| Other expenses | 274,823 | 187,093 |
| | 2,282,285 | 1,367,623 |
| Represented by | | |
| Cost of sales | 1,758,970 | 1,025,452 |
| Selling and distribution expenses | 237,471 | 123,999 |
| General and administration expenses | 285,844 | 218,172 |
| | 2,282,285 | 1,367,623 |

1 Included in administration expenses

2 Included in cost of sales

3 Included research and development costs of HK$23,658,000 (2010: HK$16,308,000)

## 27 Employees' Benefits (Including Directors' Emoluments)

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Wages and salaries | 294,168 | 184,649 |
| Retirement scheme contributions | 25,803 | 25,949 |
| Other allowances and benefits | 89,385 | 54,360 |
| | 409,356 | 264,958 |

## 28 Directors' and Senior Executives' Emoluments

### (a) Directors' emoluments

The emoluments of each of the directors are as follows:

| | Fees<br>HK$'000 | Salaries and other allowances<br>HK$'000 | Discretionary bonuses *(Note i)*<br>HK$'000 | Retirement scheme contributions<br>HK$'000 | Share-based payments<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| Year ended 31 March 2011 | | | | | | |
| *Executive directors* | | | | | | |
| Chong Siw Yin | – | 2,730 | – | 12 | – | 2,742 |
| Cao Yang | – | 3,225 | – | 86 | – | 3,311 |
| Chung Yuk Ming | – | 1,904 | – | 12 | – | 1,916 |
| Wong Pui Chun | – | 995 | – | 10 | – | 1,005 |
| | – | 8,854 | – | 120 | – | 8,974 |
| *Non-executive director* | | | | | | |
| Hu Yongmin | – | – | – | – | – | – |
| *Independent non-executive directors* | | | | | | |
| Low Seow Chay | 180 | – | – | – | – | 180 |
| Lui Ming Wah | 270 | – | – | – | – | 270 |
| Tsang Yiu Keung | 270 | – | – | – | – | 270 |
| Chan Wah Tip | 270 | – | – | – | – | 270 |
| | 990 | – | – | – | – | 990 |
| | 990 | 8,854 | – | 120 | – | 9,964 |

## 28 Directors' and Senior Executives' Emoluments *(Continued)*

| | Fees HK$'000 | Salaries and other allowances HK$'000 | Discretionary bonuses *(Note i)* HK$'000 | Retirement scheme contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Year ended 31 March 2010 | | | | | | |
| *Executive directors* | | | | | | |
| Chong Siw Yin | – | 2,730 | – | 12 | – | 2,742 |
| Cao Yang | – | 1,972 | – | 89 | – | 2,061 |
| Chung Yuk Ming | – | 1,682 | – | 12 | – | 1,694 |
| Wong Pui Chun | – | 1,088 | – | 12 | – | 1,100 |
| | – | 7,472 | – | 125 | – | 7,597 |
| *Independent non-executive directors* | | | | | | |
| Low Seow Chay | 180 | – | – | – | – | 180 |
| Lui Ming Wah | 270 | – | – | – | – | 270 |
| Tsang Yiu Keung | 270 | – | – | – | – | 270 |
| Chan Wah Tip | 270 | – | – | – | – | 270 |
| | 990 | – | – | – | – | 990 |
| | 990 | 7,472 | – | 125 | – | 8,587 |

*Notes:*

(i) Discretionary bonuses were related to the performance of the Group and were determined by the Remuneration Committee.

(ii) Ms. Wong Pui Chung resigned as an executive director on 1 February 2011.

(iii) Mr. Hu Yongmin was appointed as a non-executive director on 25 February 2011.

None of the directors of the Company waived any emoluments for the year ended 31 March 2011 (2010: Nil).

## 28 Directors' and Senior Executives' Emoluments *(Continued)*

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in the disclosures in Note a above. The emoluments of the remaining two (2010: two) individuals were as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | 1,663 | 2,836 |
| Discretionary bonuses | 1,059 | – |
| Retirement scheme contributions | 121 | 108 |
| | 2,843 | 2,944 |

The emoluments fell within the following bands:

| | 2011 | 2010 |
|---|---|---|
| HK$1,000,001 – HK$1,500,000 | 2 | 1 |
| HK$1,500,001 – HK$2,000,000 | – | 1 |

## 29 Finance Costs – Net

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Finance income: | | |
| Interest income on short-term bank deposits | (2,450) | (1,678) |
| Finance costs: | | |
| Interests on bank loans and overdrafts wholly repayable within five years | 46,325 | 36,077 |
| Less: Capitalised in property, plant and equipment *(Note i)* | (3,394) | (287) |
| | 42,931 | 35,790 |
| | 40,481 | 34,112 |

(i) Borrowing costs capitalised during the year arose from general borrowing pool and were calculated by applying a capitalisation rate of 4% (2010: 3.5%) to expenditure on qualifying assets.

## 30 Income Tax Expense

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| The tax charge for the year comprises: | | |
| Current income tax | | |
| – PRC income tax | **64,571** | 15,616 |
| – Hong Kong profits tax | **–** | – |
| – Under/(over)-provision in prior years | **8,995** | (2,474) |
| | **73,566** | 13,142 |
| Deferred taxation *(Note 11)* | **(13,268)** | 10,765 |
| Tax charge | **60,298** | 23,907 |

In accordance with the applicable Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, certain of the Company's subsidiaries registered in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax loss brought forward and are entitled to 50% relief on the income tax in the following three years. In addition, certain of these subsidiaries are entitled to additional tax concessions granted by local tax bureau. These subsidiaries are subject to income tax at rates ranging from 12.5% to 25% (2010: 12.5% to 25%) during the year.

Certain subsidiaries of the Company which have unexpired tax holidays, continue to be tax exempted. For those subsidiaries which are still entitled to the 50% relief on income tax, the tax rate for the year is 12.5%. For those subsidiaries with expired tax holidays (other than those approved to be High and New Technology Enterprises as discussed in the next paragraph), the tax rates for the year are 24% (2010: 20% or 22% or 25%).

Certain subsidiaries in Shenzhen, Zhongshan and Shanghai were certified as High and New Technology Enterprises and are entitled to a concessionary tax rate of 15% for three years commencing from 1 January 2009. They are entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

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

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. No Hong Kong profits tax has been provided for the year ended 31 March 2011 as the subsidiaries in Hong Kong either have unutilised tax losses available to set off current year's estimated assessable profits or have no assessable profits for the current year. No Hong Kong profits tax has been provided for the year ended 31 March 2010 as there were no assessable profits for that year.

## 30 Income Tax Expense *(Continued)*

No provision for overseas income tax (other than taxes in the PRC) has been made as the Group has no assessable profits subject to overseas income tax for the years ended 31 March 2011 and 2010.

A reconciliation of the tax charge applicable to profit before income taxes using the applicable tax rates for relevant tax jurisdictions to the tax expense is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Profit before income tax | **319,436** | 27,142 |
| Tax calculated at applicable tax rates in the respective countries | **81,631** | 9,510 |
| Effect of preferential tax rates applicable to relevant jurisdictions | **(35,055)** | (15,422) |
| Tax effects of: | | |
| – Tax concession | **(1,297)** | (812) |
| – Income not subject to tax | **(1,933)** | (2,136) |
| – Expenses not deductible for tax purposes | **6,622** | 6,362 |
| – Changes in tax rates | **(292)** | (232) |
| – Other temporary differences not recognised | **–** | (27) |
| – Undistributed profits of subsidiaries in the PRC | **737** | 4,887 |
| Utilisation of previously unrecognised tax losses | **(2,995)** | – |
| Tax effect of unrecognised tax losses | **2,470** | 23,027 |
| Write-down of unrecoverable deferred tax assets | **928** | 1,700 |
| Under/(over)-provision in prior years | **8,995** | (2,474) |
| Others | **487** | (476) |
| Tax charge | **60,298** | 23,907 |

The weighted average applicable tax rate was 25.6% (2010: 35.0%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

There was no tax charge relating to components of other comprehensive income for the years ended 31 March 2011 and 2010.

## 31 Earnings Per Share

### (a) Basic

The calculation of the basic earnings per share is based on the consolidated profit attributable to owners of the parent of HK$259,365,000 (2010: HK$20,323,000) and on the weighted average number of approximately 1,036,168,000 (2010: 1,014,668,000) ordinary shares in issue during the year.

| | 2011 | 2010 |
|---|---|---|
| Profit attributable to owners of the parent (HK$'000) | **259,365** | 20,323 |
| Weighted average number of ordinary shares in issue (thousands) | **1,036,168** | 1,014,668 |
| Basic earnings per share (HK cents) | **25.0** | 2.0 |

### (b) Diluted

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

| | 2011 | 2010 |
|---|---|---|
| Profit attributable to owners of the parent (HK$'000) | **259,365** | 20,323 |
| Weighted average number of ordinary shares in issue (thousands) | **1,036,168** | 1,014,668 |
| Assumed conversion of perpetual convertible securities (thousand) | **5,403** | – |
| Adjustment for share options (thousands) | **3,409** | 5,721 |
| Weighted average number of ordinary shares of diluted earnings per share (thousands) | **1,044,980** | 1,020,389 |
| Weighted average number of ordinary shares for diluted earnings per share (HK cents) | **24.8** | 2.0 |

The assumed conversion of potential ordinary shares arising from the warrants during the year would be anti-dilutive.

## 32 Dividends

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Proposed final dividend of HK5 cents per share (2010: Nil) | **56,553** | – |

At a meeting held on 29 June 2011, the directors recommended the payment of a final dividend of HK 5 cents per ordinary share, totalling HK$56,553,000. Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting of the Company on 18 August 2011. This proposed dividend is not reflected as dividends payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2012.

## 33 Cash Generated from Operations

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Profit before income tax | **319,436** | 27,142 |
| Adjustments for: | | |
| Depreciation and amortisation | **101,741** | 85,304 |
| Increase in fair value of investment properties | **(5,821)** | (3,770) |
| Bank interest income | **(2,450)** | (1,678) |
| Interests on bank borrowings | **42,931** | 35,790 |
| Share of loss of an associate | **–** | 4,079 |
| Share of loss of a jointly controlled entity | **–** | 964 |
| Provision for impairment of intangible assets | **–** | 1,499 |
| Provision for impairment of property, plant and equipment | **–** | 3,501 |
| Provision for impairment of trade receivables | **3,566** | 5,949 |
| Write down of inventories | **9,096** | 3,940 |
| Net fair value loss/(gain) on derivative financial instruments | **4,007** | (1,330) |
| Loss on disposals of property, plant and equipment | **253** | 248 |
| Gain on disposal of a jointly controlled entity | **–** | (659) |
| Gain on disposal of available-for-sale financial assets | **(889)** | – |
| Operating profit before changes in working capital | **471,870** | 160,979 |
| Increase in inventories | **(336,167)** | (84,213) |
| Increase in trade and bills receivables | **(301,917)** | (147,758) |
| Increase in other receivables, prepayments and deposits | **(21,150)** | (103,359) |
| Decrease/(increase) in amount due from an associate | **340** | (340) |
| Increase in trade and bills payables, other payables, deposits and accruals | **274,048** | 351,524 |
| Decrease in amount due to an associate | **–** | (40,909) |
| Net settlement of derivative financial instruments | **(1,345)** | (1,386) |
| Increase in restricted bank balances | **(45,906)** | (6,286) |
| Cash generated from operations | **39,773** | 128,252 |

## 33 Cash Generated from Operations *(Continued)*

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Net book amount *(Note 7)* | **1,598** | 899 |
| Loss on disposal of property, plant and equipment | **(253)** | (248) |
| Proceeds from disposal of property, plant and equipment | **1,345** | 651 |

## 34 Commitments – Group

### (a) Capital commitments

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows: | | |
| Property, plant and equipment | **85,634** | 50,510 |
| Other commitments | **4,710** | 5,760 |
| | **90,344** | 56,270 |

### (b) Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of buildings under non-cancellable operating leases which fall due as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Leases payable: | | |
| Within one year | **13,589** | 10,537 |
| In the second to fifth year inclusive | **28,127** | 36,880 |
| After the fifth year | **7,709** | – |
| | **49,425** | 47,417 |

The Group leases a number of properties under operating leases. The leases generally run for an initial period of one to five years, and the majority of lease agreements are renewable at the end of the lease period at market rate. None of the leases includes contingent rentals.

## 34 Commitments – Group *(Continued)*

### The Group as lessor

The Group leases out the investment properties and certain machinery under operating leases. The leases generally run for an initial period of one to five years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases include contingent rentals.

At the end of the reporting period, the Group had contracted with lessees under non-cancellable operating leases in respect of buildings and machinery for the following future minimum leases receivable:

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Leases receivable: | | |
| Within one year | **871** | 3,582 |
| In the second to fifth year inclusive | **471** | 544 |
| | **1,342** | 4,126 |

The Company has no lease arrangement at the end of reporting period.

## 35 Financial Guarantees

| | **Group** | |
|---|---|---|
| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
| The amount of the outstanding loans granted by banks to customers to purchase the Group's products for which guarantees have been given by the Group to the banks | **193,610** | 106,651 |

The Group has provided guarantees to banks in respect of credit facilities up to the maximum amount of HK$302,400,000 (2010: HK$153,409,000) which are granted to certain customers of the Group to purchase its products. Pursuant to the terms of the guarantees, the Group is required to deposit a portion of the sales proceeds received from these customers with the banks as mentioned in Note 18(b). Upon default in repayments by these customers, the Group is responsible to repay the outstanding loan principals together with accrued interest and related costs owed by the defaulted customers to the banks, and the Group is entitled to take over the legal title and possession of the related products. The Group's guarantee period starts from the dates of grant of the relevant bank loans and ends when these customers have fully repaid their bank loans. The Group has accounted for financial guarantees in accordance with the accounting policies as set out in Note 2.19(i).

The Company has provided guarantees in respect of banking facilities of its subsidiaries amounting to approximately HK$730,146,000 (2010: HK$794,185,000). The facilities utilised by the subsidiaries as at 31 March 2011 amounted to HK$221,687,000 (2010: HK$515,448,000).

## 36 Related Party Transactions

(a) During the year, the Group had the following transaction with its related parties.

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Operating lease rentals paid to: | | |
| Wheelfit Investment Limited | **500** | 1,200 |

Wheelfit Investment Limited is 50% owned by Mr. Liu Siong Song who is the spouse of a director of the Company, Ms. Chong Siw Yin.

The above transaction is a continuing connected transaction, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(b) The remuneration of directors and other members of key management personnel during the year was as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Wages and salaries, other allowances and benefits | **16,130** | 14,566 |
| Retirement scheme contributions | **309** | 281 |
| | **16,439** | 14,847 |

(c) The Group had the following amounts due to its holding company as at 31 March 2011 and 2010:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Girgio Industries Ltd. | **–** | 40,000 |

The balances were unsecured, interest free and had no fixed repayment terms.

The directors considered the above transaction and balances were made at normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to independent third parties.

# FINANCIAL SUMMARY

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **2,602,564** | 1,408,364 | 1,192,487 | 1,261,972 | 969,375 |
| Profit/(loss) before income tax | **319,436** | 27,142 | (47,898) | 131,810 | 69,298 |
| Income tax expense | **(60,298)** | (23,907) | (4,315) | (16,389) | (9,023) |
| Profit/(loss) for the year | **259,138** | 3,235 | (52,213) | 115,421 | 60,275 |
| Profit/(loss) attributable to: | | | | | |
| Owners of the parent | **259,365** | 20,323 | (43,671) | 115,421 | 60,275 |
| Non-controlling interests | **(227)** | (17,088) | (8,542) | – | – |
| | **259,138** | 3,235 | (52,213) | 115,421 | 60,275 |

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Assets and liabilities | | | | | |
| Total assets | **3,387,648** | 2,520,258 | 2,103,281 | 1,685,602 | 1,383,127 |
| Total liabilities | **(1,867,212)** | (1,631,486) | (1,235,654) | (771,304) | (630,513) |
| | **1,520,436** | 888,772 | 867,627 | 914,298 | 752,614 |
| Equity attributable to owners of the parent | **1,516,997** | 885,329 | 853,231 | 914,298 | 752,614 |
| Non-controlling interests | **3,439** | 3,443 | 14,396 | – | – |
| | **1,520,436** | 888,772 | 867,627 | 914,298 | 752,614 |