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Corporate Information

BOARD OF DIRECTORS

Mr. Siu Tit Lung (*Chairman*)
Mr. Siu Yuk Lung (*Managing Director*)
Mr. Mak Koon Chi
Mr. Wai Lung Shing
Mr. Fung Wai Hing
Mr. Liu Wing Ting, Stephen, JP
Mr. Chan Chun Sing, Colin
Dr. Lee Tat Yee

COMPANY SECRETARY

Mr. Wai Lung Shing

SOLICITORS

Woo, Kwan, Lee & Lo
2718 Jardine House
1 Connaught Place
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF OFFICE

1st Floor
Cheung Kong Electronic Building
4 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

Website

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2000 Annual General Meeting of shareholders of the Company will be held at Mandarin Oriental Hotel, 4th Floor, Kublai Khan Room, 5 Connaught Road Central, Hong Kong on 1st September, 2000 at 3:30 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors of the Company for the year ended 31st March, 2000.
2. To approve and declare a final dividend for the year ended 31st March, 2000;
3. To determine a maximum number of Directors for the time being, re-elect and appoint Directors and authorise the Board of Directors to fix the remuneration of Directors and appoint additional Directors.
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
5. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution.

“THAT conditionally upon the listing of and permission to deal in such shares to be issued by the Company pursuant to this resolution on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) having been or being granted by the Listing Committee of the Stock Exchange:

- (A) upon the recommendation of the Directors of the Company, it is desirable that such part of the amount standing to the credit of the share premium account of the Company as would be required to be applied in paying up in full at par shares of HK\$0.10 each in the capital of the Company, such shares to be allotted and distributed (subject as referred to in paragraph (C) below) credited as fully paid among the persons who were registered as holders of the existing issued shares in the capital of the Company on 1st September, 2000 in the proportion of one new share(s) for every four existing shares held, be capitalised and applied in such manner and the Directors of the Company be and they are hereby authorised to allot and issue such issues;
- (B) such shares shall not rank for the final dividend for the year ended 31st March, 2000 but shall, subject to the Memorandum of Association and Bye-laws of the Company, rank pari passu in all other respects with the existing issued shares of HK\$0.10 each in the capital of the Company;
- (C) no fractional shares shall be allotted and distributed as aforesaid, but shares representing fractional entitlements shall be aggregated and sold for the benefit of the Company; and
- (D) the Directors of the Company be authorised to do all acts and things as may be necessary and expedient in connection with the bonus issue of new shares referred to in paragraph (A) of this resolution including but not limited to determining the amount to be capitalised out of the shares premium account and the number of unissued shares to be allotted and distributed in the manner referred to in paragraph (A) of this Resolution as a result of the issue of additional shares upon exercise of the share options before 1st September, 2000.”

Notice of Annual General Meeting (Cont'd)

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution.

“THAT:

- (A) subject to paragraph (C) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) above shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital to be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (A) above, otherwise than pursuant to (i) a Right Issue (as hereinafter defined), or (ii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iii) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution, and the said approval shall be limited accordingly; and
- (D) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by Bye-laws of the Company or the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; or
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“Right Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional

Notice of Annual General Meeting (Cont'd)

entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized body or any stock exchange in any territory applicable to the Company).”

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution.

“THAT:

- (A) subject to paragraph (B) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other exchange on which the shares in the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (B) the aggregate nominal amount of shares in the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (A) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution, and the said approval shall be limited accordingly; and
- (C) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or The Companies Act 1981 of Bermuda (as amended) or any other applicable law of Bermuda to be held; and
 - (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”

8. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution.

“THAT subject to the passing of Resolution No. 7 set out in the notice convening this meeting, the general unconditional mandate granted to the Directors of the Company to exercise the powers of the Company to allot shares referred to in Resolution No. 6 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted

Notice of Annual General Meeting (Cont'd)

pursuant to Resolution No. 7 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution.”

By order of the Board
Wai Lung Shing
Company Secretary

Hong Kong, 30th June, 2000

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the head office of the Company at 1st Floor, Cheung Kong Electronic Building, 4 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
3. The Register of Members of the Company will be closed from 28th August, 2000 to 1st September, 2000, both days inclusive during which period no share transfer will be effected.
4. In order to qualify for the proposed dividends, all share certificates accompanied by the completed transfer forms either overleaf or separate or Standard Transfer Form, must be lodged with the Hong Kong Branch Registrars of the Company, Central Registration Hong Kong Limited of 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 25th August, 2000.

Chairman's Statement

It is my pleasure to present the annual results of Lung Kee (Bermuda) Holdings Limited and its subsidiaries (the "Group") for the year ended 31st March, 2000.

Due to obvious recovery of the economy this year, the Group recorded its ever-highest turnover with an increase of 29.65%. After eliminating the increase in turnover resulting from the acquisition of additional shareholdings in Lung Kee Metal Japan Company Limited which thus making it a subsidiary of the Group, the actual increase in turnover amounted to 20.24%.

With the Group's commitment to efficiency enhancement, the Group achieved earnings of HK\$110,000,000 for the year, representing an increase of 65.75% over the previous year.

Business Review

The economy obviously turned better this year but still had not recovered to the status before the Asian financial turmoil. The prices, in particular, were still at a lower level than before.

In line with the gradual improvement in the overall economy, the Group's sales business of moulds continued to achieve growth and the plants in China continued to manufacture high quality products for the Group.

During the year, the operation of the plant in Heyuan, China had got onto the right track. Both quality and production capacity had achieved the targets. Production was smooth with the cost of production gradually decreasing. The plant mainly produces standard mould bases at present. With a continuously expanding market share, the plant had made significant contribution to the Group.

The plant in Dongguan, China mainly produces highly quality tailor-made mould bases to meet the customers' increasingly demanding requirements for quality and quick delivery.

The plant in Guangzhou, China continued to export high quality mould bases this year and achieved satisfactory sales results. Both productivity and number of customers were continuously on the increase. Moreover, the demand for mould bases in eastern China continued to increase in the past year, resulting in the continued growth in sales in Shanghai, China.

Since the mould bases manufactured by the Group were well received by the Japanese market and the turnover had increased substantially, the leased warehouses were inadequate to meet the demand. As a result, the Group had acquired warehouses in Japan to serve as the sales base for acceptance of orders.

In Singapore and Malaysia, the sales continued to achieve growth in line with the economic recovery in both countries last year.

By virtue of the continuous growth maintained in the sales of mould steel and the continuously expanding product range, the market share also increased significantly.

Prospects

The extension of the plant in Heyuan, China will be completed by the end of this year and production of medium-sized, tailor-made mould bases will commence early next year.

Chairman's Statement (Cont'd)

The plant in Guangzhou, China will also develop, mainly for export, spare parts of high quality mould bases. It can strengthen the horizontal development of the Group in the mould industry, bring more comprehensive product range, higher competitiveness and new contribution for the Group.

Demand for mould has been gradually increasing in eastern China, either from local manufacturers or manufacturers from other provinces. The Group's plant in Shanghai, China is just in time to meet this trend. We shall install more machines and equipment and improve our productivity to satisfy the need of the market.

With the enter of China to the WTO, our customers' demand for moulds of high quality is increasing, especially the significant increase of demand for mould in automobile industry. Thus, our plant in Dongguan will actively enhance its capability in computer-aided drawing and design and improve its capacity in the production of high standard, large-sized and tailor-made mould bases to satisfy the need of our customers for such products.

As competition among domestic enterprises (including individual producers) has been keener and keener, demand for moulds of high quality is increasing. The Group's selling point in Dongguan, China will aggressively build up business relationship with domestic enterprises and individual producers in southern China to expand the Group's customer base.

The Group's mould steel product division will install vacuum furnace and nitrating heat treatment equipment in order to provide more value-added service to our customers. In addition, the Group also purchased several quality assurance equipment for steel products, and physico-chemical analysis equipment to strictly inspect incoming material for the maintenance of the quality of our mould steel products. On the other hand, the Group has also done our best to introduce more quality steel products and technology material to satisfy different need of various customers.

With regard to the internet, a trend in the new economy, the Group will also make use of this new and high technology to develop on-line trading which will allow customers around the world to place orders on our products more conveniently and directly and facilitate us to expand our market in various parts of the world.

Notwithstanding of the keen competition, the market share of the Group still continued to increase and outpaced our competitors. Our success depends on our staff's concerted efforts to maintain "Lung Kee" in the leading position in mould industry.

On behalf of the Directors, I would like to thank our employees for their loyal services and dedication and our suppliers, bankers, business associates and customers for their continued supports.

Siu Tit Lung
Chairman

Hong Kong, 30th June, 2000

Management Discussion and Analysis

During the year, the Group continued to focus on the manufacture and sale of mould bases and trading of special mould steel and related products.

The Group has established a strong foothold in the PRC and Southeast Asia, whilst actively explores the Japanese, European and American markets.

The Group's turnover in 2000 was HK\$890 million, which represented an increase of 29.65% when compared with HK\$686 million in 1999. Profit attributable to shareholders in 2000 was about HK\$110 million, which represented an increase of 65.75% compared with HK\$66 million in 1999. Earnings per share was 28.84 cents, which represented an increase of 64.89% when compared with 17.49 cents in 1999.

Mould Base Manufacturing and Marketing

During the year, the operation of the plant in Heyuan, China had got onto the right track. Both quality and production capacity had achieved the targets. Production was smooth with the cost of production gradually decreasing. The plant mainly produces standard mould bases at present. With a continuously expanding market share, the plant had made significant contribution to the Group.

The plant in Dongguan, China mainly produces highly quality tailor-made mould bases to meet the customers' increasingly demanding requirements for quality and quick delivery.

The plant in Guangzhou, China continued to export high quality mould bases this year and achieved satisfactory sales results. Both productivity and number of customers were continuously on the increase. Moreover, the demand for mould bases in eastern China continued to increase in the past year, resulting in the continued growth in sales in Shanghai, China.

Since the mould bases manufactured by the Group were well received by the Japanese market and the turnover had increased substantially, the leased warehouses were inadequate to meet the demand. As a result, the Group had acquired warehouses in Japan to serve as the sales base for acceptance of orders.

In Singapore and Malaysia, the sales continued to achieve growth in line with the economic recovery in both countries last year.

Trading of Mould Steel

By virtue of the continuous growth maintained in the sales of mould steel and the continuously expanding product range, the market share also increased significantly.

Liquidity and Capital Resources

The financial position of the Group had a further improvement, with a net cash surplus of HK\$52 million compared with HK\$13 million in 1999.

Management Discussion and Analysis (Cont'd)

Year 2000 Compliance

The Year 2000 problem arises from the practice of using 2-digit year in computer systems. When 21st century comes, all computer systems working in this manner will misinterpret the year.

The modification and replacement of the computer hardware and software for Year 2000 compliance have been completed on schedule in Year 1999. No material adverse impact in relation to the Year 2000 on the business has been occurred.

The total costs for the modification and replacement is approximately HK\$500,000. These expenses have been charged to the respective year's income statements. At the moment, the Group does not expect any further expenses in relation to this issue.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st March, 2000.

PRINCIPAL ACTIVITIES

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

The Group's head office is in Hong Kong and nearly all of its products are manufactured in Hong Kong, Shanghai, Guangzhou, Heyuan and Dongguan, the People's Republic of China (the "PRC"). The Group's turnover and contribution to profit from operations for the year ended 31st March, 2000 analysed by principal activity are as follows:

	Turnover HK\$'000	Contribution to profit from operations HK\$'000
Manufacture of mould bases	653,860	134,374
Trading of metal and parts	235,682	38,240
	<u>889,542</u>	<u>172,614</u>

A geographical analysis of the Group's turnover for the year ended 31st March, 2000, by location of customers, is as follows:

	HK\$'000	%
Hong Kong and elsewhere in the PRC	713,690	80.23
Singapore and Malaysia	52,240	5.87
Japan	75,195	8.45
Other countries	48,417	5.45
	<u>889,542</u>	<u>100.00</u>

Contribution to profit from operations by geographical location of customers has not been presented as the contribution to profit from operations in each market is substantially in line with the overall Group ratio of profit from operations to turnover.

Directors' Report (Cont'd)

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Details of the Company's subsidiaries and the Group's jointly controlled entity at 31st March, 2000 are set out in notes 34 and 16 to the financial statements, respectively. The shares of Lung Kee Metal Holdings Limited ("LKMH"), a subsidiary of the Company, are listed on the Stock Exchange of Singapore Limited (the "Singapore Stock Exchange").

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year are set out in the consolidated income statement on page 23.

An interim dividend of 6 cents per share amounting to HK\$23,064,563 was paid to shareholders during the year. The directors now recommend the payment of a final dividend of 10 cents per share payable to shareholders registered on 1st September, 2000, amounting to approximately HK\$38,000,000 and the retention of the remaining profit of the Group for the year approximately HK\$48,000,000.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 60.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group constructed factory premises and staff quarters at a cost of approximately HK\$34 million. The Group continued its plant expansion policy and expended approximately HK\$40 million on new plant and machinery during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st March, 2000 are set out on pages 61 to 63 of the annual report.

SHARE CAPITAL

Details of the Company's share capital are set out in note 22 to the financial statements.

SHARE OPTIONS SCHEME

Details of the share option scheme and the movement in the number of share options during the year are set out in note 23 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

The Group's largest supplier contributed 25% to the total purchases for the year. The Group's five largest suppliers accounted for 48% of the total purchases for the year.

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

BANK BORROWINGS

Bank borrowings repayable within one year or on demand are classified as current liabilities as set out in note 20 to the financial statements. Analyses of the repayment terms of obligations under finance leases and bank borrowings are set out in notes 19 and 20 to the financial statements, respectively.

No interest was capitalised by the Group during the year.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st March, 2000 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

In 1999, the Company established an audit committee consisted of Messrs. Liu Wing Ting, Stephen, JP, Chan Chun Sing, Colin and Lee Tat Yee, independent non-executive directors. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors

Siu Tit Lung (*Chairman*)

Siu Yuk Lung (*Managing Director*)

Mak Koon Chi

Wai Lung Shing

Fung Wai Hing

Directors' Report (Cont'd)

DIRECTORS AND SERVICE CONTRACTS (Cont'd)

Independent non-executive directors

Liu Wing Ting, Stephen, JP
Chan Chun Sing, Colin
Lee Tat Yee

In accordance with Clauses 87(1) and 169(2) of the Company's Bye-Laws, Messrs. Liu Wing Ting, Stephen, JP and Chan Chun Sing, Colin retire from office by rotation and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

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 Group within one year without payment of compensation (other than statutory compensation).

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 50, elder brother of Mr. Siu Yuk Lung, has been the chairman of the Company since December 1992 and is a co-founder of the Group. Mr. Siu is responsible for the overall strategic planning and corporate development of the Group. He has over 30 years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also a honorary citizen of Dongguan City, PRC.

Mr. Siu Yuk Lung, aged 47, brother of Mr. Siu Tit Lung, has been the managing director of the Company since December 1992 and is a co-founder of the Group. Mr. Siu is responsible for policy making and the corporate management of the Group. He has over 28 years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association.

Mr. Mak Koon Chi, aged 42, has been an executive director of the Company since December 1992 and is a senior member and past Chairman of the Society of Manufacturing Engineers (Hong Kong Chapter). Mr. Mak is responsible for policy making and marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from Murdoch University with a Master of Business Administration Degree.

Directors' Report (Cont'd)

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Executive directors (Cont'd)

Mr. Wai Lung Shing, aged 39, has been an executive director of the Company since December 1992 and is responsible for the policy making and the finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick with a Master of Business Administration Degree. He is a fellow of both the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Fung Wai Hing, aged 47, has been an executive director of the Company since August 1997 and is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham with a Master of Science Degree in Industrial Management and from the University of Hong Kong with a Master of Business Administration Degree. He is currently one of the directors and past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is also a senior member of the Society of Manufacturing Engineers (Hong Kong Chapter). He has extensive experience in the trading business, especially machinery trading.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 48, has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited and a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority. He is a fellow of both the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He has wide experience in auditing, taxation and financial management in various fields and industries. He has been an independent non-executive director of the Company since December 1992 and is the Chairman of the audit committee.

Mr. Chan Chun Sing, Colin, aged 46, graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He has many years of experience in the information technology industry. He has been an independent non-executive director of the Company since December 1992.

Dr. Lee Tat Yee, aged 50, obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. Dr. Lee is currently a Director of the Technology Support Centre of the University of Hong Kong specialising in quality assurance management systems. He has been an independent non-executive director of the Company since December 1992.

Directors' Report (Cont'd)

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Others

Mr. Chng Hee Kok, aged 52, is an independent non-executive director of LKMH. Mr. Chng obtained a Bachelor of Engineering (Mechanical), First Class Honours Degree and a Master of Business Administration Degree from the National University of Singapore in 1972 and 1984 respectively. He has also received several merit awards, including the Institution of Engineers, Singapore, Gold Medal (1972) and the Distinguished Engineering Alumni Award (1991). He is the Chief Executive Officer of NTUC Club Investment Pte. Ltd. He is also a Member of Parliament for the East Coast GRC, Singapore.

Mr. Lee Joo Hai, aged 44, is an independent non-executive director of LKMH. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants and the Institute of Certified Public Accountants of Singapore. He has extensive experience in accounting, auditing, taxation, company secretarial work, investigation and share valuations with exposure to US, Japan, UK and other EC countries' accounting and auditing reporting requirements. He is presently a partner in a public accounting firm.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st March, 2000, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and in the share options of the Company were as follows:

Name of director	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Siu Tit Lung (<i>Notes 1, 2 and 4</i>)	22,760,875	—	—	196,875,000
Siu Yuk Lung (<i>Notes 1, 3 and 4</i>)	22,760,875	—	—	196,875,000
Mak Koon Chi	2,000,000	—	—	—
Wai Lung Shing	2,000,000	—	—	—
Fung Wai Hing	312,500	—	—	—

Notes:

- (1) Siu Tit Lung and Siu Yuk Lung jointly held 20,498,375 shares in the Company and each owned a further 2,262,500 shares in the Company registered in their own name.
- (2) Rickdee Investments Limited, which is wholly-owned by a discretionary trust in which Siu Tit Lung and his family members are beneficiaries, held 37,500,000 shares in the Company. Subsequent to year end date, Siu Tit Lung ceased to be the beneficiary of the trust.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Cont'd)

- (3) Robin Hill Investments Limited, which is wholly-owned by a discretionary trust in which Siu Yuk Lung and his family members are beneficiaries, held 37,500,000 shares in the Company. Subsequent to year end date, Siu Yuk Lung ceased to be the beneficiary of the trust.
- (4) Pan Island Investments Limited, which is wholly-owned by a discretionary trust in which Siu Tit Lung and Siu Yuk Lung and certain members of their families are beneficiaries, held 159,375,000 shares in the Company. Subsequent to year end date, Siu Tit Lung and Siu Yuk Lung ceased to be the beneficiaries of the trust.
- (5) At 31st March, 2000, certain directors had personal interests in options to subscribe for shares in the Company granted under the share option scheme of the Company as follows:

Name of director	Number of share options				Exercisable period	Exercise price per share HK\$
	At 1st April, 1999	Granted during the year	Exercised during the year	At 31st March, 2000		
Siu Tit Lung	300,000	—	—	300,000	1st May, 1998 to 30th April, 2001	1.865
	300,000	—	—	300,000	3rd September, 1998 to 2nd September, 2001	1.205
	300,000	—	300,000	—	29th September, 1999 to 28th September, 2002	0.550
	—	400,000	400,000	—	26th October, 1999 to 25th October, 2002	0.725
	900,000	400,000	700,000	600,000		
Siu Yuk Lung	300,000	—	—	300,000	1st May, 1998 to 30th April, 2001	1.865
	300,000	—	—	300,000	3rd September, 1998 to 2nd September, 2001	1.205
	300,000	—	300,000	—	29th September, 1999 to 28th September, 2002	0.550
	—	400,000	400,000	—	26th October, 1999 to 25th October, 2002	0.725
	900,000	400,000	700,000	600,000		
Mak Koon Chi	300,000	—	—	300,000	1st May, 1998 to 30th April, 2001	1.865
	300,000	—	—	300,000	3rd September, 1998 to 2nd September, 2001	1.205
	300,000	—	—	300,000	29th September, 1999 to 28th September, 2002	0.550
	—	400,000	—	400,000	26th October, 1999 to 25th October, 2002	0.725
	900,000	400,000	—	1,300,000		
Wai Lung Shing	300,000	—	—	300,000	1st May, 1998 to 30th April, 2001	1.865
	300,000	—	—	300,000	3rd September, 1998 to 2nd September, 2001	1.205
	300,000	—	—	300,000	29th September, 1999 to 28th September, 2002	0.550
	—	400,000	—	400,000	26th October, 1999 to 25th October, 2002	0.725
	900,000	400,000	—	1,300,000		
Fung Wai Hing	300,000	—	—	300,000	1st May, 1998 to 30th April, 2001	1.865
	300,000	—	—	300,000	3rd September, 1998 to 2nd September, 2001	1.205
	300,000	—	—	300,000	29th September, 1999 to 28th September, 2002	0.550
	—	400,000	—	400,000	26th October, 1999 to 25th October, 2002	0.725
	900,000	400,000	—	1,300,000		

Details of the Company's share option scheme are set out in note 23 to the financial statements.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS (Cont'd)

- (6) At 31st March, 2000, two directors had personal interests in options to subscribe for shares in LKMH, a subsidiary of the Company, granted under the share option scheme of LKMH as follows:

Name of director	Number of share options			At 31st March, 2000	Exercisable period	Exercise price per share S\$
	At 1st April, 1999	Granted during the year	Exercised during the year			
Mak Koon Chi	450,000	—	—	450,000	15th January, 1999 to 14th January, 2003	0.705
	450,000	—	—	450,000	14th August, 1999 to 13th August, 2003	0.220
	—	450,000	—	450,000	23rd December, 2000 to 22nd December, 2004	0.740
	<u>900,000</u>	<u>450,000</u>	<u>—</u>	<u>1,350,000</u>		
Wai Lung Shing	450,000	—	—	450,000	15th January, 1999 to 14th January, 2003	0.705
	450,000	—	—	450,000	14th August, 1999 to 13th August, 2003	0.220
	—	450,000	—	450,000	23rd December, 2000 to 22nd December, 2004	0.740
	<u>900,000</u>	<u>450,000</u>	<u>—</u>	<u>1,350,000</u>		

- (7) At 31st March, 2000, Siu Tit Lung and Siu Yuk Lung jointly held 1,500,000 shares in LKMH.

In addition, Siu Tit Lung and Siu Yuk Lung hold non-voting deferred shares in certain of the Company's subsidiaries as set out in note 34 to the financial statements.

Save as disclosed above, and other than certain nominee shares in subsidiaries held in trust for the Group, at 31st March, 2000, (i) none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance; and (ii) none of the directors or their spouses or children under 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 33 to the financial statements.

The independent non-executive directors have reviewed the above connected transactions and in their opinion, the above transactions entered into by the Group were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (d) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest in 10% or more in the issued share capital of the Company as at 31st March, 2000.

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

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

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$88,150.

PRE-EMPTIVE RIGHTS

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

Directors' Report (Cont'd)

AUDITORS

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

On behalf of the Board

Siu Yuk Lung

DIRECTOR

Hong Kong, 30th June, 2000

Auditors' Report

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**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30th June, 2000

Consolidated Income Statement

For the year ended 31st March, 2000

	NOTES	2000 HK\$	1999 HK\$
Turnover	4	889,542,358	686,126,737
Other revenue	5	6,031,712	5,242,603
Changes in inventories of finished goods and work in progress		10,842,190	(28,885,574)
Raw materials and consumables used		(429,280,788)	(278,210,624)
Staff costs		(125,483,128)	(106,694,450)
Depreciation and amortisation		(69,718,349)	(64,383,597)
Other operating expenses		(109,319,618)	(111,692,880)
Profit from operations	6	172,614,377	101,502,215
Finance costs	7	(6,793,615)	(10,060,624)
Bank interest income		5,628,176	6,190,761
Loss on deemed disposal of a subsidiary		(2,381,164)	—
Provision for diminution in value in a jointly controlled entity		—	(2,904,824)
Share of result of a jointly controlled entity		168,228	22,231
Share of result of an associate		—	(287,995)
Profit before tax		169,236,002	94,461,764
Taxation	9	(27,121,704)	(11,449,952)
Profit after tax		142,114,298	83,011,812
Minority interests		(32,109,628)	(16,642,957)
Net profit for the year	24	110,004,670	66,368,855
Dividends	11	(61,533,500)	(37,955,938)
Profit retained for the year		48,471,170	28,412,917
Earnings per share			
— Basic	12	28.84 cents	17.49 cents
— Diluted	12	28.39 cents	17.40 cents

Consolidated Balance Sheet

At 31st March, 2000

	NOTES	2000 HK\$	1999 HK\$
ASSETS			
Non-current assets			
Investment property	13	3,800,000	4,500,000
Property, plant and equipment	14	390,139,481	360,616,663
Investment in securities	17	50,000	50,000
		393,989,481	365,166,663
Current assets			
Inventories	18	274,679,249	207,340,327
Bills receivable		15,060,184	2,284,838
Other investment		—	3,187,498
Debtors, deposits and prepayments		208,142,884	176,274,188
Taxation receivable		9,000	2,710,696
Bank balances and cash		243,100,859	121,168,763
		740,992,176	512,966,310
Current liabilities			
Creditors and accrued charges		128,592,637	62,034,226
Bills payable		12,132,840	10,523,329
Taxation payable		26,787,232	3,815,229
Obligations under finance leases — due within one year	19	658,683	2,227,236
Bank borrowings — due within one year	20	175,652,893	14,190,000
Dividends payable		38,491,942	26,569,157
		382,316,227	119,359,177
Net current assets		358,675,949	393,607,133
Total assets less current liabilities		752,665,430	758,773,796
Non-current liabilities			
Obligations under finance leases — due after one year	19	534,137	1,299,767
Bank borrowings — due after one year	20	2,088,805	80,000,000
Deferred taxation	21	2,036,000	6,749,000
Minority interests		163,776,225	136,387,609
NET ASSETS		584,230,263	534,337,420
CAPITAL AND RESERVES			
Share capital	22	38,440,938	37,955,938
Reserves and accumulated profits	24	545,789,325	496,381,482
		584,230,263	534,337,420

The financial statements on pages 23 to 59 were approved by the Board of Directors on 30th June, 2000 and are signed on its behalf by:

Siu Tit Lung
DIRECTOR

Siu Yuk Lung
DIRECTOR

Balance Sheet

At 31st March, 2000

	NOTES	2000 HK\$	1999 HK\$
ASSETS			
Non-current assets			
Investments in subsidiaries	15	209,818,326	191,439,964
Current assets			
Debtors, deposits and prepayments		169,673	169,499
Bank balances and cash		25,402	21,250
		195,075	190,749
Current liabilities			
Creditors and accrued charges		735,187	268,989
Dividends payable		38,491,942	26,569,157
		39,227,129	26,838,146
Net current liabilities		(39,032,054)	(26,647,397)
Total assets less current liabilities		170,786,272	164,792,567
CAPITAL AND RESERVES			
Share capital	22	38,440,938	37,955,938
Reserves and accumulated profits	24	132,345,334	126,836,629
		170,786,272	164,792,567

Siu Tit Lung
DIRECTOR

Siu Yuk Lung
DIRECTOR

Consolidated Statement of Recognised Gains And Losses

For the year ended 31st March, 2000

	2000 HK\$	1999 HK\$
Exchange (losses) gains arising on translation of overseas operations not recognised in income statement	(742,061)	427,777
Net profit for the year	<u>110,004,670</u>	<u>66,368,855</u>
Total recognised gains	109,262,609	66,796,632
Elimination against reserves of goodwill arising on acquisition of a subsidiary	<u>(890,516)</u>	<u>(1,710,850)</u>
	<u>108,372,093</u>	<u>65,085,782</u>

Consolidated Cash Flow Statement

For the year ended 31st March, 2000

	NOTES	2000 HK\$	1999 HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	203,190,016	222,174,849
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(49,610,715)	(49,342,719)
Interest expense and finance charges paid		(4,770,437)	(10,060,624)
Dividends paid to minority of subsidiaries		(3,119,400)	(6,500,000)
Interest received		5,628,176	6,190,761
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(51,872,376)	(59,712,582)
TAXATION			
Hong Kong Profits Tax paid		(6,607,105)	(23,552,889)
Hong Kong Profits Tax refunded		446,100	1,622,804
		(6,161,005)	(21,930,085)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(93,752,592)	(82,629,524)
Proceeds from disposal of other investment		3,187,498	—
Acquisition of a subsidiary	26	4,141,037	(1,484,604)
Proceeds on disposal of property, plant and equipment		255,230	3,596,530
Repayment from an associate		—	3,186,852
Repayment from jointly controlled entities		—	6,996,748
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(86,168,827)	(70,333,998)
NET CASH INFLOW BEFORE FINANCING		58,987,808	70,198,184
FINANCING	27		
Repayment of bank borrowings		(92,900,000)	(78,775,069)
Repayment to minority of subsidiaries		(7,019,000)	(381,000)
Repayment of obligations under finance leases		(2,334,183)	(2,695,143)
Repurchase of shares by a listed subsidiary		(720,732)	—
New bank borrowings raised		159,518,873	14,190,000
Proceeds from shares issued on exercise of share options		3,054,250	—
Proceeds from exercise of a listed subsidiary's share options by its minority		2,010,012	—
NET CASH INFLOW (OUTFLOW) FROM FINANCING		61,609,220	(67,661,212)

Consolidated Cash Flow Statement (Cont'd)

For the year ended 31st March, 2000

	NOTES	2000 HK\$	1999 HK\$
INCREASE IN CASH AND CASH EQUIVALENTS		120,597,028	2,536,972
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		121,168,763	118,560,941
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		20,226	70,850
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		241,786,017	121,168,763
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		243,100,859	121,168,763
Bank overdrafts		(1,314,842)	—
		241,786,017	121,168,763

Notes to the Financial Statements

For the year ended 31st March, 2000

1. GENERAL

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

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies
SSAP 10 (Revised)	Accounting for investments in associates
SSAP 24	Accounting for investments in securities

SSAPs 1 (Revised) and 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those Standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented; and
- items of income and expense that were separately identified on the face of the income statement in the prior year as "exceptional items" have been reclassified within an appropriate income or expense classification.

In addition, the description of various components in the financial statements and the terminology used has been updated to reflect the terminology of the new Standards.

None of the amendments outlined above has affected the results for the current or prior periods.

The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates and accordingly no prior period adjustment has been required. Disclosures presented have been modified to meet the requirements of the new Standard.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Cont'd)

SSAP 24 has introduced a new framework for the classification of investments in securities and the adoption of the Standard has no significant effect on the treatment adopted by the Group for such investment. In adopting SSAP 24, the Group has selected the benchmark treatment for securities other than held-to maturity securities.

Under SSAP 24, investments in securities are now classified as held-to-maturity (carried at amortised cost less provision for irrecoverable amounts), trading securities (carried at fair value, with valuation movements dealt with in the income statement) and other securities (carried at fair value, with valuation movements dealt with in the income statement). The accounting treatment specified by SSAP 24 has been applied retrospectively.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in a jointly controlled entity or an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity or associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

On disposal of an investment in a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Jointly controlled entity

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in its jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity. The Group's share of post-acquisition result of its jointly controlled entity is included in the consolidated income statement.

When the Group transacts with its jointly controlled entity, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

Interest in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interest in associates (Cont'd)

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Revenue recognition

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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

Rental income is recognised on a straight line basis over the lease terms.

Property, plant and equipment

Property, plant and equipment, other than properties under construction, is stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the property, plant and equipment has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Depreciation and amortisation are provided to write off the depreciable amount of assets other than properties under construction over their estimated useful lives, using the straight line method, at the following rates per annum:

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

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

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

Investment properties

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

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

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

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Assets held under finance leases

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

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at cost and subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, comprises all direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement date. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of entities which are denominated in currencies other than Hong Kong dollars and which operate in the People's Republic of China (the "PRC") or overseas are translated at the rates ruling on the balance sheet date and the income and expense items are translated at the average rate for the financial period. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Retirement benefits scheme contributions

The retirement benefits scheme contributions charged in the income statement represent the amount of contributions payable in respect of the current year to the Group's defined contribution scheme.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

4. TURNOVER

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

	2000 HK\$	1999 HK\$
Manufacture of mould bases	653,859,924	471,666,819
Trading of metal and parts	235,682,434	214,459,918
	889,542,358	686,126,737

5. OTHER REVENUE

	2000 HK\$	1999 HK\$
Gain on disposal of property, plant and equipment	204,316	1,047,781
Income from sales of scrap	3,577,294	2,386,588
Rental income	392,640	339,520
Sundry income	1,857,462	1,468,714
	6,031,712	5,242,603

6. PROFIT FROM OPERATIONS

	2000 HK\$	1999 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration:		
— current year	1,653,650	1,522,880
— (over)underprovision in prior year	(6,624)	40,408
Deficit on revaluation of an investment property	700,000	2,855,913
Depreciation and amortisation:		
— owned assets	69,008,552	63,112,119
— assets held under finance leases	709,797	1,271,478
Exchange loss	1,336,224	8,477,806
Operating lease rentals in respect of rented premises	2,248,354	2,472,482
Provision for bad and doubtful debts	6,085,000	16,001,320
Retirement benefits scheme contributions, net of forfeited contributions of HK\$486,003 (1999: HK\$414,473)	2,658,838	3,428,771

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

7. FINANCE COSTS

	2000 HK\$	1999 HK\$
Arrangement fee for raising of bank loans	2,023,178	—
Interest paid on bank borrowings	4,562,712	9,576,516
Interest paid on finance lease	207,725	484,108
	6,793,615	10,060,624

8. DIRECTORS' REMUNERATION

	2000 HK\$	1999 HK\$
Fees paid to independent non-executive directors	540,000	540,000
Other emoluments paid to executive directors:		
Salaries and other benefits	14,844,000	13,752,000
Bonus	8,000,000	5,500,000
Retirement benefits scheme contributions	1,569,440	1,423,200
Total emoluments	24,953,440	21,215,200

The emoluments of the directors were within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	3	3
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	2	—
HK\$6,500,001 to HK\$7,000,000	—	2
HK\$7,000,001 to HK\$7,500,000	2	—
	8	8

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

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

9. TAXATION

	2000 HK\$	1999 HK\$
The charge comprises:		
Hong Kong Profits Tax		
— current year	20,554,085	12,511,452
— overprovision in prior year	(846,049)	(1,195,500)
	19,708,036	11,315,952
Taxation in jurisdictions outside Hong Kong	12,126,668	2,000,000
	31,834,704	13,315,952
Deferred taxation (<i>note 21</i>)	(4,713,000)	(1,866,000)
	27,121,704	11,449,952

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

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

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In the current year, certain PRC subsidiaries are exempted from PRC income tax, and other PRC subsidiaries enjoyed a 50% reduction on PRC income tax.

Certain income of the Group is not subject to taxation in the jurisdictions in which the Group operates.

Details of deferred taxation are set out in note 21.

10. PROFIT FOR THE YEAR

Of the Group's profit for the year, a profit of HK\$64,472,955 (1999: HK\$50,055,272) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

11. DIVIDENDS

	2000 HK\$	1999 HK\$
Interim dividend of 6 cents (1999: 3 cents) per share paid to the Company's shareholders	23,064,563	11,386,781
Proposed final dividend of 10 cents (1999: 7 cents) per share payable to the Company's shareholders	38,468,937	26,569,157
	<u>61,533,500</u>	<u>37,955,938</u>

The amount of the proposed final dividend for the year ended 31st March, 2000 has been calculated with reference to the 384,689,375 shares in issue as at 30th June, 2000.

12. EARNINGS PER SHARE

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

	2000 HK\$	1999 HK\$
Profit for the year	110,004,670	66,368,855
Effect of dilutive potential ordinary shares:		
Adjustment to the share of results of the group headed by Lung Kee Metal Holdings Limited ("LKM") based on dilution of their earnings per share	(1,005,000)	(315,000)
Earnings for the purposes of diluted earnings per share	<u>108,999,670</u>	<u>66,053,855</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	381,429,225	379,559,375
Effect of dilutive potential ordinary shares on exercise of options of the Company	<u>2,522,268</u>	<u>12,277</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>383,951,493</u>	<u>379,571,652</u>

The computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding options as the exercise price is higher than the fair value per share for both years.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

13. INVESTMENT PROPERTY

	THE GROUP	
	2000	1999
	HK\$	HK\$
At beginning of year	4,500,000	—
Reclass from land and buildings	—	7,355,913
Revaluation deficit	(700,000)	(2,855,913)
	<hr/>	
At end of year	3,800,000	4,500,000

The investment property of the Group was revalued at 31st March, 2000 on an open market value basis by Chung Sen Surveyors Limited, a firm of independent professional valuers. The deficit arising on revaluation of HK\$700,000 has been charged to the consolidated income statement.

The Group's investment property is situated in Hong Kong and is held on medium-term leases.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$	Furniture, fixtures and fittings HK\$	Plant and machinery HK\$	Motor vehicles HK\$	Properties under construction HK\$	Total HK\$
THE GROUP						
AT COST						
At 1st April, 1999	132,823,785	65,040,581	349,571,671	23,732,092	59,682,255	630,850,384
Currency realignment	93,437	33,369	479,545	6,681	(84,212)	528,820
Reclassification	55,352,537	35,270	2,396,909	—	(57,784,716)	—
On acquisition of a subsidiary	—	1,019,831	6,126,881	68,985	—	7,215,697
Additions	27,708,635	11,535,913	39,802,946	8,370,435	6,334,663	93,752,592
Disposals	—	(128,066)	—	(933,520)	—	(1,061,586)
At 31st March, 2000	215,978,394	77,536,898	398,377,952	31,244,673	8,147,990	731,285,907
DEPRECIATION AND AMORTISATION						
At 1st April, 1999	10,752,026	37,859,783	205,435,843	16,186,069	—	270,233,721
Currency realignment	14,111	18,985	208,718	3,512	—	245,326
On acquisition of a subsidiary	—	108,844	1,818,710	32,148	—	1,959,702
Provided for the year	3,919,837	9,201,969	51,755,980	4,840,563	—	69,718,349
Eliminated on disposals	—	(77,152)	—	(933,520)	—	(1,010,672)
At 31st March, 2000	14,685,974	47,112,429	259,219,251	20,128,772	—	341,146,426
NET BOOK VALUE						
At 31st March, 2000	201,292,420	30,424,469	139,158,701	11,115,901	8,147,990	390,139,481
At 31st March, 1999	122,071,759	27,180,798	144,135,828	7,546,023	59,682,255	360,616,663

The net book value of land and buildings shown above comprises:

	2000 HK\$	1999 HK\$
Land and buildings in Hong Kong held under medium-term leases	37,059,253	36,716,346
Land and buildings outside Hong Kong:		
— freehold	32,626,132	6,138,872
— held under medium-term leases of less than fifty years	131,607,035	79,216,541
	201,292,420	122,071,759

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

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

The properties under construction are situated outside Hong Kong and are held under medium-term leases of less than fifty years.

In 1999, one of the Group's freehold properties with a net book value of HK\$1,373,527 was pledged to a bank as security for general banking facilities granted to the Group.

The net book value of property, plant and equipment included an amount of HK\$946,526 (1999: HK\$3,190,548) in respect of assets held under finance leases.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$	HK\$
Unlisted shares, at cost	55,856,000	55,856,000
Amounts due from subsidiaries	136,962,326	118,583,964
Loans to subsidiaries	17,000,000	17,000,000
	209,818,326	191,439,964

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

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

Loans to subsidiaries are unsecured, interest bearing at Hong Kong prime rate and have no fixed repayment terms.

Details of the Company's subsidiaries at 31st March, 2000 are set out in note 34.

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

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

16. INTERESTS IN JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2000	1999
	HK\$	HK\$
Share of net liabilities	—	(1,337,304)
Amount due from jointly controlled entity	—	4,242,128
	—	2,904,824
Less: Provision	—	(2,904,824)
	—	—

At 31st March, 1999, the Group had a 37.5% equity interest in Lung Kee Metal Japan Company Limited ("LKM Japan"), a company incorporated in Japan and engaged in the manufacture and marketing of mould bases. As LKM Japan had net liabilities in 1999, the Group's interests in this company were fully provided.

On 30th September, 1999, Lung Kee International Limited ("Lung Kee International"), a 74.34% owned subsidiary of the Group, further contributed JPY52,000,000 into LKM Japan, resulting in LKM Japan becoming a 51% owned subsidiary of the Group. The results, assets and liabilities of LKM Japan have been consolidated by the Group from 1st October, 1999 onwards.

17. INVESTMENT IN SECURITIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Unlisted shares, at cost	50,000	50,000

The Group holds 16.7% of the ordinary share capital of Jetlink (H.K.) Limited, a private company incorporated in Hong Kong which was inactive during the year. In the opinion of the directors, the unlisted shares are worth at least cost.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

18. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Raw materials	234,126,523	177,797,237
Work in progress	14,677,932	18,154,203
Finished goods	25,874,794	11,388,887
	<u>274,679,249</u>	<u>207,340,327</u>

Inventories are stated at cost except that raw materials of HK\$161,854,706 (1999: HK\$133,427,955) are carried at net realisable value.

19. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2000	1999
	HK\$	HK\$
The maturity of the principal portion of the obligations under finance leases is as follows:		
— not exceeding one year	658,683	2,227,236
— more than one year but not exceeding two years	534,137	1,299,767
	<u>1,192,820</u>	<u>3,527,003</u>
Less: amount due within one year shown under current liabilities	658,683	2,227,236
Amount due after one year	<u>534,137</u>	<u>1,299,767</u>

The Company had no obligations under finance leases at the balance sheet date.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

20. BANK BORROWINGS (UNSECURED)

	THE GROUP	
	2000	1999
	HK\$	HK\$
Bank loans	175,025,216	12,900,000
Bank overdrafts	1,314,842	—
Trust receipt loans	1,401,640	1,290,000
Syndicated bank loan	—	80,000,000
	177,741,698	94,190,000
The bank borrowings are repayable within a period of:		
— not exceeding one year or on demand	175,652,893	14,190,000
— more than one year but not exceeding two years	736,705	80,000,000
— more than two years but not exceeding five years	1,352,100	—
	177,741,698	94,190,000
Less: amount due within one year shown under current liabilities	175,652,893	14,190,000
Amount due after one year	2,088,805	80,000,000

The Company had no borrowings at the balance sheet date.

21. DEFERRED TAXATION

	THE GROUP	
	2000	1999
	HK\$	HK\$
At beginning of the year	6,749,000	8,615,000
Credit for the year (note 9)	(4,713,000)	(1,866,000)
At end of the year	2,036,000	6,749,000

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

21. DEFERRED TAXATION (Cont'd)

The major components of the provision for deferred taxation at the balance sheet date are as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Taxation effect of timing differences attributable to:		
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	7,788,600	9,535,400
Other timing differences	(5,752,600)	(2,786,400)
	2,036,000	6,749,000

Deferred taxation has not been provided on the deficit arising on the valuation of investment property as any gain or loss arising on the disposal of this property would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

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

22. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Ordinary shares of HK\$0.1 each				
At 1st April, 1999	60,000,000	60,000,000	37,955,938	37,955,938
Shares issued on exercise of share options	—	—	485,000	—
At 31st March, 2000	60,000,000	60,000,000	38,440,938	37,955,938

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

23. SHARE OPTIONS

- (i) The Company has a share option scheme (the "LKBH Scheme") under which the Board of Directors of the Company may grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the LKBH Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Options granted are exercisable for a period of 3 years commencing on the expiry of 6 months after the date the options are granted.

Details of the movements in the number of share options granted under the LKBH Scheme during the year are as follows:

Exercise price per share HK\$	Number of share options					Exercisable period
	At 1st April, 1999	Granted during the year	Exercised during the year	Cancelled during the year	At 31st March, 2000	
1.440	225,000	—	—	—	225,000	21st September, 1997 to 20th September, 2000
1.865	4,000,000	—	—	(180,000)	3,820,000	1st May, 1998 to 30th April, 2001
1.205	4,200,000	—	—	(330,000)	3,870,000	3rd September, 1998 to 2nd September, 2001
0.550	3,910,000	—	(2,640,000)	—	1,270,000	29th September, 1999 to 28th September, 2002
0.725	—	3,740,000	(2,210,000)	—	1,530,000	26th October, 1999 to 25th October, 2002
	12,335,000	3,740,000	(4,850,000)	(510,000)	10,715,000	

Notional consideration was received by the Company for the options granted during the year.

- (ii) A subsidiary of the Company, LKMH, also has a share option scheme (the "LKMH Scheme") under which the Board of Directors of LKMH may grant options to eligible employees, including executive directors, of LKMH and its subsidiaries, to subscribe for shares in LKMH at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Main Board of the Stock Exchange of Singapore Limited on the three trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the LKMH Scheme shall not exceed 10% of the share capital of LKMH from time to time.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

23. SHARE OPTIONS (Cont'd)

Options granted are exercisable for a period of 4 years commencing on the expiry of 12 months after the date the options are granted.

Due to the conversion of listing currency of LKMH's shares, the exercise price of the share options has been changed from US dollars to Singapore dollars.

Details of the movements in the number of share options granted under the LKMH Scheme during the year are as follows:

Exercise price per share S\$	Number of share options					Exercisable period
	At 1st April, 1999	Granted during the year	Exercised during the year	Cancelled during the year	At 31st March, 2000	
0.705	3,000,000	—	—	—	3,000,000	15th January, 1999 to 14th January, 2003
0.220	3,500,000	—	(1,990,000)	(130,000)	1,380,000	14th August, 1999 to 13th August, 2003
0.740	—	4,070,000	—	—	4,070,000	23rd December, 2000 to 22nd December, 2004
	6,500,000	4,070,000	(1,990,000)	(130,000)	8,450,000	

Notional consideration was received by LKMH for the options granted during the year.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

24. RESERVES

	Share premium HK\$	Capital reserve HK\$	Accumulated profits HK\$	Translation reserve HK\$	Total HK\$
THE GROUP					
At 1st April, 1998	106,101,047	11,801,902	351,074,323	426,193	469,403,465
Realised on liquidation of a subsidiary	—	(151,827)	—	—	(151,827)
Goodwill on acquisition of a subsidiary	—	(1,710,850)	—	—	(1,710,850)
Exchange differences arising from translation of foreign currency financial statements	—	—	—	427,777	427,777
Profit for the year	—	—	66,368,855	—	66,368,855
Dividends (<i>note 11</i>)	—	—	(37,955,938)	—	(37,955,938)
At 31st March, 1999 and 1st April, 1999	106,101,047	9,939,225	379,487,240	853,970	496,381,482
Shares issued on exercise of share options	2,569,250	—	—	—	2,569,250
Goodwill on acquisition of a subsidiary	—	(890,516)	—	—	(890,516)
Exchange differences arising from translation of foreign currency financial statements	—	—	—	(742,061)	(742,061)
Profit for the year	—	—	110,004,670	—	110,004,670
Dividends (<i>note 11</i>)	—	—	(61,533,500)	—	(61,533,500)
At 31st March, 2000	108,670,297	9,048,709	427,958,410	111,909	545,789,325

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

24. RESERVES (Cont'd)

The capital reserve of the Group includes an amount of HK\$11,870,047 arising from the reorganisation of the Group, representing the aggregate of (i) the deferred shares of Lung Kee International Limited and Lung Kee Metal Limited; and (ii) the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital of its subsidiaries acquired at the date of the group reorganisation.

	Share premium HK\$	Accumulated profits HK\$	Total HK\$
THE COMPANY			
At 1st April, 1998	106,101,047	8,636,248	114,737,295
Profit for the year (<i>note 10</i>)	—	50,055,272	50,055,272
Dividends (<i>note 11</i>)	—	(37,955,938)	(37,955,938)
At 31st March, 1999 and at 1st April, 1999	106,101,047	20,735,582	126,836,629
Shares issued on exercise of share options	2,569,250	—	2,569,250
Profit for the year (<i>note 10</i>)	—	64,472,955	64,472,955
Dividends (<i>note 11</i>)	—	(61,533,500)	(61,533,500)
At 31st March, 2000	108,670,297	23,675,037	132,345,334

The Company's reserves available for distribution to shareholders at 31st March, 2000 represent its accumulated profits of HK\$23,675,037 (1999: HK\$20,735,582).

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

25. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Profit before tax	169,236,002	94,461,764
Interest income	(5,628,176)	(6,190,761)
Interest expense and finance charges	4,770,437	10,060,624
Share of result of a jointly controlled entity	(168,228)	(22,231)
Share of result of an associate	—	287,995
Deficit arising on revaluation of an investment property	700,000	2,855,913
Depreciation and amortisation	69,718,349	64,383,597
Gain on disposal of property, plant and equipment	(204,316)	(1,047,781)
Loss on deemed disposal of a subsidiary	2,381,164	—
Provision for diminution in value in a jointly controlled entity	—	2,904,824
Capital reserve realised on liquidation of a subsidiary	—	(151,827)
(Increase) decrease in inventories	(56,152,787)	21,733,860
(Increase) decrease in debtors, deposits and prepayments	(13,900,812)	33,025,486
(Increase) decrease in bills receivable	(12,775,346)	3,026,714
Decrease in amounts due from jointly controlled entities	—	12,418,894
Increase (decrease) in creditors and accrued charges	45,059,363	(9,517,881)
Increase (decrease) in bills payable	1,609,511	(6,404,549)
Exchange differences	(1,455,145)	350,208
Net cash inflow from operating activities	203,190,016	222,174,849

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

26. ACQUISITION OF A SUBSIDIARY

On 1st April, 1998, the Lung Kee Metal (Malaysia) Sdn. Bhd. ("Lung Kee Malaysia"), a former jointly controlled entity of the Group, became a subsidiary of the Group. On 1st October, 1999, LKM Japan, a former jointly controlled entity of the Group, also became a subsidiary of the Group (note 16). The fair value of assets acquired and liabilities assumed was as follows:

	2000 HK\$	1999 HK\$
Property, plant and equipment	5,255,995	11,574,267
Inventories	11,186,135	3,950,906
Debtors, deposits and prepayments	17,967,884	6,499,770
Bank balances and cash	7,713,437	327,001
Creditors and accrued charges	(21,499,048)	(10,079,817)
Obligations under finance leases	—	(1,207,347)
Bank loans	(15,617,983)	(11,782,702)
Minority interests	(2,453,146)	—
Net assets (liabilities)	2,553,274	(717,922)
Interest previously recorded as interest in a jointly controlled entity	(168,228)	248,394
Goodwill arising on acquisition	1,187,354	2,281,133
	3,572,400	1,811,605
Satisfied by:		
Cash	3,572,400	1,811,605
Analysis of net inflow (outflow) of cash in respect of the acquisition of a subsidiary:		
Cash consideration paid	(3,572,400)	(1,811,605)
Bank and cash balances acquired	7,713,437	327,001
Net inflow (outflow) of cash in respect of the acquisition of a subsidiary	4,141,037	(1,484,604)

LKM Japan contributed HK\$64,555,000 to the Group's turnover and incurred an operating loss of HK\$661,000 during the year and it did not contribute significantly to the cash flows of the Group.

For the year ended 31st March, 1999, Lung Kee Malaysia contributed HK\$19,738,229 to the Group's turnover and incurred an operating loss of HK\$8,258,015. It did not contribute significantly to the cash flows of the Group during that year.

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank borrowings HK\$	Obligations under finance leases HK\$	Minority interests HK\$
At 1st April, 1998	144,056,985	146,992,367	5,014,799	127,053,343
New bank loans raised	—	14,190,000	—	—
Repayment of bank loans	—	(78,775,069)	—	—
Repayment of obligations under finance leases	—	—	(2,695,143)	—
Dividend paid to minority of a subsidiary	—	—	—	(6,500,000)
Repayment to a minority of a subsidiary	—	—	—	(381,000)
Other movements not involving cash flows:				
On acquisition of a subsidiary	—	11,782,702	1,207,347	—
Minority share of profit for the year	—	—	—	16,642,957
Minority share of exchange reserve	—	—	—	142,592
Minority share of goodwill written off to reserve	—	—	—	(570,283)
At 31st March, 1999 and at 1st April, 1999	144,056,985	94,190,000	3,527,003	136,387,609
New bank loans raised	—	159,518,873	—	—
Exercise of share options by minority	—	—	—	1,990,000
Shares issued on exercise of share options	3,054,250	—	—	—
Share premium arising from shares issued on exercise of LKM's share options	—	—	—	20,012
Repayment of bank loans	—	(92,900,000)	—	—
Repayment to minority of subsidiaries	—	—	—	(7,019,000)
Dividend paid to minority of a subsidiary	—	—	—	(3,119,400)
Repurchase of shares by LKM	—	—	—	(222,000)
Share premium utilized by LKM on repurchase of shares	—	—	—	(498,732)
Repayment of obligations under finance leases	—	—	(2,334,183)	—
Other movements not involving cash flows:				
On acquisition of a subsidiary	—	15,617,983	—	2,453,146
Minority share of profit for the year	—	—	—	32,109,628
Minority share of exchange reserve	—	—	—	(409,364)
Minority share of goodwill written off to reserve	—	—	—	(296,838)
Loss on deemed disposal of a subsidiary to minority	—	—	—	2,381,164
At 31st March, 2000	147,111,235	176,426,856	1,192,820	163,776,225

Minority interests at 31st March, 2000 included amount payable to minority of subsidiaries of HK\$300,000 (1999: HK\$7,319,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

28. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$	HK\$
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	20,057,000	5,878,000

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

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had annual commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Operating leases which expire:		
— within one year	1,089,738	285,605
— more than one year but not exceeding five years	1,087,331	1,709,785
— over five years	610,194	581,958
	2,787,263	2,577,348

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

30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Guarantees given to financial institutions in respects of facilities granted to:				
— jointly controlled entities	—	14,190,000	—	—
— subsidiaries	—	—	141,000,000	149,000,000
Discounted bills with recourse	6,000,000	—	—	—
	6,000,000	14,190,000	141,000,000	149,000,000

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

31. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for all qualifying employees employed by the Group in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31st March, 2000, the Group had no material forfeited contributions which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable in future years (1999: Nil).

32. SUBSEQUENT EVENTS

On 30th June, 2000, the directors of the Company recommended a bonus issue of approximately 96,000,000 of the Company's share, credited as fully paid by way of capitalisation of part of the Company's share premium account, on the basis of one bonus share for any four existing shares held by the shareholders. These shares will rank pari passu in all respects with the existing share except that they will not rank for the final dividend of HK\$0.1 per share in respect of the year ended 31st March, 2000.

33. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with related parties:

	Non-wholly owned subsidiaries		Jointly controlled entity		Associate	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Sales	54,693,442	33,395,698	4,438,404	4,753,815	—	—
Purchases	25,498,916	23,567,315	—	—	—	—
Transfer of property, plant and equipment	234,366	615,373	—	—	—	—
Disposal of property, plant and equipment	—	1,432,519	—	—	—	—
Rental income	2,267,919	1,919,450	—	—	—	100,175
Rental expenses	2,831,705	3,380,718	—	—	—	—
Interest expenses	10,833	76,677	—	—	—	—
Cost sharing	15,365,969	14,061,055	—	—	—	—

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

33. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) At 31st March, 2000, joint and several guarantees were given by the Group, together with the relevant minority, to two non-wholly owned subsidiaries as follows:
- Sky Lucky Steel Limited to the extent of HK\$1,000,000 (1999: HK\$1,000,000); and
 - Sky Lucky Metal Limited to the extent of HK\$11,000,000 (1999: HK\$11,000,000).
- (c) One of the directors of LKM Japan has given a personal guarantee to a bank to the extent of HK\$3,685,000 for LKM Japan at no charge.
- (d) During the year, the Group has purchased materials from JMS Engineering Co., Ltd. ("JMS") amounting to approximately HK\$13,979,000*.
- (e) At 31st March, 2000, bank loans of the Group amounting to HK\$30,794,000 were guaranteed jointly and severally by JMS and LKMH without charge.

The sale and purchase prices of goods and disposal of property, plant and equipment were negotiated by the Group and the related parties by reference to the prevailing market prices for comparable transactions. Rentals and interests were negotiated by the Group and related parties by reference to the market rates. Cost sharing was determined on a pro rata allocation of expenses basis.

The transfer of property, plant and equipment by the Group and the related parties were at net book value on the date of transactions.

The Company did not have any significant related party transactions in both years.

* One of the controlling shareholders of JMS is also a director of LKM Japan.

34. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries at 31st March, 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital held by the Company		Principal activities
			Directly %	Indirectly %	
Charman Limited	Hong Kong	HK\$2	—	100	Property holding
Dongguan LungKee Metal Products Ltd. 東莞龍記五金製品有限公司	The PRC	HK\$75,385,000 (note a)	—	74.34	Manufacturing and marketing of components for mould bases

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

34. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital held by the Company		Principal activities
			Directly %	Indirectly %	
Dongguan Lung Kee Mould Base Ltd. 東莞龍記模架有限公司	The PRC	HK\$17,500,000	—	74.34	Leasing of machinery
Dongguan Tin Cheung Metal Products Co., Ltd. 東莞天祥五金製品有限公司	The PRC	HK\$14,051,494 (note b)	—	70	Property holding
Fantop Industries Limited	Hong Kong	HK\$2	—	100	Property holding
Guangzhou LungKee Metal Products Co. Ltd. 廣州龍記金屬製品有限公司	The PRC	HK\$46,927,988 (note c)	—	74.34	Manufacturing and marketing of mould bases
Heyuan Lung Kee Metal Products Co., Ltd. 河源龍記金屬製品有限公司	The PRC	HK\$60,000,000	—	74.34	Manufacturing and marketing of mould bases
Largen International Limited	Hong Kong	HK\$2	—	74.34	Provision of management services
LKM (BVI) Limited	The British Virgin Islands/ Hong Kong	US\$200	100	—	Investment holding
LKM Nominees Limited	Hong Kong	HK\$2	—	100	Provision of nominee services
Lung Kee International Limited	Hong Kong	HK\$2	—	74.34	Investment holding
		ordinary shares HK\$2,000,002 non-voting deferred shares (note d)	—	—	
Lung Kee Metal (BVI) Limited	The British Virgin Islands/ Hong Kong	US\$2	—	74.34	Investment holding

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

34. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital held by the Company		Principal activities
			Directly %	Indirectly %	
Lung Kee Metal (China) Limited	Hong Kong	HK\$2 ordinary shares HK\$2 non-voting deferred shares (note d)	—	74.34	Investment holding
Lung Kee Metal Japan Company Limited	Japan	JPY200,000,000	—	51	Manufacturing and marketing of mould basis
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	RM750,000	—	74.34	Manufacturing and marketing of mould bases
Lung Kee Metal Holdings Limited	Bermuda	HK\$201,768,000	—	74.34	Investment holding
Lung Kee Metal Limited	Hong Kong	HK\$2 ordinary shares HK\$10,000,002 non-voting deferred shares (note d)	—	74.34	Manufacturing and marketing of mould bases
Lung Kee Metal (Singapore) Pte Limited	Singapore	S\$250,000	—	74.34	Manufacturing and marketing of mould bases
Lung Kee Steel Limited	Hong Kong	HK\$2	—	100	Trading of steel
Lung Kee Trading (BVI) Limited	The British Virgin Islands/ The PRC	US\$2	—	74.34	Provision of subcontracting services
Real Wood Investment Limited	Hong Kong	HK\$10,000	—	100	Property holding
Shanghai Lung Kee Metal Products Co., Ltd. 上海龍記金屬製品有限公司	The PRC	US\$10,000,000	—	74.34	Manufacturing and marketing of mould bases

Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2000

34. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital held by the Company		Principal activities
			Directly %	Indirectly %	
Sky Bright Metal Product Limited	Hong Kong	HK\$100	—	60	Manufacturing and marketing of components for mould bases
Sky Lucky Metal Limited	Hong Kong	HK\$100	—	70	Manufacturing and marketing of mould bases
Sky Lucky Steel Limited	Hong Kong	HK\$100	—	70	Trading of steel
Sky Right Machine Tool (Hong Kong) Limited	Hong Kong	HK\$100	—	100	Property holding
Sky Tech Machine Tool Limited	Hong Kong	HK\$2	—	100	Inactive
Sunrise Profit Limited	Hong Kong	HK\$10,000	—	100	Property holding
Super Visions International Limited	The British Virgin Islands/ Hong Kong	US\$2	—	100	Holding and licensing of trademarks

Notes:

- The registered capital of this company had been increased from HK\$60,000,000 to HK\$80,000,000 during the year. At 31st March, 2000, the Group had an outstanding commitment to contribute a further sum of HK\$4,615,000 into this subsidiary as equity capital.
- At 31st March, 2000, the Group had an outstanding commitment to contribute a further sum of HK\$948,506 into this subsidiary as equity capital.
- At 31st March, 2000, the Group had an outstanding commitment to contribute a further sum of HK\$13,072,012 into this subsidiary as equity capital.
- The deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up. The Company or a subsidiary of the Company has been granted an option by the holders of the deferred shares to acquire those deferred shares not held by the Group at a nominal amount.

Financial Summary

Results

	Year ended 31st March,				
	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	479,948	583,098	663,681	686,127	889,542
PROFIT BEFORE TAX	103,174	230,802	147,232	94,462	169,236
TAXATION	12,104	13,550	16,242	11,450	27,122
PROFIT BEFORE MINORITY INTERESTS	91,070	217,252	130,990	83,012	142,114
MINORITY INTERESTS	2,404	6,631	27,511	16,643	32,110
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	88,666	210,621	103,479	66,369	110,004

Assets and liabilities

	At 31st March,				
	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	621,916	827,865	921,109	878,133	1,134,982
TOTAL LIABILITIES	(306,224)	(258,881)	(286,697)	(207,408)	(386,976)
MINORITY INTERESTS	(9,246)	(110,504)	(127,053)	(136,388)	(163,776)
SHAREHOLDERS' FUNDS	306,446	458,480	507,359	534,337	584,230

Properties Held by The Group

A. Investment properties

<u>Name/Location</u>	<u>Type</u>	<u>Group's interest</u>	<u>Lease term</u>
Workshop 6 on ground floor Kwong Sang Hong Centre Nos. 151–153 Hoi Bun Road Kowloon	Office premises	100%	Medium-term lease
Lorry parking space No. 8 on 1st floor Kwong Sang Hong Centre Nos. 151–153 Hoi Bun Road Kowloon	Carpark	100%	Medium-term lease

B. Land and buildings

<u>Name/Location</u>	<u>Type</u>	<u>Group's interest</u>	<u>Lease term</u>
Hong Kong			
Flat A on 4th floor of block 7 No. 27 Laguna Street Laguna City Kowloon	Residential	100%	Medium-term lease
Flat D on 20th floor of block 1 No. 39 Laguna Street Laguna City Kowloon	Residential	100%	Medium-term lease
Workshop No. 2 on ground floor and the yard adjoining thereto Hung Tat Industrial Building No. 43 Hung To Road Kowloon	Factory	100%	Medium-term lease
Factory A on G/F Mai Hing Industrial Building Nos. 16–18 Hing Yip Street Kowloon	Factory	100%	Medium-term lease

Properties Held by The Group (Cont'd)

B. Land and buildings (Cont'd)

<u>Name/Location</u>	<u>Type</u>	<u>Group's interest</u>	<u>Lease term</u>
Hong Kong (Cont'd)			
Factory C on G/F Mai Hing Industrial Building Nos. 16–18 Hing Yip Street Kowloon	Factory	100%	Medium-term lease
Factory E on G/F Mai Hing Industrial Building Nos. 16–18 Hing Yip Street Kowloon	Factory	100%	Medium-term lease
Car parking space No. L2 on G/F Mai Hing Industrial Building Nos. 16–18 Hing Yip Street Kowloon	Carpark	100%	Medium-term lease
Car parking space No. L5 on G/F Mai Hing Industrial Building Nos. 16–18 Hing Yip Street Kowloon	Carpark	100%	Medium-term lease
The People's Republic of China			
The land and buildings at Qiaoli Management District Changping-Huangjiang Highway Changping Town Dongguan Guangdong Province	Factory and staff quarters	74.34%	Medium-term lease
The land and buildings at Qisha Management District Shatian Town Dongguan Guangdong Province	Factory and staff quarters	70%	Medium-term lease
Xinqiao Town Songjiang County Shanghai	Factory and staff quarters	74.34%	Medium-term lease

Properties Held by The Group (Cont'd)

B. Land and buildings (Cont'd)

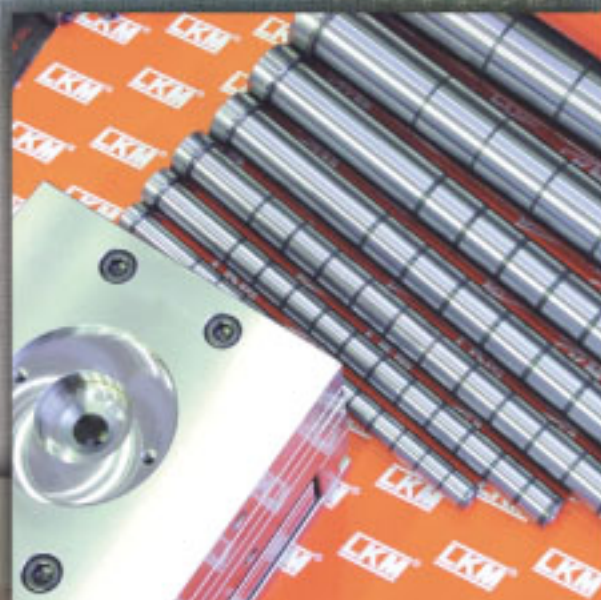
<u>Name/Location</u>	<u>Type</u>	<u>Group's interest</u>	<u>Lease term</u>
The People's Republic of China (Cont'd)			
Guangzhou Free Trade Zone Huangpu District Guangzhou Guangdong Province	Factory and staff quarters	74.34%	Medium-term lease
Singapore			
#01-08 Block A Tong Lee Building 35 Kallang Pudding Road Singapore 349314	Factory	74.34%	Freehold
Malaysia			
No. 5 Jalan Kemunting 2B Section BB 6, Bandar Bukit Beruntung 48300 Rawang Selangor Darul Ehsan Malaysia	Factory	74.34%	Freehold
Japan			
群馬県邑楽郡大泉町 大字吉田字本郷914番地1	Warehouse	100%	Freehold

C. Properties under construction

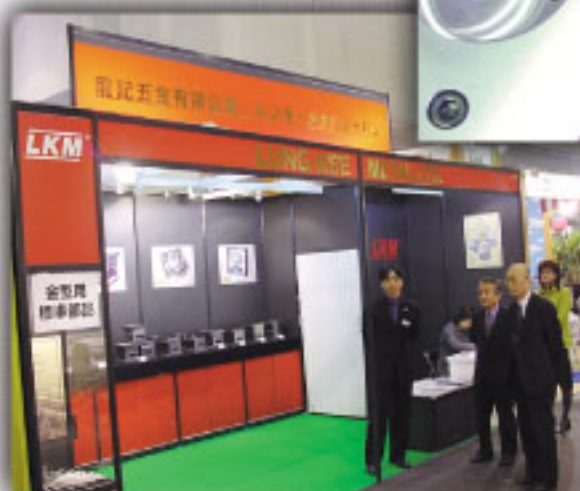
<u>Name/Location</u>	<u>Type</u>	<u>Group's interest</u>	<u>Lease term</u>	<u>Expected completion date</u>
The People's Republic of China				
Gaopu Ind. Zone Heyuan City Guangdong	Factory and staff quarters	74.34%	Medium-term lease	December 2000



A corner of Japan new warehouse
日本龍記新購倉庫一角



High precision mould base and
component export quality
高精度出口模架及配件



Participation in mould and die exhibition in Osaka, 2000
2000年日本大阪模具展覽會展台



Special design mould base
特殊規格模架



Special furnace for improve steel quality
熱處理鋼質爐具



A view of production line in Heyuan factory
河源 廠一角

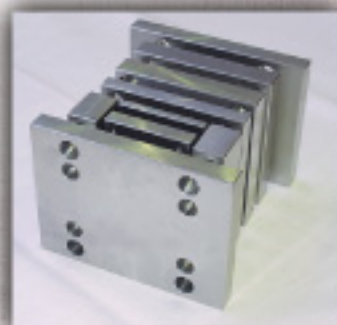


Exhibition in Guangzhou, PRC
中國廣州舉行之展覽會展台



Internal training for staff
員工內部培訓

Trade show in Shanghai, PRC
中國上海模具展覽會展台



European standard high quality mould base
歐洲規格高精度模架

