



Die cast mould base for motor vehicle.

Both the terms "模架" and "模胚" are Chinese equivalents of "MOULD BASE". While the term "模架" is generally used in China, the term "模胚" is usually used in Hong Kong. For better collaboration with the business in China, the term "模架" will be used by the Group henceforth.

Vision

to the **World**

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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
Mr. Lee Joo Hai

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

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

It is my pleasure to present the results of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2004.

BUSINESS REVIEW

The Group's turnover in the year ended 31st December, 2004 was approximately HK\$1,600 million (2003: approximately HK\$1,210 million). Profit attributable to shareholders in the year ended 31st December, 2004 was approximately HK\$220 million (2003: approximately HK\$157 million). Earnings per share in the year ended 31st December, 2004 was HK35.81 cents (2003: HK25.75 cents after adjusting for bonus share issue in 2004).

During the year of 2004, the Group recorded substantial growth in business performance.

Throughout the year as reviewed, continuous growth has been registered in the Group's business in China. Robust demand of plastic products in the China market triggered off the rapid development in manufacturing industries and the prominent growth of automobile parts manufacturing industry in China, contributed to the fruitful business performance of the Group. Regarding the cost of raw materials, the price of mould steel has been kept relatively stable during the year. As benefited from the economy of scale, the Group was able to control its total costs effectively, boosting both the figure of turnover and profit to a new height.

PROSPECTS

The Group has full confidence on its future business development in China due to the political stability and domestic economic boom in China. The market is stimulated as well by the continuous launch of mould and die production plants within China territory by the Japanese, Taiwanese and Singaporean enterprises, more and more European manufacturers are out-sourcing quality mould products from China. Further, the development of automobile parts manufacturing industry has been accelerated. It is expected that the mould industry in China will enjoy sustained growth in future years. The Group, being the leader of the mould base industry with ample market experience, with sophisticated professional staff and the

most cost effective production plants and facilities, the Group will take advantage of the economic development of China and will reach a new height in its business.

The Board of Directors of the Company (the "Board") either one is optimistic to its future development and expects a continuous growth in its turnover in the year of 2005. To grasp such market opportunities, the Group will stick to its comprehensive development strategy: enhancing its overall management, establishing highly effective and innovatively designed plants, adopting cost and labour saving production processes, upgrading manpower quality by ongoing training, and investing in advanced production facilities etc., with an aim to further sharpening the Group's competitive edge. To further fortify the leading position in the mould base industry, the Group will drive to extend its sales and distribution networks in China, targeting not only the coastal provinces in China, but also the growing market in Eastern region of China. Benefiting from the boom in mould manufacturing market, the Group will strive to develop its mould-related components business, with an aim to provide "one stop service" to meet customers needs.

Despite various favorable conditions, uncertainties still prevail in the market. Entering into the first quarter of the year of 2005, the sharp rise of imported quality steel price has been resulted due to the weakening of US dollars. Coupled with the increase of demand for quality mould steel in China, its price has been continuously pushed upward following the external market factors. In consideration of price rise in various natural resources and the upward trend of steel ore price, it is expected the mould steel price will stay high. However, with years of experience in the mould steel business, the Group clearly understands the operation cycle of mould steel market. Thus, the Group will adopt a cautious attitude to the market trend, and to strengthen its logistics management, enabling to procure ample stocks to meet production and customers needs at appropriate time and reasonable price. The Group will also reasonably adjust its product price; in the hope to minimise the impact of increasing raw materials price towards the Group's profitability performance.

On behalf of the Board, I would like to express gratitude to all shareholders, our employees, customers, suppliers and our business partners for their continued support. The Group will focus on its mission on "striving for excellence". With concerted effort of our staff, the Group will uphold our quality image of the LKM brand, with an aim to sustain its leading position in mould base market as well as contributing its effort to the international mould industry.

Siu Tit Lung
Chairman

Hong Kong, 1st April, 2005

30th Anniversary Milestones

1975

- Lung Kee Metal was founded to source and supply steel to mould makers in Hong Kong, the PRC with a floor area of only 30 square meters at its inception.

1977

- An additional workshop was set up with a floor area of 150 square meters and 10 staff.

1984

- Established Mould Bases Division to provide processing services to customers, representing the beginning of our mould bases career. The workshop occupied a floor area of 300 square meters and had 30 staff.



1986

- Commenced the production of imperial standard mould bases.



- Became an agent of Sweden ASSAB mould steel.

1987

- Purchased high precision Computerised Numerical Control ("CNC") machines and became the first provider of customised mould base to customers with CNC machines in Hong Kong.



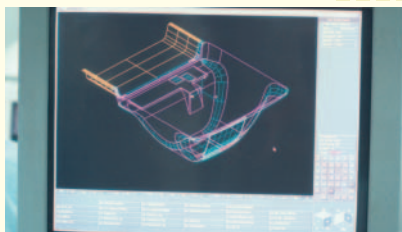
1988

- Purchased more CNC machines and commenced mass production of metric standard mould bases.



1989

- Introduced design software (CAD/ CAM) to replace traditional manual drawings to provide customers with faster and more accurate mould base processing services.



1991

- Leased a factory in Guangdong Province, the PRC for trial production of standard mould bases.
- Developed the Singapore market and established a subsidiary to sell Lung Kee products.

1992

- The phase I factory located in Dongguan, Guangdong Province, the PRC focused on producing standard mould bases, which occupied an area of 30,000 square meters with 600 staff.



1993

- Lung Kee (Bermuda) Holdings Limited was listed on The Stock Exchange of Hong Kong Limited.



- Established a joint venture in Malaysia to sell Lung Kee products.
- The phase II factory located in Dongguan, Guangdong Province, the PRC commenced production.



1994

- Established a specialized division to produce accessories for mould bases to improve the quality of mould bases.
- Awarded ISO 9002 Certificate.



- Established a joint venture in Tokyo, Japan for marketing and selling Lung Kee products.
- Became an agent of Japan DAIDO mould steel.

1995

- The phase III factory located in Dongguan, Guangdong Province, the PRC commenced production and became the largest provider of mould bases and steel in China.



1999

- Acquired a site in Heyuan, Guangdong Province, the PRC, and the phase I factory commenced production to further enhance the production capacity of standard mould bases.



- Established chain outlets in Pearl River Delta area, the PRC and Eastern China.



1996

- Acquired a site in Guangzhou Free Trade Zone, the PRC to build a factory focusing on producing high precision mould bases for export to Europe and Japan.



2001

- Acquired the equity interests in "Supertech", a Taiwan company, and provided processing services to Taiwan customers.

2002

- Secondary listing of shares of Lung Kee (Bermuda) Holdings Limited on SGX-ST.
- Privatization of "Lung Kee Metal Group", a subsidiary listed on SGX-ST.
- The phase II factory in Heyuan commenced full production.



2004

- The factory in Taizhou of Zhejiang Province, the PRC commenced mould bases production to provide processing services to customers in Zhejiang Province.



1997

- "Lung Kee Metal Group", a subsidiary of the Group, was listed on the main board of Singapore Exchange Securities Trading Limited ("SGX-ST").
- Acquired a site in Songjiang Industrial Area in Shanghai, the PRC to build a mould base factory for supplying users in Eastern China.



2005

- Acquired sites of Heyuan Lung Kee Industrial Area for establishment of a larger factory to produce mould base and related products.



2003

- Established a joint venture with "Heatlock", a Sweden company, and engaged in manufacturing hot runner products so as to provide more comprehensive services in mould industry.
- The phase II factory in Shanghai commenced production.

- The aggregate area of factories in Heyuan, Dongguan, Guangzhou in Guangdong Province, Shanghai and Taizhou in Zhejiang Province in China and in Japan, Taiwan, Malaysia and Singapore amounts to 488,000 square meters and the total number of staff exceeds 8,000.

During the year ended 31st December, 2004, the Group continued to focus on the manufacture and sale of mould bases and trading of special mould steel and related products.

The Group recorded turnover of approximately HK\$1,600 million and earnings of approximately HK\$220 million for the year ended 31st December, 2004.

MOULD BASE MANUFACTURING AND MARKETING

All plants in China had achieved favorable returns.

New workshops of the Heyuan plant in China had been consecutively completed. Through continuous efforts in consolidating of internal resources as well as reengineering of production processes, part of the production previously conducted in Dongguan, China had been successfully merged into the Heyuan plant, China. As a result, the manufacturing processes are better coordinated, and the scale of production increased; thus, further reinforcing productivity of the Group.

The Guangzhou plant in China, in response to an upward demand in high precision mould bases, had enlarged its production capacity to grasp the business opportunity in both overseas and local markets.

Turning to the Dongguan plant in China, it continues to develop its mould components business and related high value-added services including vacuum heat treatment, mould repair-welding services and Physical Vapor Deposition (PVD) coating services etc., not only enhancing its comprehensiveness in business scope, but also providing a reliable source of income to the Group.

The second phase expansion of the Shanghai plant in Eastern China was in full operation, rendering significant growth in business. The new plant located in Taizhou, Zhejiang Province in China had started preliminary production with satisfactory results, obtaining favorable response and general support from local customers.

Overseas operations maintained a stable development. With the recovery of domestic market in Japan, the Group's business in Japan achieved satisfactory growth. Following the upturn of economic development of the South East Asian countries, the Malaysia and the Singapore operations showed a modest growth in business. The sales performance of the Taiwan plant has been gradually improved, offering a healthy return to the Group.

The unstable electricity supply throughout the China region has insignificant impact on the Group's operation. Electricity supply to plants in Southern China remained quite stable, and their operations had not been affected. Though electricity supply in the Eastern region of China was quite unstable, our plants are equipped with in-house power generators, securing the stability of its operations. Further, the shortage in water supply and manpower supply did not pose any threat to the Group's operation in China.

To fuel the long-term market development, the Group has actively extended its distribution network. Currently fifteen direct sales outlets and offices had been set up in the Guangdong Province and the Eastern Region of China, providing high quality direct services to the privately owned enterprises within the regions. With such channel strategy, the Group has succeeded in acquiring a substantial number of new customers, thus widening the customer base of the Group.

TRADING OF MOULD STEEL

As influenced by the depreciation of US dollars and the fluctuation in the cost of alloy materials, the price of imported quality mould steel had surged upward. However, in views of the adoption of state-of-the-art production facilities and technology by mould steel production plants in China, the Group had already increased its procurement on quality mould steels from China. Meanwhile, effort has been made in developing and marketing a competitive series of quality mould steel from China. As a result, the mould steel business also achieved steady growth.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2004, the Group had a net cash deficit of approximately HK\$201 million. The Group had cash balance of approximately HK\$442 million. Most of the cash balance was placed in USD short term deposits with major banks in Hong Kong.

The Group adopted conservative measures to hedge any exchange fluctuation and incurred approximately HK\$5 million losses on foreign exchange during the year ended 31st December, 2004.

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

GEARING RATIO

Total debts were approximately HK\$643 million, equal to approximately 65% of shareholders' funds of approximately HK\$992 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed a total of approximately 7,600 employees, including approximately 7,300 employees in its PRC production sites and approximately 300 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

CONTINGENT LIABILITIES

The Company gave guarantees of approximately HK\$1,195 million to financial institutions in respect of banking facilities granted to its subsidiaries.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2004.

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.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 22.

An interim dividend of HK8 cents per share amounting to approximately HK\$49,130,000 was paid to shareholders during the year. The directors now recommend the payment of a final dividend of HK10 cents per share payable to shareholders registered on 9th May, 2005, amounting to approximately HK\$61,928,000.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 62.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2004 were revalued by an independent firm of professional property valuers on an open market value basis. Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditures in respect to factory premises and staff quarters at a cost of approximately HK\$52 million. The Group continued its plant expansion policy and expended approximately HK\$96 million on new plant and machinery and approximately HK\$23 million on furniture, fixtures and fittings 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 13 to the financial statements.

INVESTMENT PROPERTIES

Details of the investment properties of the Group at 31st December, 2004 are set out on pages 63.

SHARE CAPITAL

Details of the Company's share capital are set out in note 28 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 14% to the total purchases for the year. The Group's five largest suppliers accounted for 42% 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.

DIRECTORS

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

Non-executive director

Chan Chun Sing, Colin

Independent non-executive directors

Liu Wing Ting, Stephen, JP
 Lee Tat Yee
 Lee Joo Hai (with effect from 30th September, 2004)

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Messrs. Mak Koon Chi and Wai Lung Shing retire from office by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-Laws, Mr. Lee Joo Hai, who was appointed by the Company with effect from 30th September, 2004, will retire at the Company's forthcoming annual general meeting and, being eligible, offer himself for re-election.

The term of office for each non-executive director and independent non-executive directors is the year 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 54, 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 35 years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Dongguan City and Heyuan City in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 51, younger 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 33 years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association. He is also an honorary citizen of Heyuan City in the PRC.

Mr. Mak Koon Chi, aged 46, has been an executive director of the Company since December 1992 and is a past Chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a senior member of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from Murdoch University with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 43, has been an executive director of the Company since December 1992 and is responsible for the policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick with a Master of Business Administration Degree. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Directors. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Fung Wai Hing, aged 52, 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.

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

Non-executive director

Mr. Chan Chun Sing, Colin, aged 50, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He has many years of experience in the information technology industry.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 52, has been an independent non-executive director of the Company since December 1992. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited and a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the Chairman of the Audit Committee and Remuneration Committee of the Company.

Dr. Lee Tat Yee, aged 57, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. Dr. Lee is currently a director of the Technology Support Centre of the University of Hong Kong specialising in quality assurance management systems.

Mr. Lee Joo Hai, aged 49, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore and a member of the Singapore Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the Chairman of the Nomination Committee of the Company.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2004, the directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Interests in the Company

Name of director	Capacity	Number of shares held		Number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	—	344,908,631	55.74%
Siu Yuk Lung (Notes 1, 3 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	—	344,908,631	55.74%
Mak Koon Chi	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Wai Lung Shing	Beneficial owner	2,843,750	—	—	2,843,750	0.46%
Fung Wai Hing	Beneficial owner	1,457,031	—	—	1,457,031	0.24%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	—	150,000	0.02%
Liu Wing Ting, Stephen	Beneficial owner	—	—	150,000	150,000	0.02%
Lee Tat Yee	Beneficial owner	—	—	150,000	150,000	0.02%

Notes:

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

DIRECTORS' INTERESTS IN SHARES (Cont'd)**Interests in associated corporations of the Company**

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

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

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

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors and their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31st December, 2004.

SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 30 to the financial statements.

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

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2004	Granted during the year	Exercised during the year	At 31st December, 2004			
Category 1: Directors							
Siu Tit Lung	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Siu Yuk Lung	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Mak Koon Chi	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Wai Lung Shing	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Fung Wai Hing	—	500,000	(500,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Chan Chun Sing, Colin	—	150,000	(150,000)	—	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Liu Wing Ting, Stephen	—	150,000	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Lee Tat Yee	—	150,000	—	150,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total	—	2,950,000	(2,650,000)	300,000			
Category 2: Employees							
Total	—	3,050,000	(2,034,000)	1,016,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
Total all categories	—	6,000,000	(4,684,000)	1,316,000			

The closing price of the Company's shares immediately before the date on which the options were granted was HK\$3.30.

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

The fair value of the options granted in the current year measured as at the date of grant on 25th May, 2004 was HK\$5,040,000. The following significant assumptions were used to derive the fair value using the Binomial Lattice Model:

- Expected life of options is 3 years;
- Expected volatility of 45% per annum (based on historical share price movement);
- Expected annual dividend yield of 5% per annum (based on historical dividend payments);

SHARE OPTIONS (Cont'd)

- Hong Kong Exchange Fund Notes rate was 2.8% per annum;
- No option holders will leave the Company before the exercise period commences;
- Option holders will leave the Company at a rate of 1% per annum during the exercise period; and
- Option holders will exercise when the share price is at least 100% higher than the exercise price.

The Binomial Lattice Model requires the input of highly subjective assumptions, including the volatility of share price and dividend yield. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	249,023,437	40.24%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.47%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.47%
Commonwealth Bank of Australia (Note)	Interest of controlled corporation	61,841,608	9.99%

Note: Commonwealth Bank of Australia had an interest of 61,841,608 shares in the Company, through its wholly-owned subsidiaries, namely, Colonial First State Group Ltd, Colonial Holding Company (No. 2) Pty Limited, Colonial Holding Company Pty Ltd, Colonial Ltd, The Colonial Mutual Life Assurance Society Ltd, First State Investments (UK Holdings) Limited, First State Investment Management (UK) Limited and SI Holdings Limited.

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

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

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.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

AUDIT COMMITTEE

An Audit Committee was established by the Company in 1998 to review and supervise the Company's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors and the non-executive director. Mr. Liu Wing Ting, Stephen, is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2004 to establish policies, review and determine the remuneration of the directors and the senior management. The Remuneration Committee, comprises the three independent non-executive directors and the non-executive director of the Company. Mr. Liu Wing Ting, Stephen is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

A Nomination Committee was established by the Company in 2004 to make recommendations to the Company so as to ensure that all nominations are fair and transparent. The Nomination Committee comprises the three independent non-executive directors and the non-executive director of the Company. Mr. Lee Joo Hai is the chairman of the Nomination Committee.

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, 1st April, 2005



TO THE MEMBERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 61 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 December, 2004 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, 1st April, 2005

Consolidated Income Statement

for the year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	1,599,505	1,209,613
Other operating income	5	57,964	42,654
Changes in inventories of finished goods and work in progress		15,909	9,183
Raw materials and consumables used		(785,265)	(530,489)
Staff costs		(249,415)	(206,227)
Depreciation and amortisation of property, plant and equipment		(84,430)	(80,931)
Amortisation of goodwill		(21,015)	(21,720)
Amortisation of patents and trademarks		(666)	(278)
Other operating expenses		(249,904)	(206,370)
Surplus (deficit) arising on revaluation of investment properties		4,900	(950)
Profit from operations	6	287,583	214,485
Finance costs	7	(19,290)	(29,084)
Gain on disposal of subsidiaries		—	2,048
Gain on partial disposal of a subsidiary		399	—
Profit before taxation		268,692	187,449
Taxation	9	(43,702)	(27,870)
Profit after taxation		224,990	159,579
Minority interests		(4,877)	(2,324)
Net profit for the year		220,113	157,255
Dividend paid during the year	10	98,260	58,733
Earnings per share			
— Basic	11	35.81 cents	25.75 cents
— Diluted	11	35.79 cents	25.68 cents

Consolidated Balance Sheet

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	12	28,000	23,100
Property, plant and equipment	13	559,012	457,487
Intangible assets	17	1,056	1,722
Goodwill	18	9,060	30,075
Negative goodwill	19	—	(22)
		597,128	512,362
Current assets			
Inventories	20	467,567	360,919
Trade and other receivables	21	443,958	472,276
Bills receivable		44,045	32,411
Taxation recoverable		3,373	10,542
Bank balances and cash		441,672	442,247
		1,400,615	1,318,395
Current liabilities			
Trade and other payables	22	230,105	235,216
Bills payable		52,800	36,970
Obligations under finance leases — due within one year	24	2	26
Unsecured bank borrowings	25	493,016	491,413
Dividend payable		9	19
Taxation payable		59,408	51,359
		835,340	815,003
Net current assets		565,275	503,392
Total assets less current liabilities		1,162,403	1,015,754

Consolidated Balance Sheet

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current liabilities			
Obligations under finance leases — due after one year	24	—	2
Floating rate notes	26	150,000	150,000
		150,000	150,002
Minority interests		20,862	11,769
		991,541	853,983
CAPITAL AND RESERVES			
Share capital	28	61,881	49,130
Share premium		112,208	109,502
Goodwill reserve		(3,636)	(3,636)
Capital reserve		11,966	11,966
Accumulated profits		807,626	685,773
Translation reserve		1,496	1,248
		991,541	853,983

The financial statements on pages 22 to 61 were approved and authorised for issue by the Board of Directors on 1st April, 2005 and are signed on its behalf by:

Siu Tit Lung
DIRECTOR

Siu Yuk Lung
DIRECTOR

Balance Sheet

at 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary	14	55,856	55,856
Amounts due from subsidiaries	15	102,318	220,753
Loans to subsidiaries	16	17,000	17,000
		175,174	293,609
Current assets			
Prepayments		180	312
Bank balances		183	99
		363	411
Current liabilities			
Accrued charges		678	630
Amount due to a subsidiary	23	—	34,338
Dividend payable		9	19
		687	34,987
Net current liabilities		(324)	(34,576)
		174,850	259,033
CAPITAL AND RESERVES			
Share capital	28	61,881	49,130
Share premium	29	112,208	109,502
Accumulated profits	29	761	100,401
		174,850	259,033

Siu Tit Lung
DIRECTOR

Siu Yuk Lung
DIRECTOR

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2004

	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 2003	48,684	104,512	(3,636)	11,966	587,251	1,257	750,034
Final dividend declared for the nine months ended 31st December, 2002	—	—	—	—	(24,342)	—	(24,342)
Shares issued on exercise of share options	446	4,990	—	—	—	—	5,436
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	—	—	—	—	—	(9)	(9)
Net profit for the year	—	—	—	—	157,255	—	157,255
Interim dividend declared	—	—	—	—	(34,391)	—	(34,391)
At 31st December, 2003	49,130	109,502	(3,636)	11,966	685,773	1,248	853,983
Final dividend declared for the year ended 31st December, 2003	—	—	—	—	(49,130)	—	(49,130)
Bonus shares issued	12,283	(12,283)	—	—	—	—	—
Shares issued on exercise of share options	468	14,989	—	—	—	—	15,457
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	—	—	—	—	—	248	248
Net profit for the year	—	—	—	—	220,113	—	220,113
Interim dividend declared	—	—	—	—	(49,130)	—	(49,130)
At 31st December, 2004	61,881	112,208	(3,636)	11,966	807,626	1,496	991,541

The capital reserve of the Group includes an amount of approximately HK\$11,870,000 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.

Consolidated Cash Flow Statement

for the year ended 31st December, 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	268,692	187,449
Adjustments for:		
Interest income	(8,226)	(14,965)
Interest expenses and finance charges	18,934	25,308
Allowance for bad and doubtful debts	7,643	8,450
Amortisation of goodwill	21,015	21,720
Unrealised exchange loss	7,235	2,692
Release of negative goodwill	(22)	(91)
Amortisation of patents and trademarks	666	278
(Surplus) deficit arising on revaluation of investment properties	(4,900)	950
Depreciation and amortisation of property, plant and equipment	84,430	80,931
(Gain) loss on disposal of property, plant and equipment	(1,620)	109
Gain on partial disposal of a subsidiary	(399)	—
Gain on disposal of subsidiaries	—	(2,048)
Operating cash flows before movements in working capital	393,448	310,783
Increase in inventories	(105,426)	(77,545)
Decrease (increase) in trade and other receivables	21,930	(115,267)
(Increase) decrease in bills receivable	(10,527)	1,838
(Decrease) increase in trade and other payables	(5,697)	9,888
Increase in bills payable	15,699	13,046
Exchange differences	827	26
Cash generated from operations	310,254	142,769
Income tax paid	(33,772)	(27,163)
Income tax refunded	5,271	50
Interest expenses and finance charges paid	(18,934)	(25,308)
NET CASH FROM OPERATING ACTIVITIES	262,819	90,348

Consolidated Cash Flow Statement

for the year ended 31st December, 2004

	Note	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(185,765)	(131,278)
Interest received		8,226	14,965
Proceeds on partial disposal of a subsidiary		4,662	—
Proceeds on disposal of property, plant and equipment		2,382	5,485
Disposal of subsidiaries	31	—	(160)
Payment for purchase of patents and trademarks		—	(2,000)
NET CASH USED IN INVESTING ACTIVITIES		(170,495)	(112,988)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(222,868)	(700,245)
Dividends paid		(98,270)	(83,088)
Repayment of obligations under finance leases		(26)	(44)
New bank borrowings raised		197,598	542,709
Proceeds from new shares issued		15,457	5,436
Net increase (decrease) in trust receipt loans		14,730	(4,910)
Proceeds from floating rate notes issued		—	150,000
Dividends paid to minority shareholders of subsidiaries		—	(8,400)
NET CASH USED IN FINANCING ACTIVITIES		(93,379)	(98,542)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,055)	(121,182)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		442,247	563,029
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		480	400
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		441,672	442,247

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Potential impact arising from the recently issued accounting standards

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

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

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

Basis of consolidation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

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

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

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

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

Negative goodwill

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

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

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

Investments in subsidiaries

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

Revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

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

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

Investment properties

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

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

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

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

Patents and trademarks

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

Property, plant and equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

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

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

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

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

Impairment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases

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

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

Inventories

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

Foreign currencies

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

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

Taxation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

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

Retirement benefits scheme contributions

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

3. TURNOVER

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)**(a) Business segments (Cont'd)**

Segmental information about these businesses is presented below.

For the year ended 31st December, 2004

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER — External sales	1,429,038	170,467	1,599,505
RESULTS			
Segment results	197,861	26,858	224,719
Surplus arising on revaluation of investment properties			4,900
Unallocated corporate income			57,964
PROFIT FROM OPERATIONS			287,583
Finance costs			(19,290)
Gain on partial disposal of a subsidiary			399
PROFIT BEFORE TAXATION			268,692
Taxation			(43,702)
PROFIT AFTER TAXATION			224,990

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)**(a) Business segments (Cont'd)**

For the year ended 31st December, 2003

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
OTHER INFORMATION			
Capital expenditure	127,479	5,799	133,278
Amortisation of patents and trademarks	—	278	278
Depreciation and amortisation of property, plant and equipment	74,411	6,520	80,931
Amortisation of goodwill	21,720	—	21,720
Allowance for bad and doubtful debts	7,228	1,222	8,450

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
Assets			
Segment assets	1,262,195	109,980	1,372,175
Unallocated corporate assets			458,582
Consolidated total assets			1,830,757
Liabilities			
Segment liabilities	244,775	25,000	269,775
Unallocated corporate liabilities			695,230
Consolidated total liabilities			965,005

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(b) Geographical segments

The Group operates in the following geographical market segments — People's Republic of China (the "PRC") including Hong Kong and other countries.

The following table shows an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
The PRC	1,304,745	957,907
Other countries	294,760	251,706
	1,599,505	1,209,613

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

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

5. OTHER OPERATING INCOME

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

6. PROFIT FROM OPERATIONS

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

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for the year ended 31st December 2004

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

Emoluments of the directors are within the following bands:

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

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

9. TAXATION

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

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

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

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). Certain PRC subsidiaries continue to enjoy their Tax Holiday during the year.

9. TAXATION (Cont'd)

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

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

Details of deferred taxation are set out in note 27.

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

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

12. INVESTMENT PROPERTIES

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

15. AMOUNTS DUE FROM SUBSIDIARIES

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

16. LOANS TO SUBSIDIARIES

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

17. INTANGIBLE ASSETS

THE GROUP
Patents and
trademarks
 HK\$'000

COST

At 1st January, 2004 and 31st December, 2004	2,000
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AMORTISATION

At 1st January, 2004	278
Provided for the year	666

At 31st December, 2004	944
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NET BOOK VALUE

At 31st December, 2004	1,056
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At 31st December, 2003	1,722
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The patents and trademarks are amortised over a period of three years.

18. GOODWILL

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

The amortisation period adopted for goodwill is three years.

19. NEGATIVE GOODWILL

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

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

20. INVENTORIES

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

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

21. TRADE AND OTHER RECEIVABLES

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

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

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

22. TRADE AND OTHER PAYABLES

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

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

23. AMOUNT DUE TO A SUBSIDIARY

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

24. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

25. UNSECURED BANK BORROWINGS

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

26. FLOATING RATE NOTES

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

27. DEFERRED TAXATION

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

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

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

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

28. SHARE CAPITAL

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

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

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

29. RESERVES

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

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

30. SHARE OPTION SCHEME

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

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

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

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

30. SHARE OPTION SCHEME (Cont'd)

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

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

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

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

Details of options granted are as follows:

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

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

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

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

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

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

31. DISPOSAL OF SUBSIDIARIES

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

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

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

32. CAPITAL COMMITMENTS

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

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

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

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

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

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

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

The Group as lessor

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

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

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

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

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

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

34. CONTINGENT LIABILITIES

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

35. RETIREMENT BENEFITS SCHEME

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

35. RETIREMENT BENEFITS SCHEME (Cont'd)

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

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

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

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

36. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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

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

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

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

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

Notes:

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

RESULTS

	Year ended 31st March,		1st April, 2002 to 31st December, 2002 (9 months)	Year ended 31st December,	
	2001	2002		2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	985,834	928,886	801,393	1,209,613	1,599,505
PROFIT BEFORE TAXATION	192,358	104,305	119,931	187,449	268,692
TAXATION	(30,289)	(10,351)	(16,747)	(27,870)	(43,702)
PROFIT BEFORE MINORITY INTERESTS	162,069	93,954	103,184	159,579	224,990
MINORITY INTERESTS	(32,463)	(21,969)	(9,824)	(2,324)	(4,877)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	129,606	71,985	93,360	157,255	220,113

ASSETS AND LIABILITIES

	At 31st March,		At 31st December		
	2001	2002	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	1,413,085	1,477,186	1,749,161	1,830,757	1,997,743
TOTAL LIABILITIES	(549,248)	(587,143)	(978,419)	(965,005)	(985,340)
MINORITY INTERESTS	(178,285)	(189,291)	(20,708)	(11,769)	(20,862)
SHAREHOLDERS' FUNDS	685,552	700,752	750,034	853,983	991,541

INVESTMENT PROPERTIES

Location	Type	Group's attributable interest	Lease term
Workshop 6 on ground floor Kwong Sang Hong Centre Nos.151-153 Hoi Bun Road Kowloon	Office premises	100%	Medium-term lease
Workshop No. 2 on ground floor and the yard adjoining thereto Hung Tat Industrial Building No. 43 Hung To Road Kowloon	Factory	100%	Medium-term lease
Factory A, C, 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 and L5 on G/F Mai Hing Industrial Building Nos.16-18 Hing Yip Street Kowloon	Carpark	100%	Medium-term lease