



**Lung Kee (Bermuda) Holdings Limited**

Stock Code: 255



**2006 Annual Report**



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### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTOR

Mr. Chan Chun Sing, Colin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### COMPANY SECRETARY

Mr. Wai Lung Shing

### SOLICITORS

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

### AUDITOR

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

### PRINCIPAL BANKER

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

### BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### SINGAPORE SHARE TRANSFER AGENT

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

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### WEBSITE

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

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, 2006.

### BUSINESS REVIEW

The Group's turnover in the year ended 31st December, 2006 was approximately HK\$2,135 million (2005: approximately HK\$1,899 million). Profit attributable to equity holders of the Company in the year ended 31st December, 2006 was approximately HK\$150 million (2005: approximately HK\$241 million). Basic earnings per share in the year ended 31st December, 2006 was HK24.27 cents (2005: HK38.88 cents).

The Group's profit in the year ended 31st December, 2006 was significantly less than that of 2005. The profit performance falling behind of expectation was mainly due to the slowdown in business growth of the Asian manufacturing sector and the uplift of material and labour costs in China which boosted up the production cost. During the review period, the Group had to continue its expansion and restructuring of plants in China. This further added pressure on the operating cost and profit margin.

### PROSPECTS

The Group still holds good confidence in its long-term business development. Looking forward, it is expected to be a year filling with challenges. Despite great pressures from the market and business environment, the Group still holds a cautious, yet optimistic view toward it.

China still experiences a stable economic development and continuous growth in major industrial sectors, including automobile industry. However, significant orders for large-scale automobile moulds can only be expected in the second half of the year. The mould market remains unstable due to the ebb and flow of customers' business, as a consequent, it is difficult for the Group to formulate an optimum and well-coordinated production plan, which may impair its production efficiency. Furthermore, it is expected that the labour and operation cost in China will keep accelerating and it is unlikely that the additional cost can totally levied on customers at this moment. As a result, the Group's operation cost cannot be reduced in the short-term.

In meeting the challenge, the Group will strategically develop its business in China by enlarging its customer base and exploring potential markets. After experiencing rapid development in several years, market growth in the Southern China will gradually slow down. It is anticipated that markets in the Eastern and Northern China will be the focus of the future. In particular, the Eastern China market is bringing a stable increase in turnover for the Group in recent years. The Group will continuously develop its distribution and logistic network with comprehensive coverage over the mould intensive cities, establish partnership with customers in these areas and secure larger market share to further fortify the competitive edge of the Group.

The Group will strive to enhance its product quality and to control cost in securing its competitive advantage for sustaining development. The production capacity of Heyuan plant in Guangdong Province has been much enlarged after expansion and restructuring. The Group will streamline its production processes continuously through automation and re-engineering so as to improve productivity and efficiency. The Group will also upgrade its mode of management and control, and simplify its administrative organizational structure, aiming to establish a highly effective team that can promptly address the need of the fast-changing market situation by formulating appropriate counter policy and optimizing resources. All these measures can reinforce the Group's operation advantage and its solid foundation.

The Board of Directors would like to take this opportunity to express our heartiest thanks to all staff for their commitment and contribution. Sincere gratitude is extended to our shareholders and business partners for their immense support. The Group will maintain its pragmatic attitude and seek for continuous improvement in the challenging business environment. Being equipped with ample management experience and excellent technical expertise, the Group is full of confidence in maintaining a steady growth in its future business.

**Siu Tit Lung**  
*Chairman*

Hong Kong, 30th March, 2007

During the year ended 31st December, 2006, the Group continued to focus on the manufacture and marketing of mould bases, metal and parts.

The Group recorded turnover of approximately HK\$2,135 million and earnings of approximately HK\$150 million for the year ended 31st December, 2006.

### **MOULD BASE MANUFACTURING AND MARKETING**

The business environment remained uncertain in general. The slowing down of the economy in the United States and Western European countries, coupled with protectionism measures as adopted by some of these countries toward China, had resulted in a sluggish growth in market demand. The appreciation of Renminbi and the retreat of tax rebate on some export commodities in China also slowed down the growth in the manufacturing sector in China. Facing unstable material costs, some customers of the Group held back their decision in placing order and reduced machining jobs previously sub-contracted out. Consequently, there was pressure on the average selling price of the Group's products. On the other hand, the labour cost was continuously uplifted in line with the living standard in China. Furthermore, price fluctuation of raw materials during the review period made it difficult for the Group to exercise cost control efficiently. All these factors led to a drastic increase in the Group's total operating cost eventually.

Throughout the period as reviewed, the Group continued the expansion of plants in Southern China and re-engineered its management and operation processes, thus pushing up its short-term administration and operation cost. In line with its long-term business development, the Group initiated the expansion of its Heyuan plant in Guangdong province. The construction of new plants and acquisition of new machinery and production facilities pushed up the depreciation cost on plant and machinery. It was anticipated that it would take some time to realize return on such capital investment. Furthermore, in order to enhance its competitive edge and productivity, the Group successfully merged the production facilities and manpower of the Dongguan plant into its Heyuan plant, incurring extra relocation cost. After restructuring, it also takes time for both manpower and machineries to be better coordinated, thus productivity was slightly affected during the tuning in period.

### **TRADING OF MOULD STEEL**

As affected by the fluctuation in the cost of alloy material, the price of quality mould steel had surged upward. However, by providing comprehensive value added services to customers, the Group mould steel business still maintained at a similar level as that of last year.

In light of the above factors, the Group's profitability performance was not up to satisfaction during the period under review.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 31st December, 2006, the Group had a net cash deficit of approximately HK\$571 million. The Group had cash balance of approximately HK\$150 million. The cash balance was placed in short term deposits with major banks in Hong Kong.

The Group adopted conservative measures to hedge any exchange fluctuation and incurred approximately HK\$6 million losses on foreign exchange during the year ended 31st December, 2006.

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

## **GEARING RATIO**

Total debts of the Group were approximately HK\$721 million, equal to approximately 58% of equity attributable to equity holders of the Company of approximately HK\$1,244 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st December, 2006, the Group employed a total of approximately 11,240 employees, including approximately 10,900 employees in its PRC production sites and approximately 340 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.



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

During the financial year ended 31st December, 2006, the Company complied with all requirements set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

## A. DIRECTORS

### A.1 The Board

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

During the financial year ended 31st December, 2006, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

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

### A.2 Chairman and Managing Director

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

## A.3 Board composition

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

### *Executive directors*

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

### *Non-executive director*

Mr. Chan Chun Sing, Colin

### *Independent non-executive directors*

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

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

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

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

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

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

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

One Nomination Committee meeting was held in 2006. The attendance of each member is set out as follows:

<b>Name of Member</b>	<b>Number of attendance</b>
Mr. Lee Joo Hai ( <i>Chairman</i> )	1/1
Mr. Chan Chun Sing, Colin	0/1
Mr. Liu Wing Ting, Stephen	1/1
Dr. Lee Tat Yee	1/1

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

For the financial year ended 31st December, 2006, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board. The Nomination Committee concluded that the Board possesses of a diversity of skills, expertise, experience and qualifications and believed that the Board performs its duties competently. The Nomination Committee has also assessed the independence of all the independent non-executive directors.

#### A.5 Responsibilities of directors

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

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

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

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

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

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

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

During the financial year ended 31st December, 2006, the Remuneration Committee held two meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Dr. Lee Tat Yee ( <i>Chairman</i> )	2/2
Mr. Chan Chun Sing, Colin	1/2
Mr. Liu Wing Ting, Stephen	2/2
Mr. Lee Joo Hai	2/2

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

For the financial year ended 31st December, 2006, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 11 to the financial statements.

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

In order to attract, retain and motivate talented executives/employees to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out in note 28 to the financial statements.

### C. ACCOUNTABILITY AND AUDIT

#### C.1 Financial reporting

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

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

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

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

#### C.2 Internal controls

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

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

## C.3 Audit Committee

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

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

Four Audit Committee meetings were held in 2006. The attendance of each member is set out as follows:

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

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

A summary of the work performed by the Audit Committee for the financial year ended 31st December, 2006 is set out in "Audit Committee Report" of the Annual Report for the year ended 31st December, 2006 (the "Annual Report").

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

For the financial year ended 31st December, 2006, the fee paid/payable to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	2,411
Non-audit services	
– Taxation services	260
– Interim review	400
– Audit of provident fund	5
– Review of connected transactions	40
– Review of results announcement	40

## D. DELEGATION BY THE BOARD

### D.1 Management functions

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

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

### D.2 Board committees

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

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

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

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

### E.2 Voting by poll

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

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

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

During the financial year ended 31st December, 2006, the Audit Committee held four meetings at approximately quarterly intervals to review the quarterly results presented by the management and to discuss the internal audit findings prepared by the Internal Audit Department. The external auditor, Messrs. Deloitte Touche Tohmatsu, attended three meetings, which included the meetings in conjunction with the release of the half year and full year results announcements. The chairman of the Audit Committee reported the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee were circulated to the Board for information.

The following was a summary of the work performed by the Audit Committee in 2006:

1. review of the Group's financial statements for the year ended 31st December, 2005 and the annual results announcement with a recommendation to the Board for approval;
2. review of the Group's financial statements for the period from 1st January, 2006 to 30th April, 2006 with a recommendation to the Board for approval;
3. establishment of an Internal Control Review Task Force to assess broadly any significant risks faced by the Group and to review the effectiveness of the internal control system of the Group;
4. review of the Group's financial statements for the six months period ended 30th June, 2006 and the interim results announcement with a recommendation to the Board for approval;
5. review of the Group's financial statements for the period from 1st January, 2006 to 30th September, 2006 with a recommendation to the Board for approval;
6. review of the compliance by the Group with the Code on Corporate Governance Practices;
7. review of the annual internal audit plan submitted by the Group's Internal Audit Department;
8. review of the findings and recommendations submitted by the Group's Internal Audit Department;



9. review of the report and management letter submitted by external auditor;
10. review of the audit plan for the year ended 31st December, 2006 submitted by external auditor;
11. consideration of the 2006 audit fees with a recommendation to the Board for approval; and
12. review of “Connected Transactions” and “Continuing Connected Transactions” set forth in “Directors’ Report” of the 2006 annual report.

At the Audit Committee meeting on 30th March, 2007, the Audit Committee reviewed the Group’s financial statements for the year ended 31st December, 2006 and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group for 2007 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2007 annual general meeting of the Company.

*Audit Committee Members:*

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

Mr. Chan Chun Sing, Colin

Dr. Lee Tat Yee

Mr. Lee Joo Hai

Hong Kong, 30th March, 2007

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

### 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, metal and parts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 31.

An interim dividend of HK4.5 cents per share amounting to approximately HK\$27,900,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK6.5 cents per share payable to shareholders registered on the register of members on 7th May, 2007, amounting to approximately HK\$40,300,000.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial periods is set out on page 72.

### INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2006 were revalued by an independent firm of professional property valuers on an open market value basis. The revaluation increase of approximately HK\$6,900,000 has been recognised in the income statement. Details of the movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure in respect to factory premises and staff quarters at a cost of approximately HK\$83 million. The Group continued its plant expansion policy and expended approximately HK\$152 million on new plant and machinery and approximately HK\$45 million on other furniture and equipment during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

### PROPERTIES HELD FOR INVESTMENT

Details of the major properties held for investment by the Group at 31st December, 2006 are set out on page 73.

### SHARE CAPITAL

Details of the Company's share capital are set out in note 27 to the financial statements.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2006 represented the accumulated profits of approximately HK\$148,287,000 (2005: HK\$27,033,000).

### MAJOR CUSTOMERS AND SUPPLIERS

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

The Group's largest supplier contributed 16% to the total purchases for the year. The Group's five largest suppliers accounted for 44% 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

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Mak Koon Chi, Mr. Fung Wai Hing and Dr. Lee Tat Yee retire from office by rotation and, being eligible, offer themselves for re-election.

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 56, elder brother of Mr. Siu Yuk Lung, has been an executive director and the chairman of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for the overall strategic planning and corporate development of the Group. He has over 37 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 53, younger brother of Mr. Siu Tit Lung, has been an executive director and the managing director of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for policy making and the corporate management of the Group. He has over 35 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 48, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. He is a past chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a fellow of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing and manufacturing of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from the Hong Kong Polytechnic University and Murdoch University with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 45, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. Mr. Wai 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 the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Hong Kong Institute of Directors. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

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

### Executive directors *(Continued)*

Mr. Fung Wai Hing, aged 54, has been an executive director of the Company since August 1997 and is a director of certain subsidiaries of the Company. Mr. Fung is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham with a Master of Science Degree in Industrial Management and from The University of Hong Kong with a Master of Business Administration Degree. He is currently one of the directors and past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is the honorary secretary of the Hong Kong Diecasting Association, a member of the Steering Committee of the Industrial Centre of the Hong Kong Polytechnic University and a member of The Hong Kong Institute of Directors. He has extensive experience in the trading business.

### Non-executive director

Mr. Chan Chun Sing, Colin, aged 52, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He is a fellow of The Hong Kong Institute of Directors. He has many years of experience in the information technology industry.

### Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 54, 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 the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Hong Kong Institute of Directors. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the chairman of the Audit Committee of the Company.

Dr. Lee Tat Yee, aged 59, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland and is a Chartered Engineer of the Engineering Council in the United Kingdom. He is a fellow of The Hong Kong Institute of Directors. Dr. Lee is currently a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems. He is the chairman of the Remuneration Committee of the Company.

Mr. Lee Joo Hai, aged 51, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore, the Singapore Institute of Directors and The Hong Kong Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the chairman of the Nomination Committee of the Company.

## DIRECTORS' INTERESTS IN SHARES

At 31st December, 2006, 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 Issuers (the "Model Code"):

### Interests in the Company

Name of director	Capacity	Number of shares held		Number of share options and corresponding number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	150,000	345,058,631	55.65%
Siu Yuk Lung (Notes 1, 3 and 4)	Beneficial owner and founder of discretionary trust	37,291,444	307,617,187	150,000	345,058,631	55.65%
Mak Koon Chi	Beneficial owner	2,843,750	–	500,000	3,343,750	0.54%
Wai Lung Shing	Beneficial owner	2,843,750	–	500,000	3,343,750	0.54%
Fung Wai Hing	Beneficial owner	1,457,031	–	500,000	1,957,031	0.32%
Chan Chun Sing, Colin	Beneficial owner	150,000	–	150,000	300,000	0.05%
Liu Wing Ting, Stephen	Beneficial owner	150,000	–	150,000	300,000	0.05%
Lee Tat Yee	Beneficial owner	150,000	–	150,000	300,000	0.05%
Lee Joo Hai	Beneficial owner	–	–	100,000	100,000	0.02%

## DIRECTORS' INTERESTS IN SHARES (Continued)

Notes:

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

### Interests in associated corporations of the Company

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".

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

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, 2006.

## SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 28 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, 2006	Granted during the year	Exercised during the year	At 31st December, 2006			
Category 1: Directors							
Siu Tit Lung	–	150,000	–	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Siu Yuk Lung	–	150,000	–	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Mak Koon Chi	–	500,000	–	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Wai Lung Shing	–	500,000	–	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Fung Wai Hing	–	500,000	–	500,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Chan Chun Sing, Colin	–	150,000	–	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Liu Wing Ting, Stephen	150,000	–	(150,000)	–	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
	–	150,000	–	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Lee Tat Yee	–	150,000	–	150,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Lee Joo Hai	–	100,000	–	100,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Total	150,000	2,350,000	(150,000)	2,350,000			



**SHARE OPTIONS** *(Continued)*

	Number of share options				Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2006	Granted during the year	Exercised during the year	At 31st December, 2006			
Category 2: Employees							
	296,000	–	(178,000)	118,000	25th May, 2004	25th November, 2004 to 24th May, 2007	3.30
	–	4,330,000	–	4,330,000	3rd November, 2006	4th November, 2007 to 3rd November, 2010	3.82
Total	296,000	4,330,000	(178,000)	4,448,000			
Total all categories	446,000	6,680,000	(328,000)	6,798,000			

The closing price of the Company's shares immediately before 3rd November, 2006, the date of grant of the 2006 options was HK\$3.82.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was approximately HK\$5.003.

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

**SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2006, 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	40.16%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.45%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.45%
Commonwealth Bank of Australia	Interest of controlled corporation	56,016,108	9.03%

### **SUBSTANTIAL SHAREHOLDERS** *(Continued)*

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

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2006.

### **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.

### **CONNECTED TRANSACTIONS**

During the year ended 31st December, 2006, the Group had the following connected transactions:

- (1) On 15th June, 2006, the Company and Mr. Karl Erik Helldin ("Mr. Helldin"), a director of LKM Heatlock Company Limited ("LKM Heatlock"), as guarantors provided a cross guarantee (the "Cross Guarantee") on a joint and several basis in favour of a bank in order to obtain the HK\$7,000,000 revolving credit facility to be made available by the bank for use by LKM Heatlock (the "Banking Facility"). The maximum liability of the Company and Mr. Helldin in respect of the Banking Facility under the Cross Guarantee is limited to HK\$7,000,000 and no division of such liability between the Company and Mr. Helldin is provided for thereunder.

LKM Heatlock is an indirect non wholly-owned subsidiary of the Company which is owned as to 70% by LKM (BVI) Limited ("LKM (BVI)"), a wholly-owned subsidiary of the Company, and 30% by Dynamic Allied Investments Limited ("Dynamic Allied"), a company wholly-owned by Mr. Helldin, a director of LKM Heatlock and Dynamic Allied, and his spouse.

**CONNECTED TRANSACTIONS** *(Continued)*

Since Mr. Helldin is a director of LKM Heatlock and Dynamic Allied and a controlling shareholder of Dynamic Allied, LKM Heatlock is an associate of Mr. Helldin and is thus a connected person of the Company within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Accordingly, the financial assistance provided by the Company and Mr. Helldin to LKM Heatlock by way of provision of the Cross Guarantee in respect of the Banking Facility to LKM Heatlock constitutes a connected transaction for the Company under the Listing Rules. An announcement dated 15th June, 2006 in respect of the transaction was published.

- (2) On 8th September, 2006, LKM (BVI) as vendor entered into an agreement ("the Agreement") with Zoto Company Limited ("Zoto") (a company which was owned as to 90% by Mr. Li Siu Cheung ("Mr. Li") and as to 10% by the spouse of Mr. Li) as purchaser and Mr. Li as shareholder of Sky Lucky Metal Limited ("Sky Lucky Metal") and Sky Lucky Steel Limited ("Sky Lucky Steel") in relation to the disposal of 60% interest in Sky Lucky Metal and 70% interest in Sky Lucky Steel by LKM (BVI) (the "Disposal").

As at 8th September, 2006, Sky Lucky Metal was an indirect non wholly-owned subsidiary of the Company, which was owned as to 60% by LKM (BVI), 30% by Mr. Li and 10% by Zoto. Sky Lucky Steel was an indirect non wholly-owned subsidiary of the Company, which was owned as to 70% by LKM (BVI) and 30% by Mr. Li. As Mr. Li was a director and a substantial shareholder of both Sky Lucky Metal and Sky Lucky Steel and hence a connected person of the Company under the Listing Rules. Accordingly, the signing of the Agreement constitutes a connected transaction for the Company under the Listing Rules. An announcement dated 8th September, 2006 in respect of the transaction was published and a circular dated 29th September, 2006 was sent to the shareholders of the Company.

The consideration for the Disposal was HK\$25,800,000, payable by Zoto in cash in the following manner:

- (a) HK\$12,000,000, being the first installment of the consideration, paid by Zoto on the date of completion of the Agreement, which was on 6th October, 2006;
- (b) HK\$2,760,000, being the second installment of the consideration, paid by Zoto before 1st January, 2007;
- (c) HK\$2,760,000, being the third installment of the consideration, payable by Zoto before 1st July, 2007;
- (d) HK\$2,760,000, being the fourth installment of the consideration, payable by Zoto before 1st January, 2008;
- (e) HK\$2,760,000, being the fifth installment of the consideration, payable by Zoto before 1st July, 2008; and
- (f) HK\$2,760,000, being the balance of the consideration, payable by Zoto before 31st December, 2008.

### CONNECTED TRANSACTIONS *(Continued)*

The Disposal represented a good opportunity for the Group to realise its investment and to streamline its business structure to focusing its resources on the development of other market segments, such as markets in the Eastern and North-Western China.

Upon completion of the Disposal on 6th October, 2006, the Group ceased to have any interest in Sky Lucky Metal or Sky Lucky Steel.

### CONTINUING CONNECTED TRANSACTIONS

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

As at 22nd December, 2005, Heyuan Lung Kee was an indirectly wholly-owned subsidiary of the Company. Dongguan Tin Cheung was a wholly-owned subsidiary of Sky Lucky Metal, a 60% owned subsidiary of the Company and Mr. Li was a director and a substantial shareholder who has direct and/or indirect control of 40% of the voting rights of Sky Lucky Metal, which was owned as to 30% by Mr. Li and 10% by Zoto, a company owned as to 90% by Mr. Li. As Dongguan Tin Cheung was an associate of Mr. Li, who was a connected person of the Company, the transactions contemplated under the 2005 Products Sale and Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules. An announcement dated 22nd December, 2005 in respect of the transactions was published.

The sale of the Products by Heyuan Lung Kee to Dongguan Tin Cheung under the 2005 Products Sale and Purchase Agreement totaled approximately HK\$6,400,000 for the year ended 31st December, 2006.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors of the Company (the "Board") engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the Board. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## CONTINUING CONNECTED TRANSACTIONS *(Continued)*

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

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

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

Reference was made to the transaction of the Disposal, which was disclosed in the abovementioned section "Connected Transactions", the Group ceased to have any interest in Sky Lucky Metal since the completion date of the Disposal (i.e. 6th October, 2006).

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

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

## SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st December, 2006 until the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public.

### PRE-EMPTIVE RIGHTS

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

### EMOLUMENT POLICY

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

The Company has adopted a share option scheme in 2002. Details of the scheme are set out in note 28 to the financial statements.

### CORPORATE GOVERNANCE

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

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 7 to 13 and "Audit Committee Report" from pages 14 to 15.

### INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

### CHARITABLE DONATIONS

The Group made charitable and other donations amounting to approximately HK\$701,000 during the year.

### AUDITOR

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

On behalf of the Board

**Siu Yuk Lung**

*Managing Director*

Hong Kong, 30th March, 2007

**TO THE SHAREHOLDERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED***(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 71, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

**Auditor's responsibility**

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

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

## Independent Auditor's Report

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

30th March, 2007



# Consolidated Income Statement

For the year ended 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	7	2,135,360	1,899,482
Other income	9	20,954	25,330
Increase in fair value of investment properties		6,900	7,700
Changes in inventories of finished goods and work in progress		53,086	6,415
Raw materials and consumables used		(1,128,127)	(902,121)
Employee benefits expenses		(371,020)	(308,738)
Depreciation and amortisation of property, plant and equipment		(144,495)	(119,916)
Other expenses		(359,778)	(292,689)
Finance costs	10	(30,791)	(19,245)
Impairment loss recognised in respect of goodwill		–	(9,060)
Impairment loss recognised in respect of patents and trademarks		–	(1,056)
Profit before taxation		182,089	286,102
Taxation	12	(31,021)	(40,185)
Profit for the year	13	151,068	245,917
Attributable to:			
Equity holders of the Company		150,463	240,861
Minority shareholders		605	5,056
Profit for the year		151,068	245,917
Dividends declared during the year	14	96,080	117,719
Proposed final dividend of HK6.5 cents (2005: HK11 cents) per share	14	40,300	68,180
Earnings per share			
– Basic	15	24.27 cents	38.88 cents
– Diluted	15	24.27 cents	38.87 cents

# Consolidated Balance Sheet

At 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment properties	16	38,800	35,700
Property, plant and equipment	17	846,360	708,280
Prepaid lease payments – non-current portion	18	42,760	39,313
Deposit paid for acquisition of property, plant and equipment		6,426	16,883
Deferred consideration receivable – non-current portion	21	7,622	–
		<b>941,968</b>	800,176
Current assets			
Inventories	19	623,680	531,036
Trade and other receivables	20	543,351	469,751
Bills receivable	20	42,242	48,564
Deferred consideration receivable – current portion	21	5,391	–
Prepaid lease payments – current portion	18	1,000	914
Taxation recoverable		3,114	4,979
Bank balances and cash	22	149,938	150,582
		<b>1,368,716</b>	1,205,826
Current liabilities			
Trade and other payables	23	278,105	295,378
Bills payable	23	35,823	40,847
Taxation payable		34,263	46,806
Dividend payable		25	14
Unsecured bank borrowings	24	480,720	310,206
Bank overdraft	22	–	1,797
Floating rate notes	25	–	150,000
		<b>828,936</b>	845,048
Net current assets		<b>539,780</b>	360,778
Total assets less current liabilities		<b>1,481,748</b>	1,160,954
Non-current liability			
Bank loan	24	240,000	–
		<b>1,241,748</b>	1,160,954

# Consolidated Balance Sheet

At 31st December, 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	27	62,001	61,968
Reserves		1,182,350	1,074,529
Equity attributable to equity holders of the Company		1,244,351	1,136,497
Minority interests		(2,603)	24,457
		1,241,748	1,160,954

The financial statements on pages 31 to 71 were approved and authorised for issue by the Board of Directors on 30th March, 2007 and are signed on its behalf by:

**Siu Tit Lung**  
DIRECTOR

**Siu Yuk Lung**  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Equity attributable to equity holdings of the Company								
	Share capital HK\$'000	Share premium HK\$'000	PRC statutory reserve (Note) HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January, 2005	61,881	112,208	51,017	1,496	–	764,939	991,541	20,862	1,012,403
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	18,943	–	–	18,943	539	19,482
Profit for the year	–	–	–	–	–	240,861	240,861	5,056	245,917
Total recognised income and expense for the year	–	–	–	18,943	–	240,861	259,804	5,595	265,399
Final dividend declared for the year ended 31st December, 2004	–	–	–	–	–	(61,952)	(61,952)	–	(61,952)
Shares issued on exercise of share options	87	2,784	–	–	–	–	2,871	–	2,871
Interim dividend declared	–	–	–	–	–	(55,767)	(55,767)	(2,000)	(57,767)
Transfer	–	–	24,475	–	–	(24,475)	–	–	–
At 31st December, 2005	61,968	114,992	75,492	20,439	–	863,606	1,136,497	24,457	1,160,954
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	51,353	–	–	51,353	997	52,350
Profit for the year	–	–	–	–	–	150,463	150,463	605	151,068
Total recognised income and expense for the year	–	–	–	51,353	–	150,463	201,816	1,602	203,418
Recognition of equity-settled share based payments	–	–	–	–	1,035	–	1,035	–	1,035
Final dividend declared for the year ended 31st December, 2005	–	–	–	–	–	(68,180)	(68,180)	–	(68,180)
Shares issued on exercise of share options	33	1,050	–	–	–	–	1,083	–	1,083
Disposal of subsidiaries	–	–	–	–	–	–	–	(16,962)	(16,962)
Interim dividend declared	–	–	–	–	–	(27,900)	(27,900)	(12,000)	(39,900)
Capital injection	–	–	–	–	–	–	–	300	300
At 31st December, 2006	62,001	116,042	75,492	71,792	1,035	917,989	1,244,351	(2,603)	1,241,748

Note:

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

# Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		182,089	286,102
Adjustments for:			
Interest income		(2,741)	(4,524)
Interest expenses and finance charges		30,491	19,158
Share-based payment expense		1,035	–
Depreciation and amortisation of property, plant and equipment		144,495	119,916
(Reversal of) impairment loss recognised in respect of trade receivables		(200)	4,627
Impairment loss recognised in respect of goodwill		–	9,060
Impairment loss recognised in respect of patents and trademarks		–	1,056
Increase in fair value of investment properties		(6,900)	(7,700)
Release of prepaid lease payments		983	904
Gain on disposal of an investment property		(2,200)	–
Gain on disposal of property, plant and equipment		(59)	(637)
Loss on disposal of subsidiaries		445	–
Exchange differences		17,203	8,206
Operating cash flows before movements in working capital		364,641	436,168
Increase in inventories		(85,796)	(59,123)
Increase in trade and other receivables		(79,538)	(42,713)
Decrease (increase) in bills receivable		5,807	(7,187)
(Decrease) increase in trade and other payables		(5,623)	63,839
Decrease in bills payable		(5,101)	(11,116)
Cash generated from operations		194,390	379,868
Income tax paid		(36,231)	(55,891)
Income tax refunded		–	10
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>158,159</b>	<b>323,987</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(270,032)	(303,905)
Increase in prepaid lease payment		(4,438)	–
Disposal of subsidiaries	29	(1,799)	–
Interest received		2,741	4,524
Proceeds on disposal of an investment property		6,000	–
Proceeds on disposal of property, plant and equipment		4,939	2,465
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(262,589)</b>	<b>(296,916)</b>

# Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK\$'000	2005 HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	440,470	74,770
Proceeds from new shares issued	1,083	2,871
Capital contributed by minority shareholder of a subsidiary	300	–
Repayment of floating rate notes	(150,000)	–
Dividends paid	(96,069)	(117,714)
Repayment of bank borrowings	(49,812)	(243,153)
Interest expenses and finance charges paid	(30,491)	(19,158)
Dividends paid to a minority shareholder of a subsidiary	(12,000)	(2,000)
Repayment of trust receipt loans	–	(14,730)
Repayment of obligations under finance leases	–	(2)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	103,481	(319,116)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(949)	(292,045)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	148,785	441,672
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,102	(842)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	149,938	148,785
Represented by:		
Bank balances and cash	149,938	150,582
Bank overdraft	–	(1,797)
	149,938	148,785

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are primary listed on The Stock Exchange of Hong Kong Limited and secondary listed on the Singapore Exchange Securities Trading Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the section "Corporate Information" in the annual report.

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

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 3. NEW STANDARDS, AMENDMENTS OR INTERPRETATIONS ISSUED BUT NOT EFFECTIVE

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

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>7</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC)-Int 12	Service Concession Arrangement <sup>8</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006

<sup>6</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1st January, 2009.

<sup>8</sup> Effective for annual periods beginning on or after 1st January, 2008.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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



## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represent amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

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

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

### Property, plant and equipment

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

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

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

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

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

### Impairment

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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

### Inventories

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

### Financial instruments

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial assets*

#### (a) Loans and receivables

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

### *Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### (a) Financial liabilities

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

#### (b) Equity instruments

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

### *Derecognition*

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment transactions

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005.

### Equity-settled share-based payment transactions

#### (a) *Share options granted to directors and employees*

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

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

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Impairment loss on trade receivables

The impairment loss on trade receivables of the Group is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. As at 31st December, 2006, the carrying value of trade receivables (net of impairment loss of approximately HK\$47 million) is approximately HK\$466 million. When the actual cash receipts are less than expected, a material impairment loss may arise.

## 6. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives and policies

The Company's major financial instruments include trade and other receivables, trade and other payables and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

##### *Interest rate risk*

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

##### *Foreign currency risk*

The Company's principal subsidiaries operate in the People's Republic of China (the "PRC") and most of the transactions between the Company and its PRC subsidiaries are denominated and settled in Renminbi ("RMB"). RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group uses forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

#### *Credit risk*

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors.

In order to minimise the credit risk, management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

## 7. TURNOVER

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

	2006 HK\$'000	2005 HK\$'000
Manufacture and marketing of mould bases	1,962,712	1,718,977
Manufacture and marketing of metal and parts	172,648	180,505
	2,135,360	1,899,482

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

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

Principal activities are as follows:

Mould bases	–	Manufacture and marketing of mould bases
Metal and parts	–	Manufacture and marketing of metal and parts

Segmental information about these businesses is presented below.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (a) Business segments *(Continued)*

For the year ended 31st December, 2006

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER – External sales	1,962,712	172,648	2,135,360
RESULTS			
Segment results	218,347	18,661	237,008
Increase in fair value of investment properties			6,900
Unallocated corporate income			20,954
Unallocated corporate expenses			(51,537)
Finance costs			(30,791)
Loss on disposal of subsidiaries			(445)
PROFIT BEFORE TAXATION			182,089
Taxation			(31,021)
PROFIT FOR THE YEAR			151,068
OTHER INFORMATION			
Capital expenditure	267,470	13,019	280,489
Depreciation and amortisation of property, plant and equipment	142,637	1,858	144,495
Assets			
Segment assets	2,008,384	183,312	2,191,696
Unallocated corporate assets			118,988
Consolidated total assets			2,310,684
Liabilities			
Segment liabilities	286,403	24,484	310,887
Unallocated corporate liabilities			758,049
Consolidated total liabilities			1,068,936

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (a) Business segments *(Continued)*

For the year ended 31st December, 2005

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
TURNOVER – External sales	1,718,977	180,505	1,899,482
RESULTS			
Segment results	292,421	34,865	327,286
Increase in fair value of investment properties			7,700
Unallocated corporate income			25,330
Unallocated corporate expenses			(54,969)
Finance costs			(19,245)
PROFIT BEFORE TAXATION			286,102
Taxation			(40,185)
PROFIT FOR THE YEAR			245,917
OTHER INFORMATION			
Capital expenditure	274,043	30,052	304,095
Depreciation and amortisation of property, plant and equipment	118,256	1,660	119,916
Impairment loss recognised in respect of trade receivables	3,869	758	4,627
Impairment loss recognised in respect of goodwill	9,060	–	9,060
Impairment loss recognised in respect of patents and trademarks	–	1,056	1,056

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (a) Business segments *(Continued)*

	Mould bases HK\$'000	Metal and parts HK\$'000	Total HK\$'000
Assets			
Segment assets	1,732,235	172,863	1,905,098
Unallocated corporate assets			100,904
Consolidated total assets			2,006,002
Liabilities			
Segment liabilities	305,876	27,035	332,911
Unallocated corporate liabilities			512,137
Consolidated total liabilities			845,048

### (b) Geographical segments

The Group operates in the following geographical market segments – the PRC (including Hong Kong) and other countries.

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

	Turnover	
	2006 HK\$'000	2005 HK\$'000
The PRC	1,789,638	1,560,828
Other countries	345,722	338,654
	2,135,360	1,899,482

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (b) Geographical segments *(Continued)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The PRC	2,032,227	1,743,875	276,505	297,111
Other countries	159,469	161,223	3,984	6,984
	2,191,696	1,905,098	280,489	304,095

## 9. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of an investment property	2,200	–
Gain on disposal of property, plant and equipment	59	637
Interest income	2,741	4,524
Rental income, net of direct operating expenses from investment properties that generated rental income of approximately HK\$253,000 (2005: HK\$257,000)	2,580	2,013
PRC tax refund on capital reinvestment in subsidiaries	8,441	15,245
Sundry income	4,933	2,911
	20,954	25,330

## 10. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Arrangement fee for bank loans	300	87
Interest on		
– bank borrowings wholly repayable within five years	29,564	13,964
– floating rate notes	927	5,194
	30,791	19,245

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 11. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2005: nine) directors were as follows:

### 2006

	Siu Tit Lung HK\$'000	Siu Yuk Lung HK\$'000	Mak Koon Chi HK\$'000	Wai Lung Shing HK\$'000	Fung Wai Hing HK\$'000	Chan Chun Sing, Colin HK\$'000	Liu Wing Ting, Stephen HK\$'000	Lee Tat Yee HK\$'000	Lee Joo Hai HK\$'000	Total HK\$'000
Fees	-	-	-	-	-	585	430	469	391	1,875
Other emoluments										
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	-	-	-	-	18,408
Contributions to retirement benefits schemes	713	713	214	214	171	-	-	-	-	2,025
Bonus (Note)	3,000	3,000	3,300	3,300	2,300	-	-	-	-	14,900
Share-based payments	23	23	77	77	77	23	23	23	15	361
Total emoluments	10,216	10,216	5,535	5,535	4,108	608	453	492	406	37,569

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

### 2005

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

No directors waived any emoluments during the year ended 31st December, 2006.

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 12. TAXATION

	2006 HK\$'000	2005 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	128	112
Underprovision in prior year	4,223	11
	4,351	123
Taxation in jurisdictions outside Hong Kong		
Current year	29,872	40,415
Overprovision in prior year	(3,202)	(353)
	26,670	40,062
	31,021	40,185

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 12. TAXATION (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	182,089	286,102
Tax at PRC income tax rate of 24% (Note)	43,701	68,664
Tax effect of non-deductible expenses	2,866	6,179
Tax effect of non-taxable income	(3,535)	(6,056)
Tax effect of utilisation of tax losses not previously recognised	(618)	(2,540)
Tax effect of unused tax losses not recognised	7,476	6,970
Under(over)provision in prior year	1,021	(342)
Tax effect of tax reduction granted to PRC subsidiaries	(22,311)	(34,331)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,421	1,641
Tax expense for the year	31,021	40,185

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

Details of deferred taxation are set out in note 26.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 13. PROFIT FOR THE YEAR

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration		
– Current year	2,660	2,590
– Over provision in prior year	(192)	(250)
(Reversal of) impairment loss recognised in respect of trade receivables (included in other expenses)	(200)	4,627
Loss on disposal of subsidiaries	445	–
Net exchange loss	5,665	6,548
Operating lease rentals in respect of:		
– rented premises	9,179	6,714
– plant and machinery	76	44
Release of prepaid lease payment	983	904
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$1,282,000 (2005: HK\$644,000)	19,539	13,715

## 14. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Dividends declared to equity holders of the Company:		
2006 interim dividend of HK4.5 cents per share	27,900	–
2005 final dividend of HK11 cents per share	68,180	–
2005 interim dividend of HK9 cents per share	–	55,767
2004 final dividend of HK10 cents per share	–	61,952
Total dividends declared during the year	96,080	117,719

The directors have determined that a final dividend of HK6.5 cents (2005: HK11 cents) per share amounting to approximately HK\$40,300,000 (2005: HK\$68,180,000) should be paid to the shareholders of the Company whose names appear in the register of members on 7th May, 2007.



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 15. EARNINGS PER SHARE

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

	2006	2005
Profit attributable to equity holders of the Company (HK\$'000)	150,463	240,861
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	619,917,084	619,464,202
Effect of dilutive potential ordinary shares on exercise of share options of the Company	71,399	256,976
Weighted average number of ordinary shares for the purpose of diluted earnings per share	619,988,483	619,721,178

## 16. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2005	28,000
Increase in fair value recognised in the income statement	7,700
At 1st January, 2006	35,700
Increase in fair value recognised in the income statement	6,900
Disposals	(3,800)
At 31st December, 2006	38,800

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

The fair value of the Group's investment properties at 31st December, 2006 have been arrived at on the basis of a valuation carried out on that date by C S Surveyors Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's property interests held under medium-term operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. As at 31st December, 2006, the carrying amount of such property interests amounted to HK\$38,800,000 (2005: HK\$35,700,000).

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 17. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	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
<b>AT COST</b>							
At 1st January, 2005	22,694	231,508	128,145	731,360	40,297	13,835	1,167,839
Currency realignment	–	4,331	1,093	12,502	230	265	18,421
Transfer	–	25,872	449	3,339	682	(30,342)	–
Additions	–	201	17,022	209,195	11,694	65,983	304,095
Disposals	(1,377)	–	(739)	(778)	(2,910)	–	(5,804)
At 1st January, 2006	21,317	261,912	145,970	955,618	49,993	49,741	1,484,551
Currency realignment	–	10,490	4,825	39,295	1,314	2,042	57,966
Transfer	–	119,103	185	216	–	(119,504)	–
Additions	–	14,919	36,801	152,407	8,626	67,736	280,489
Disposal of subsidiaries	–	(4,031)	(5,210)	(53,920)	(724)	–	(63,885)
Disposals	–	(2,373)	(3,354)	(3,630)	(5,054)	–	(14,411)
At 31st December, 2006	21,317	400,020	179,217	1,089,986	54,155	15	1,744,710
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2005	–	23,874	77,102	521,234	26,987	–	649,197
Currency realignment	–	348	697	9,916	173	–	11,134
Provided for the year	–	5,163	13,524	93,660	7,569	–	119,916
Eliminated on disposals	–	–	(568)	(498)	(2,910)	–	(3,976)
At 1st January, 2006	–	29,385	90,755	624,312	31,819	–	776,271
Currency realignment	–	1,201	3,112	29,096	1,005	–	34,414
Provided for the year	–	5,794	15,976	113,367	9,358	–	144,495
Disposal of subsidiaries	–	(900)	(4,364)	(41,431)	(643)	–	(47,338)
Eliminated on disposals	–	(648)	(3,093)	(1,301)	(4,450)	–	(9,492)
At 31st December, 2006	–	34,832	102,386	724,043	37,089	–	898,350
<b>CARRYING VALUES</b>							
At 31st December, 2006	21,317	365,188	76,831	365,943	17,066	15	846,360
At 31st December, 2005	21,317	232,527	55,215	331,306	18,174	49,741	708,280

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

Freehold land is not depreciated.

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

The carrying value of land and buildings of the Group comprises:

	2006 HK\$'000	2005 HK\$'000
Freehold land outside Hong Kong	21,317	21,317
Building held under medium-term leases outside Hong Kong	365,188	232,527
	<b>386,505</b>	253,844

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

## 18. PREPAID LEASE PAYMENTS

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

	2006 HK\$'000	2005 HK\$'000
Analysed for reporting purposes as:		
Non-current asset	42,760	39,313
Current asset	1,000	914
	<b>43,760</b>	40,227

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 19. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	484,919	445,361
Work in progress	122,726	73,303
Finished goods	16,035	12,372
	<b>623,680</b>	531,036

The cost of inventories recognised as an expense during the year of the Group amounted to approximately HK\$1,620 million (2005: HK\$1,326 million).

## 20. TRADE, BILLS AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade receivables	512,889	479,854
Less: accumulated impairment	(46,874)	(48,051)
	<b>466,015</b>	431,803
Other receivables	77,336	37,948
Total trade and other receivables	<b>543,351</b>	469,751
Bills receivable	42,242	48,564

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

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

	2006 HK\$'000	2005 HK\$'000
0 to 60 days	342,926	305,277
61 to 90 days	94,885	92,754
Over 90 days	70,446	82,336
	<b>508,257</b>	480,367

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 21. DEFERRED CONSIDERATION RECEIVABLE

The consideration receivable is in connection with the disposal of certain subsidiaries during the year, details of which are set out in note 29. The amount is unsecured, interest free and repayable by different instalments with final instalment due in December 2008. Fair value of the consideration receivable is determined using an effective interest rate of 5%. The carrying amount is analysed for reporting purposes as follows:

	2006 HK\$'000	2005 HK\$'000
Analysed as:		
Non-current	7,622	–
Current	5,391	–
	<b>13,013</b>	–

## 22. BANK BALANCES/BANK OVERDRAFTS

### Bank balances

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The bank deposits carry interest rates ranged from 1.75% to 7.9%.

### Bank overdrafts

Bank overdrafts in the prior year carry interest at market rates which range from 7.75% to 8%.

## 23. TRADE, BILLS AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$133,771,000 (2005: HK\$151,856,000).

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

	2006 HK\$'000	2005 HK\$'000
0 to 60 days	120,409	137,007
61 to 90 days	29,194	25,483
Over 90 days	19,991	30,213
	<b>169,594</b>	192,703

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 24. UNSECURED BANK BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Bank loans	720,720	310,206
Less: Amounts due within one year shown under current liabilities	(480,720)	(310,206)
Amounts due after one year	240,000	–

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

	Denominated in HK\$	Denominated in Singapore \$
As at 31st December, 2005	30,000,000	42,920,000
As at 31st December, 2006	80,000,000	42,920,000

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

The effective borrowing rate of the Group ranged from 2.63% to 5.83% (2005: 1.77% to 5.45%).

During the year, the Group obtained new loans with an aggregate amounts of approximately HK\$440 million. The proceeds were used to finance the repayment of floating rate notes, the acquisition of property, plant and equipment and for working capital purpose.

## 25. 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 carried interest at HIBOR plus 1% and were guaranteed by the Company. The FRNs had been fully repaid during the year.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 26. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Revaluation of investment property HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2005	1,252	–	(1,252)	–
Charge (credit) for the year	106	–	(106)	–
At 31st December, 2005	1,358	–	(1,358)	–
(Credit) charge for the year	(481)	598	(117)	–
At 31st December, 2006	877	598	(1,475)	–

At the balance sheet date, the Group had unused tax losses of approximately HK\$107,000,000 (2005: HK\$67,000,000) available for offset against future profits that are subject to Hong Kong Profits Tax. A deferred tax asset amounting to approximately HK\$1,475,000 (2005: HK\$1,358,000) in respect of tax loss amounted to approximately HK\$8,428,000 (2005: HK\$7,760,000) has been recognised. No deferred tax asset has been recognised in respect of the remaining unused tax losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

## 27. 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, 2005	1,000,000,000	100,000	618,807,303	61,881
Shares issued on exercise of share options	–	–	870,000	87
At 31st December, 2005	1,000,000,000	100,000	619,677,303	61,968
Shares issued on exercise of share options	–	–	328,000	33
At 31st December, 2006	1,000,000,000	100,000	620,005,303	62,001

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 28. 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.



**28. SHARE OPTION SCHEME** *(Continued)*

During the year, 6,680,000 share options with an exercise price of HK\$3.82 per share were granted on 3rd November, 2006. The estimated fair value of the options granted on 3rd November, 2006 is approximately HK\$6,553,000. This fair value was calculated using the Binomial Lattice Model. The inputs into the model are as follows:

Closing price of the Company's share at the date of grant	HK\$3.82
Exercise price	HK\$3.82
Expected volatility	40% per annum
Expected life	3.49 years
Risk-free rate of interest	3.74% per annum
Expected dividend yield	5% per annum

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

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

The Group recognised the total expenses of approximately HK\$1,035,000 (2005: Nil) for the year in relation to the share options granted by the Company.

At 31st December, 2006, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 6,798,000 (2005: 446,000), representing 1.1% of the shares of the Company in issue at that date.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 28. SHARE OPTION SCHEME (Continued)

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, 2005 and 2006:

Exercise price HK\$	Date of grant	Vesting period	Exercisable period	Outstanding at 1.1.2005	Exercised during the year ended 31.12.2005	Outstanding at 31.12.2005 and 1.1.2006	Granted during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006
3.30	25.5.2004	6 months	25.11.2004 – 24.5.2007	1,316,000	(870,000)	446,000	–	(328,000)	118,000
3.82	3.11.2006	1 year	4.11.2007 – 3.11.2010	–	–	–	6,680,000	–	6,680,000

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

Exercise price HK\$	Outstanding at 1.1.2005	Exercised during the year ended 31.12.2005	Outstanding at 31.12.2005 and 1.1.2006	Granted during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006
3.30	300,000	(150,000)	150,000	–	(150,000)	–
3.82	–	–	–	2,350,000	–	2,350,000

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

In respect of the share options exercised during the year, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$5.003 (2005: HK\$5.138).

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 29. DISPOSAL OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 8th September, 2006 entered into between the minority shareholder of the Group and the Group, the Group agreed to dispose of its entire interests in certain subsidiaries at a consideration of HK\$25,800,000.

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

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

The subsidiaries disposed of during the year did not have significant contribution to the Group's operating results and cash flows.

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 30. CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	13,893	147,140

## 31. 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	
	2006 HK\$'000	2005 HK\$'000
Within one year	7,425	5,602
In the second to fifth year inclusive	12,911	6,003
Over five years	–	880
	20,336	12,485

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

### The Group as lessor

Property rental income earned during the year was approximately HK\$2,837,000 (2005: HK\$2,270,000).

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

	2006 HK\$'000	2005 HK\$'000
Within one year	965	1,356
In the second to third year inclusive	–	635
	965	1,991

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

## 32. RETIREMENT BENEFITS SCHEME

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

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

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

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

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

The total cost charged to the consolidated income statement of approximately HK\$19,539,000 (2005: HK\$13,715,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2006, contributions of approximately HK\$431,000 (2005: HK\$391,000) due in respect of the reporting period had not been paid over to the schemes.

## 33. RELATED PARTY TRANSACTIONS

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

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

	2006 HK\$'000	2005 HK\$'000
Short-term benefits	35,183	42,956
Post-employment benefits	2,025	2,025
Share-based payments	361	–
	37,569	44,981

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 34. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2006 is as follows:

	Note	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Investment in a subsidiary		55,856	55,856
Loans to subsidiaries		17,000	17,000
		<b>72,856</b>	72,856
Current assets			
Amounts due from subsidiaries		255,194	246,851
Prepayments		310	328
Bank balances		103	123
		<b>255,607</b>	247,302
Current liabilities			
Accrued charges		846	516
Amount due to a subsidiary		227	115,635
Dividend payable		25	14
		<b>1,098</b>	116,165
Net current assets		<b>254,509</b>	131,137
		<b>327,365</b>	203,993
<b>CAPITAL AND RESERVES</b>			
Share capital		62,001	61,968
Share premium	(a)	116,042	114,992
Share options reserve	(a)	1,035	–
Accumulated profits	(a)	148,287	27,033
		<b>327,365</b>	203,993

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 34. BALANCE SHEET OF THE COMPANY (Continued)

Note:

### (a) Reserves

	Share premium HK\$'000	Share options reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2005	112,208	–	761	112,969
Final dividend declared for the year ended 31st December, 2004	–	–	(61,952)	(61,952)
Shares issued on exercise of share options	2,784	–	–	2,784
Profit for the year	–	–	143,991	143,991
Interim dividend declared	–	–	(55,767)	(55,767)
At 31st December, 2005	114,992	–	27,033	142,025
Recognition of equity-settled share based payments	–	1,035	–	1,035
Final dividend declared for the year ended 31st December, 2005	–	–	(68,180)	(68,180)
Shares issued on exercise of share options	1,050	–	–	1,050
Profit for the year	–	–	217,334	217,334
Interim dividend declared	–	–	(27,900)	(27,900)
At 31st December, 2006	116,042	1,035	148,287	265,364

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company as at 31st December, 2006 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company	Principal activities
河源龍記金屬製品 有限公司 Heyuan Lung Kee Metal Products Co., Ltd.	The PRC	HK\$450,870,000 (note a)	100	Manufacturing and marketing of mould bases
LKM Heatlock Company Limited	Hong Kong	HK\$1,000,000	70	Trading of hot runner system
Lung Kee International Limited	Hong Kong	HK\$2 ordinary shares HK\$2,000,002 non-voting deferred shares (note b)	100	Investment holding
Lung Kee Metal Japan Company Limited	Japan	JPY300,000,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	RM750,000	100	Manufacturing and marketing of mould bases



# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006

## 35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company	Principal activities
Lung Kee Metal Limited	Hong Kong	HK\$2 ordinary shares HK\$10,000,002 non-voting deferred shares (note b)	100	Manufacturing and marketing of mould bases
龍記鋼材製品 (廣州保稅區)有限公司 Lung Kee Steel Products (Guangzhou Free Trade Zone) Co. Ltd.	The PRC	HK\$111,000,000 (note a)	100	Manufacturing and marketing of mould bases
上海龍記金屬製品 有限公司 Shanghai Lung Kee Metal Products Co., Ltd.	The PRC	US\$11,600,000 (note a)	100	Manufacturing and marketing of mould bases
仕霸工業股份有限公司 Taiwan Supertech Industrial Company Limited	Republic of China	NT\$36,000,000	70	Manufacturing and marketing of mould bases
台州龍記金屬製品 有限公司 Taizhou Lung Kee Metal Products Co. Ltd.	The PRC	US\$6,000,000 (note a)	100	Manufacturing and marketing of mould bases

Notes:

- These companies are wholly-owned foreign enterprises established in the PRC.
- 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.

# Financial Summary

## Results

	1st April, 2002 to 31st December, 2002 (9 months) HK\$'000	2003 HK\$'000	Year ended 31st December,			2006 HK\$'000
		2004 HK\$'000	2005 HK\$'000			
TURNOVER	801,393	1,209,613	1,599,505	1,899,482		<b>2,135,360</b>
PROFIT BEFORE TAXATION	119,931	187,449	268,692	286,102		<b>182,089</b>
TAXATION	(16,747)	(27,870)	(43,702)	(40,185)		<b>(31,021)</b>
PROFIT FOR THE YEAR/PERIOD	103,184	159,579	224,990	245,917		<b>151,068</b>
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	93,360	157,255	220,113	240,861		<b>150,463</b>
PROFIT ATTRIBUTABLE TO MINORITY INTERESTS	9,824	2,324	4,877	5,056		<b>605</b>
PROFIT FOR THE YEAR/PERIOD	103,184	159,579	224,990	245,917		<b>151,068</b>

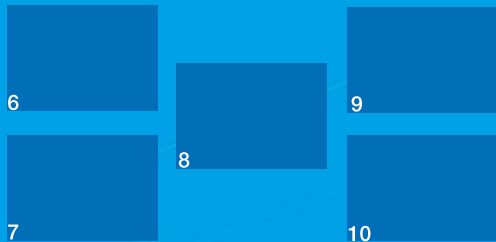
## Assets and liabilities

	At 31st December,				2006 HK\$'000
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	
TOTAL ASSETS	1,749,161	1,830,757	1,997,743	2,006,002	<b>2,310,684</b>
TOTAL LIABILITIES	(978,419)	(965,005)	(985,340)	(845,048)	<b>(1,068,936)</b>
NET ASSETS	770,742	865,752	1,012,403	1,160,954	<b>1,241,748</b>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	750,034	853,983	991,541	1,136,497	<b>1,244,351</b>
MINORITY INTERESTS	20,708	11,769	20,862	24,457	<b>(2,603)</b>
TOTAL EQUITY	770,742	865,752	1,012,403	1,160,954	<b>1,241,748</b>

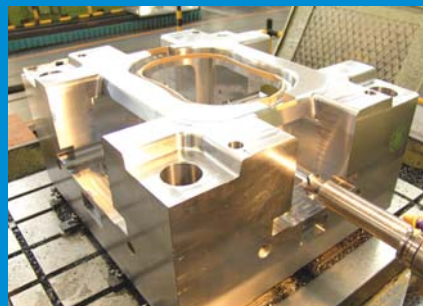
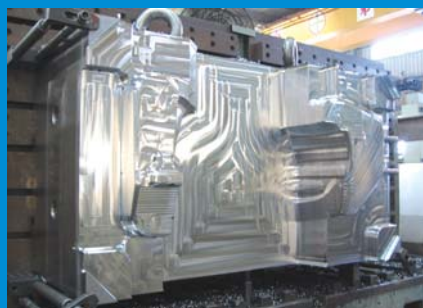
The adoption of new accounting standards in 2006 has no material impact to the Group.

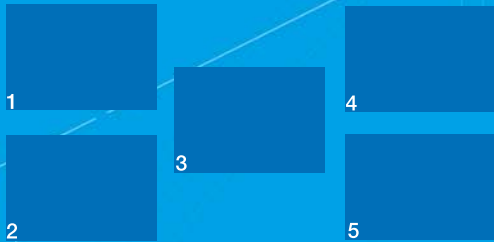
## Investment properties

Location	Type of properties	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 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



- 6. Mould base of a large size household product 大型家庭用品模架
- 7. Mould base of a product casing with five face, high precision pocket 五面加工、精成型機殼模架
- 8. Nozzle, manifold and temperature control sets of hot runner system 熱膠道系統之熱咀、流道板及溫控箱組合
- 9. Excel-TiN coated plastics mould 經Excel-TiN功能塗層處理之塑膠模具
- 10. High precision, multi-angle precision mould base 高精度、多角度成型精框模架





1. Production line for standard mould bases 標準模架生產線
2. Mould part to be oil quenched to get higher hardness 模具零件通過油冷而提高硬度
3. New factory buildings at Heyuan plant, the PRC 中國河源廠區新廠房
4. Mould base of an automobile's interior part with precision pocket 汽車內飾件模架型框
5. Precision pocket for an automobile mould base 精成型汽車模架

