



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



Annual Report

2012

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Corporate Information

EXECUTIVE DIRECTORS

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

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 Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

M & C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

20th Floor
Crocodile Center
79 Hoi Yuen Road
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, 2012.

BUSINESS REVIEW

The Group's revenue in the year ended 31st December, 2012 was approximately HK\$2,402 million (2011: approximately HK\$2,532 million). Profit attributable to owners of the Company in the year ended 31st December, 2012 was approximately HK\$197 million (2011: approximately HK\$278 million). Basic earnings per share in the year ended 31st December, 2012 was HK31.13 cents (2011: HK44.03 cents).

During the period under review, as dragged by the debt crisis burst out in Euro zone, the global economy remained in a vulnerable state. Though the Group's productivity maintained at the same level without much change, its turnover still recorded a recession.

PROSPECTS

Debt issues in European countries have not yet been solved completely; the economic situation in Euro zone still remains unstable. However, its negative impact relatively lessens as compared with the past years. The economy of the United States shows signs of improvement that brings hope for revival to the global economy. The Group foresees that the global economy still fluctuates in coming months but it will turn good in long term. The Group, aims to pursuing an ongoing and stable growth in business development, continues to hold a prudent and positive view towards the market fluctuation.

Recently, the economic performance of European countries and the United States turns better and it is anticipated the export business of China continues to be improved. Furthermore, it is believed the policy and measures put forward by the new leadership of the Central Government of China will have indirect impact on the Group's business development in China. Following the urbanization and the uplift of average wage in China, the consumption market of automobile and household electrical appliances experiences continued boom and domestic consumption is still a major economic driver for the economic growth in China. As sales of automobile in China has topped the world in terms of volume, the Group will target further to the large sized automobile parts and components market in the hope to promote its business in high-end mould market. Furthermore, market development opportunity for household electrical appliances is enormous in views of the increasing demand for technical products such as computer, tablet personal computer and mobile phone as well as the energy-saving and environmental friendly products, thus it is expected that the market in China will revive gradually. However, disputes between China and Japan have not stopped and the tense relation between the two countries will hinder the Japan manufacturers' decision to invest in China, which, consequently, will have direct impact on the mould production and demand in China. The Group will monitor closely the ever-changing market situation and flexibly devise its market strategy and set its long-term development direction, in order to fortify its market leading position.

The Group continues to adopt effective measures to enhance its operation effectiveness in the hope to achieve stable and favorable business growth. Regarding the production in the Heyuan factory, Guangdong Province, China, through streamlining its production flow, discarding low efficient equipment, achieving a higher level of automation and reducing its reliance on manpower, the Group aims at uplifting its production capacity and reinforcing its product precision. It is expected that the precision mould base production

Chairman's Statement

workshop will continue to meliorate its production efficiency and technical skill, which will eventually reduce the operation cost. Furthermore, it helps the Group to explore into the in-depth machining services for the medium to high-end mould market and sustains its competitiveness. At the same time, for the new plant in Hangzhou city, Zhejiang Province, China, besides promoting and exploring its steel distribution business, full effort will be put in executing a smooth commencement of its mould base production by better coordinating its manpower, machineries and equipments in order to further extend its market share in the Eastern, Central and Northern region of China.

As influenced by inflation, the operation cost is expected to follow an upward trend. Owing to the skilled labor shortage, labor cost will be unavoidably increased in order to retain talents and recruit new competent members. In light of this, the Group endeavors to monitor its operation cost by implementing automation system and devising a time and labor saving production process; by promoting "green production" which advocates effective resources utilization and waste reduction, seeking to lower its operating cost as well as to uplift operation effectiveness.

Following the sluggish economic development, the Group expects that the cost of both imported and local mould steel will fluctuate according to the market situation but its range tends to be narrowed. The Group closely monitors the market situation and steel price changes and flexibly regulates its inventory level in order to lower its material cost.

Looking ahead, the operating environment is full of challenge and opportunity. The Group still upholds a positive attitude in facing every challenge. Resorted to the ample experience and the adoption of pragmatic policy, the Group will maintain continuous and long-term stable business growth.

Taking this opportunity, the Board of Directors would like to express our thanks to all staff for their contribution in pursuing excellence and continual improvement of the Group. Also, sincere gratitude is extended to our shareholders and business partners for their great support.

Siu Tit Lung
Chairman

Hong Kong, 22nd March, 2013

Management Discussion and Analysis

During the year ended 31st December, 2012, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of approximately HK\$2,402 million and earnings of approximately HK\$197 million for the year ended 31st December, 2012.

OPERATIONAL REVIEW

The global economy was still clouded by the debt crisis in Europe and the United States. Some European countries were forced to adopt fiscal contraction policy, which hindered their economic development. Being confused by the uncertainties in economic outlook, global consumption and capital investment dropped substantially. As a result, some new product investment projects were compelled to withdraw or withhold. The downturn of market in Europe and the United States exerted great pressure to the growth of export business of China. On the other hand, the Chinese government tightened credit control in banks to restrain inflation that led to a shortage of cash flow in market, further suppressing the consumption desire and resulting in a slow down in consumer market. Both the domestic and export markets showed a downward trend at the same time, consequently, demand for mould product reduced. In response to the fierce competition within the mould industry, the mould product price was further suppressed. To maintain its market share and its scale of production, the Group had to cope with the prevailing market situation and flexibly adjust its product price to scramble for orders. Thus, the Group's profit margin diminished.

The Group endeavored to control the growth rate of its operation costs. Yet, as influenced by the unfavorable external environment and prevailing high inflation rate, operation costs surged continuously in view of price hiking in oil and transportation cost. Moreover, labor shortage especially skilled technical labor also pushed up the labor cost. The uprising costs burdened the Group in operating its business, as a result, the Group's profit performance was further impeded.

During the period under review, the Group continued to develop and enhance its production plants located both in the Southern and Eastern regions in order to pursue its long-term development goal. The high precision mould base production workshop located in the Heyuan factory, Guangdong Province, China concentrated on producing high precision mould base for overseas markets including Europe, the United States and Japan, gradually uplifted its productivity. To meet the need of those overseas customers, the Group had to strive for manufacturing mould products with high precision and high quality. However, due to the shortage of skilled technical labor and it also took time for the high precision machineries to be ameliorated, present outfit and production capacity of the workshop was not fully utilized and its productivity only maintained at the production level in accordance with its past production scale. Though the preliminary target set by the Group was reached, the workshop performance still had ample rooms for improvement.

The construction work of the new plant in Hangzhou city, Zhejiang Province, China was delayed in completion, in this connection; the whole production plan had been delayed. The mould steel business started at year-end of 2012 and its preliminary operation run smoothly that further strengthened the steel business in Eastern Regions in China. For mould base production, machineries have been moved continuously to the new workshop but it takes time for them to set up, fix and test, thus, the trail production can only be started at second half of this year. On the other hand, the living zone and its facilities were improved, whereas recruitment and training of manpower progressed simultaneously. Turning to the

Management Discussion and Analysis

Shanghai plant in Eastern region in China, it stopped operation at January 2013 and its production lines and equipment had been successfully merged into the new plant in Hangzhou city.

The local mould steel price recorded a noticeable decrease but tending to rebound after reaching its lowest price. Regarding the imported steel, its price was relatively stable and the range of fluctuation was relatively small.

In conclusion, the Group still achieved a steady business development. Yet, owing to the slump in global economic situation and the uprising operation cost, the Group's profit, as compared with that in last year, showed a noticeable fall and its performance fell behind expectation.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2012, the Group had bank balances of approximately HK\$805 million. The bank balances were placed in short term deposits with major banks in Hong Kong and the PRC.

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

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

GEARING RATIO

Total debts of the Group were approximately HK\$221 million, equal to approximately 9% of equity attributable to owners of the Company of approximately HK\$2,413 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2012, the Group employed a total of approximately 5,100 employees, including approximately 4,700 employees in its PRC production sites and approximately 400 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.

CORPORATE GOVERNANCE PRACTICES

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, 2012, the Company complied with all code provisions as set out in the Code on Corporate Governance Practices (the “Code on CGP”) (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “HKSE”) (the “Listing Rules”)) and the Corporate Governance Code (the “CG Code”) (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1st April, 2012).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 for the year ended 31st December, 2012.

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.

As at the date of this report, the Board consists of six executive directors 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

Mr. Ting Chung Ho

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, JP

Dr. Lee Tat Yee

Mr. Lee Joo Hai

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.

Corporate Governance Report

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.

During the financial year ended 31st December, 2012, an annual general meeting was held and the Board held four regular meetings at approximately quarterly intervals. The attendance of each director is set out as follows:

Name of Director	Attendance at annual general meeting	Attendance at board meetings
<i>Executive directors</i>		
Mr. Siu Tit Lung (<i>Chairman</i>)	1/1	4/4
Mr. Siu Yuk Lung (<i>Managing Director</i>)	1/1	4/4
Mr. Mak Koon Chi	1/1	4/4
Mr. Wai Lung Shing	1/1	4/4
Mr. Fung Wai Hing	1/1	4/4
Mr. Ting Chung Ho	1/1	4/4
<i>Independent non-executive directors</i>		
Mr. Liu Wing Ting, Stephen, JP	1/1	4/4
Dr. Lee Tat Yee	1/1	4/4
Mr. Lee Joo Hai	1/1	4/4

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.

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.

The Board has delegated the responsibility for performing the corporate governance duties to the Audit Committee.

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

The directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board remain informed and relevant.

Corporate Governance Report

All directors have participated in continuous professional development and have provided to the Company the records of the training they received during the financial year ended 31st December, 2012. The individual training record of each director received for the year ended 31st December, 2012 is summarized below:

Name of Director	Briefings and updates on the business, operations and corporate governance matters	Attending seminars, workshops or exhibitions relevant to the business or directors' duties
<i>Executive directors</i>		
Mr. Siu Tit Lung (<i>Chairman</i>)	✓	✓
Mr. Siu Yuk Lung (<i>Managing Director</i>)	✓	✓
Mr. Mak Koon Chi	✓	✓
Mr. Wai Lung Shing	✓	✓
Mr. Fung Wai Hing	✓	✓
Mr. Ting Chung Ho	✓	✓
<i>Independent non-executive directors</i>		
Mr. Liu Wing Ting, Stephen, JP	✓	✓
Dr. Lee Tat Yee	✓	✓
Mr. Lee Joo Hai	✓	✓

THE CHAIRMAN AND THE MANAGING DIRECTOR

The Company segregates the role of Chairman from the Managing Director. 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.

NON-EXECUTIVE DIRECTORS

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

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 are also members of Audit Committee, Nomination Committee and Remuneration Committee.

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.

Corporate Governance Report

NOMINATION COMMITTEE

A Nomination Committee was established by the Company in 2004. As at the date of this report, the Nomination Committee comprises three independent non-executive directors of the Company, Mr. Lee Joo Hai, Mr. Liu Wing Ting, Stephen, JP and Dr. Lee Tat Yee. 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 terms of reference of the Nomination Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December, 2012, the Nomination Committee held four meetings. The attendance of each member is set out as follows:

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

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

The following was a summary of the work performed by the Nomination Committee in 2012:

1. 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.
2. assessed the independence of all the independent non-executive directors and reviewed the independent non-executive directors' confirmations on their independence.
3. nominated Mr. Siu Yuk Lung, Mr. Wai Lung Shing and Mr. Fung Wai Hing for the Board's recommendations to stand for election at the 2012 annual general meeting of the Company and reviewed the relevant sections in the circular to the shareholders of the Company.
4. interviewed with the Chairman and the Managing Director of the Company to realize their plans for succession.
5. reviewed the retirement policy of the Group to see if there was any update.
6. reviewed the relevant disclosures made in the Directors' Report of the 2011 annual report of the Company (the "Annual Report").
7. reviewed the Corporate Governance Report, which was included in the Annual Report.

8. reviewed the Group's compliance with the Code on CGP and the CG Code.
9. endorsed the revised terms of reference of the Nomination Committee.
10. launched the annual "Director's Self-Assessment Review".
11. considered those topics, which arose from the "Consultation Papers" and the "Consultation Conclusions" published by the HKSE.
12. considered other topics, which were requested by the Board and reviewed those relevant documents.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2004. As at the date of this report, the Remuneration Committee comprises three independent non-executive directors of the Company, Dr. Lee Tat Yee, Mr. Liu Wing Ting, Stephen, JP and Mr. Lee Joo Hai. 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 terms of reference of the Remuneration Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December, 2012, the Remuneration Committee held four meetings. The attendance of each member is set out as follows:

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

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.

The following was a summary of the work performed by the Remuneration Committee in 2012:

1. reviewed the Group's emolument policy and structure for the remuneration of directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.
2. 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 HKSE.

Corporate Governance Report

3. reviewed the New Share Option Scheme, which was adopted at the 2012 annual general meeting of the Company.
4. reviewed the relevant disclosures made in the Directors' Report of the Annual Report.
5. reviewed the Corporate Governance Report, which was included in the Annual Report.
6. reviewed the Group's compliance with the Code on CGP and the CG Code.
7. endorsed the revised terms of reference of the Remuneration Committee, which adopted, inter alia, the following model:

“to make recommendations to the board on the remuneration packages of individual executive directors and senior management”.
8. considered those topics, which arose from the “Consultation Papers” and the “Consultation Conclusions” published by the HKSE.
9. considered other topics, which were requested by the Board and reviewed those relevant documents.

Details of the remuneration of directors are disclosed on an individual basis and are set out in note 10 to the consolidated financial statements of the Group. As the members of the Board coincide with the members of the senior management of the Group and the remuneration of directors have been disclosed, no disclosure about the remuneration payable to members of senior management could be made.

AUDIT COMMITTEE

An Audit Committee was established by the Company in 1998. As at the date of this report, the Audit Committee comprises three independent non-executive directors of the Company, Mr. Liu Wing Ting, Stephen, JP, Dr. Lee Tat Yee and Mr. Lee Joo Hai, two of whom possess recognised professional qualifications in accounting and have wide experience in auditing and accounting. Mr. Liu Wing Ting, Stephen, JP 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 terms of reference of the Audit Committee are available on the website of the HKSE and the Company's website.

The Audit Committee has accepted the delegation of responsibility for performing the corporate governance duties.

During the financial year ended 31st December, 2012, 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 regular meetings, which included the meetings in conjunction with the release of the half year and full year results announcements.

Corporate Governance Report

During the financial year ended 31st December, 2012, the Audit Committee held four meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Mr. Liu Wing Ting, Stephen, JP (<i>Chairman</i>)	4/4
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.

The following was a summary of the work performed by the Audit Committee in 2012:

1. reviewed the Group's consolidated financial statements for the year ended 31st December, 2011 and the annual results announcement with a recommendation to the Board for approval.
2. reviewed the relevant disclosures made in the Directors' Report of the Annual Report.
3. reviewed the Corporate Governance Report and the Audit Committee Report, which were included in the Annual Report.
4. met with the external auditor without the presence of the executive directors of the Board.
5. reviewed the Group's consolidated financial statements for the period from 1st January, 2012 to 30th April, 2012 with a recommendation to the Board for approval.
6. reviewed the Group's consolidated financial statements for the six months period ended 30th June, 2012 and the interim results announcement with a recommendation to the Board for approval.
7. reviewed the Group's consolidated financial statements for the period from 1st January, 2012 to 31st October, 2012 with a recommendation to the Board for approval.
8. accepted the Board's delegation of the responsibility of the corporate governance duties.
9. endorsed the revised terms of reference of the Audit Committee, which adopted, inter alia, the following corporate governance duties:
 - “— to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board.
 - to review and monitor the training and continuous professional development of directors and senior management.

Corporate Governance Report

- to review and monitor the Group’s policies and practices on compliance with legal and regulatory requirements.
 - to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors.
 - to review the Group’s compliance with the CG Code and disclosure in the corporate governance report.”
10. reviewed the Group’s compliance with the Code on CGP and the CG Code.
 11. reviewed the annual internal audit plan submitted by the Group’s Internal Audit Department.
 12. reviewed the findings and recommendations submitted by the Group’s Internal Audit Department.
 13. reviewed the reports and management letters submitted by external auditor.
 14. considered the 2012 audit fees with a recommendation to the Board for approval.
 15. considered those topics, which arose from the “Consultation Papers” and the “Consultation Conclusions” published by the HKSE.
 16. considered other topics, which were requested by the Board and reviewed those relevant documents.

At the Audit Committee meeting on 22nd March, 2013, the Audit Committee reviewed the Group’s consolidated financial statements for the year ended 31st December, 2012 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 2013 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2013 annual general meeting of the Company.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

Corporate Governance Report

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

INTERNAL CONTROLS

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. Through the Internal Control Review Task Force, which was established by the Audit Committee, the Board reviews the effectiveness of the system of internal control of the Group and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. No material deficiencies have been identified so far. The Board opines that the Group's internal control system is effective and the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate. There are 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.

AUDITOR'S REMUNERATION

For the financial year ended 31st December, 2012, the fee paid/payable to the Group's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	2,630
Non-audit services	
– Interim review	460
– Taxation services	114
– Audit of provident fund	6
– Review of results announcement	43

COMPANY SECRETARY

Mr. Wai Lung Shing, an executive director of the Company, was appointed as Company Secretary of the Company on 15th December, 1992. Since Mr. Wai was appointed as Company Secretary on or before 31st December, 1994, he would be required to comply with rule 3.29 of the Listing Rules in relation to professional training for the financial year commencing on 1st January, 2017.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

(a) Convening of special general meetings on requisition by shareholders

Pursuant to Bye-law 58 of the New Bye-Laws of the Company, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitioners themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act.

The written requisition, duly signed by the shareholders concerned, must state the purpose of the meeting and must be deposited at the registered office of the Company.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 74 the Companies Act once a valid requisition is received.

(b) Procedures for putting forward proposals at general meetings by shareholders

The following shareholders can submit a written requisition to move a resolution at a general meeting of the Company:

- (i) any number of shareholders representing not less than one-twentieth (5%) of the total voting rights of all shareholders having at the date of the requisition a right to vote at the general meeting; or
- (ii) not less than one hundred (100) shareholders.

The written requisition specifying the resolution, duly signed by the shareholders concerned, together with a statement of not more than one thousand (1,000) words with respect to the matter referred to in the proposed resolution must be deposited at the registered office of the Company not less than six (6) weeks before the general meeting in case of a requisition requiring notice of a resolution and not less than one (1) week before the general meeting in case of any other requisition. The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned.

The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

(c) Procedures for directing shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Company's head office and principal place of business in Hong Kong at 20th Floor, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting enables the shareholders of the Company to exchange views with the Board. A notice of annual general meeting is sent to the shareholders of the Company at least 20 clear business days before the meeting. 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.

The chairman of the Board invites the company secretary of the Company to give an explanation of the detailed procedures for conducting a poll at the commencement of the annual general meeting. The company secretary of the Company answers any questions from the shareholders of the Company regarding voting by way of a poll.

INVESTOR RELATIONS

There is no change in the Company's constitutional documents during the financial year ended 31st December, 2012.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated statement of comprehensive income on page 30.

An interim dividend of HK6 cents per share amounting to approximately HK\$37,883,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK12 cents per share to shareholders registered on the register of members on 22nd May, 2013, amounting to approximately HK\$75,795,000 and the retention of the remaining profit.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 78.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2012 were revalued by an independent firm of qualified professional property valuers. The revaluation increase of HK\$37,000,000 has been recognised in the consolidated statement of comprehensive income. Details of the movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2012 are set out on page 79.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure in respect of factory premises and staff quarters at a cost of approximately HK\$103 million. The Group continued its plant expansion policy and expended approximately HK\$170 million on new plant and machinery and approximately HK\$13 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 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders as at 31st December, 2012 represented the retained profits of approximately HK\$473,989,000.

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 revenue for the year.

The Group's largest supplier contributed 22% to the total purchases for the year while the Group's five largest suppliers accounted for 65% of the total purchases for the year.

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

DIRECTORS

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

Executive directors

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

Independent non-executive directors

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

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

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

Directors' Report

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 62, 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, the substantial shareholder of the Company. Mr. Siu is responsible for overall strategic planning and corporate development of the Group. He has many years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Heyuan City, Guangdong Province in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 59, 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, the substantial shareholder of the Company. Mr. Siu is responsible for policy making and corporate management of the Group. He has many years of experience in metal trading and mould base manufacturing. He is an honorary citizen of Heyuan City, Guangdong Province in the PRC.

Mr. Mak Koon Chi, aged 54, 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, product development and technological development 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, Australia with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 51, has been an executive director of the Company since December 1992. He is the company secretary of the Company. He is also a director and a company secretary of certain subsidiaries of the Company. Mr. Wai is responsible for policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick, United Kingdom with a Master of Business Administration Degree. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He is also a member of the Institute of Chartered Accountants in England and Wales. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Fung Wai Hing, aged 60, 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, United Kingdom 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 a past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is also the Honorary President of the Hong Kong Diecasting and Foundry Association and a member of the Steering Committee of the Industrial Centre of the Hong Kong Polytechnic University. Mr. Fung was awarded the ISE Distinguished Alumni Award 2012 of the Hong Kong Polytechnic University. He is a fellow of The Hong Kong Institute of Directors. He has extensive experience in the trading business.

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

Executive directors *(continued)*

Mr. Ting Chung Ho, aged 59, joined the Group in March 2000 as a general manager of a subsidiary of the Company in the PRC and has been appointed as an executive director of the Company since April 2008 and is also a director of certain subsidiaries of the Company. Mr. Ting is responsible for policy making and operation management of the Company. He has many years of experience in enterprise operation and management. Mr. Ting graduated from the Open University of Hong Kong with a Master of Business Administration Degree. He is a member of The Hong Kong Institute of Directors.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 60, has been an independent non-executive director of the Company since December 1992. He is a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited, a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority and a member of the Audit Committee of the University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the chairman of the Audit Committee of the Company.

Dr. Lee Tat Yee, aged 65, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland, Australia 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 was a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems and retired. He is the chairman of the Remuneration Committee of the Company.

Mr. Lee Joo Hai, aged 57, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore and the Singapore Institute of Directors. He is also a fellow of The Hong Kong Institute of Directors. He has extensive experience in accounting and auditing. He was a partner of a public accounting firm in Singapore before his retirement from the accounting firm. He is the chairman of the Nomination Committee of the Company. Mr. Lee is currently an independent director of Food Junction Holdings Limited, Hyflux Ltd, IPC Corporation Limited and Kian Ho Bearings Limited, which are all listed on the main board of The Singapore Exchange Securities Trading Limited ("SGX-ST"). He is also an independent director of Armarda Group Limited, which is listed on the Catalist of the SGX-ST and is also an independent director of Agria Corporation, which is listed on the Nasdaq. Mr. Lee was also an independent director of Adampak Limited, which was listed on the main board of the SGX-ST until 29th June, 2012, from August 2004 to June 2012 and ceased to be an independent director of Adampak Limited subsequent to the delisting of Adampak Limited from the SGX-ST on 29th June, 2012. He was also an independent director of Asiasons WFG Financial Ltd. from March 2008 to May 2012, which was listed on the main board of the SGX-ST. Save as disclosed above, Mr. Lee did not hold other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2012, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

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 Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1 and 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.01%
Siu Yuk Lung (Notes 1 and 2)	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	150,000	404,302,381	64.01%
Mak Koon Chi	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Wai Lung Shing	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Fung Wai Hing	Beneficial owner	2,457,031	—	500,000	2,957,031	0.47%
Ting Chung Ho	Beneficial owner	720,000	—	500,000	1,220,000	0.19%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Tat Yee	Beneficial owner	150,000	—	300,000	450,000	0.07%
Lee Joo Hai	Beneficial owner	300,000	—	150,000	450,000	0.07%

Notes:

- Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 5,310,156 shares in the Company registered in their own names.
- 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 are beneficiaries, held 366,210,937 shares in the Company.

DIRECTORS' INTERESTS IN SHARES *(continued)*

Interests in associated corporations of the Company

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

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

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

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2012.

Directors' Report

SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 25 to the consolidated financial statements.

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

	Number of share options			At 31st December, 2012	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2012	Lapsed during the year	Exercised during the year				
Category 1: Directors							
Siu Tit Lung	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Siu Yuk Lung	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Mak Koon Chi	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Wai Lung Shing	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Fung Wai Hing	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Ting Chung Ho	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Liu Wing Ting, Stephen	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Tat Yee	150,000	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Joo Hai	150,000	—	(150,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	3,200,000	—	(150,000)	3,050,000			
Category 2: Employees							
	314,000 (Note)	—	(190,000)	124,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	3,318,000 (Note)	(172,000)	—	3,146,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	3,632,000	(172,000)	(190,000)	3,270,000			
Total all categories	6,832,000	(172,000)	(340,000)	6,320,000			

Note: The amount was reclassified from category 1 to account for those options granted to Mr. Chan Chun Sing, Colin who ceased to be a non-executive director of the Company since 1st January, 2012.

SHARE OPTIONS *(continued)*

In respect of the share options exercised during the year ended 31st December, 2012, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$2.72 (2011: HK\$4.83) and at the dates of exercise was approximately HK\$2.69 (2011: HK\$4.81).

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, 2012, 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	366,210,937	57.98%
Commonwealth Bank of Australia	Interest of controlled corporation	50,276,108	7.96%
Schroders Plc <i>(Note)</i>	Investment manager	37,787,500	5.98%

Note: Subsequent to the year ended 31st December, 2012, the Company received a Form 2 — Corporate Substantial Shareholder Notice (Notice pursuant to Section 324 of Part XV of the SFO) from Schroders Plc notifying the Company that 37,787,500 shares of the Company were held by Schroders Plc before the year end.

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, 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st December, 2012 until the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

The Company has adopted a share option scheme in 2012. Details of the scheme are set out in note 25 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1st April, 2012) throughout the year.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 7 to 17.

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

During the year, the Group made charitable and other donations amounting to approximately HK\$39,000.

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, 22nd March, 2013

Independent Auditor's Report



TO THE MEMBERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 77, which comprise the consolidated statement of financial position as at 31st December, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 about whether the consolidated financial statements are free from material misstatement.

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

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, 2012, 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

22nd March, 2013

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

	Notes	2012 HK\$'000	2011 HK\$'000 (restated)
Revenue	7	2,401,503	2,532,460
Other income	9	42,014	42,272
Increase in fair value of investment properties	15	37,000	28,000
Changes in inventories of finished goods and work in progress		(27,912)	4,854
Raw materials and consumables used		(1,058,114)	(1,124,591)
Employee benefits expenses		(499,485)	(471,450)
Depreciation of property, plant and equipment		(181,525)	(161,269)
Other expenses		(456,225)	(460,866)
Interest on bank borrowings wholly repayable within five years		(5,242)	(3,136)
Profit before taxation		252,014	386,274
Income tax expense	11	(53,227)	(105,837)
Profit for the year	12	198,787	280,437
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		20,104	75,246
Total comprehensive income for the year		218,891	355,683
Profit for the year attributable to:			
Owners of the Company		196,529	277,628
Non-controlling interests		2,258	2,809
		198,787	280,437
Total comprehensive income for the year attributable to:			
Owners of the Company		216,235	353,228
Non-controlling interests		2,656	2,455
		218,891	355,683
Earnings per share	14	HK cents	HK cents
— Basic		31.13	44.03
— Diluted		31.12	43.91

Consolidated Statement of Financial Position

At 31st December, 2012

	Notes	At 31st December, 2012 HK\$'000	At 31st December, 2011 HK\$'000 (restated)	At 1st January, 2011 HK\$'000 (restated)
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	15	121,500	84,500	56,500
Property, plant and equipment	16	1,176,509	1,091,659	683,834
Prepaid lease payments — non-current portion	17	100,155	108,914	105,959
Deposits paid for acquisition of property, plant and equipment		2,120	1,493	5,027
		1,400,284	1,286,566	851,320
Current assets				
Inventories	18	410,497	628,230	620,020
Trade and other receivables	19	447,067	511,996	580,470
Bills receivable	19	30,523	38,906	44,038
Prepaid lease payments — current portion	17	2,325	2,505	1,426
Bank balances and cash	20	805,044	652,739	869,956
		1,695,456	1,834,376	2,115,910
Current liabilities				
Trade and other payables	21	362,797	454,198	429,706
Bills payable	21	31,728	38,022	44,502
Taxation payable		6,787	694	19,811
Dividend payable		103	93	72
Derivative financial instruments		—	—	50
Unsecured bank borrowings — due within one year	22	221,072	252,366	258,101
		622,487	745,373	752,242
Net current assets		1,072,969	1,089,003	1,363,668
Total assets less current liabilities		2,473,253	2,375,569	2,214,988
Non-current liability				
Deferred tax liabilities	23	49,021	51,048	25,394
		2,424,232	2,324,521	2,189,594

Consolidated Statement of Financial Position

At 31st December, 2012

	Note	At 31st December, 2012 HK\$'000	At 31st December, 2011 HK\$'000 (restated)	At 1st January, 2011 HK\$'000 (restated)
CAPITAL AND RESERVES				
Share capital	24	63,163	63,129	62,969
Reserves		2,349,911	2,252,890	2,117,660
Equity attributable to owners of the Company		2,413,074	2,316,019	2,180,629
Non-controlling interests		11,158	8,502	8,965
Total equity		2,424,232	2,324,521	2,189,594

The consolidated financial statements on pages 30 to 77 were approved and authorised for issue by the Board of Directors on 22nd March, 2013 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, 2012

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note)	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		
At 1st January, 2011 (as originally stated)	62,969	148,276	202,055	390,018	4,538	1,368,547	2,176,403	8,965	2,185,368
Effect of changes in accounting policies (see note 2)	—	—	—	—	—	4,226	4,226	—	4,226
At 1st January, 2011 (as restated)	62,969	148,276	202,055	390,018	4,538	1,372,773	2,180,629	8,965	2,189,594
Profit for the year	—	—	—	—	—	277,628	277,628	2,809	280,437
Exchange difference arising on translation of foreign operations	—	—	—	75,600	—	—	75,600	(354)	75,246
Total comprehensive income for the year	—	—	—	75,600	—	277,628	353,228	2,455	355,683
Recognition of equity-settled share-based payments	—	—	—	—	3,185	—	3,185	—	3,185
Transfer on lapse of share options	—	—	—	—	(823)	823	—	—	—
Share issued on exercise of share options	160	6,921	—	—	(1,183)	—	5,898	—	5,898
Final dividend for the year ended 31st December, 2010 (note 13)	—	—	—	—	—	(113,398)	(113,398)	—	(113,398)
Final special dividend for the year ended 31st December, 2010 (note 13)	—	—	—	—	—	(31,499)	(31,499)	—	(31,499)
Interim dividend for the year ended 31st December, 2011 (note 13)	—	—	—	—	—	(82,024)	(82,024)	—	(82,024)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	(2,918)	(2,918)
Transfer	—	—	37,630	—	—	(37,630)	—	—	—
At 31st December, 2011 (as restated)	63,129	155,197	239,685	465,618	5,717	1,386,673	2,316,019	8,502	2,324,521
Profit for the year	—	—	—	—	—	196,529	196,529	2,258	198,787
Exchange difference arising on translation of foreign operations	—	—	—	19,706	—	—	19,706	398	20,104
Total comprehensive income for the year	—	—	—	19,706	—	196,529	216,235	2,656	218,891
Transfer on lapse of share options	—	—	—	—	(157)	157	—	—	—
Share issued on exercise of share options	34	886	—	—	(149)	—	771	—	771
Final dividend for the year ended 31st December, 2011 (note 13)	—	—	—	—	—	(82,068)	(82,068)	—	(82,068)
Interim dividend for the year ended 31st December, 2012 (note 13)	—	—	—	—	—	(37,883)	(37,883)	—	(37,883)
Transfer	—	—	27,282	—	—	(27,282)	—	—	—
At 31st December, 2012	63,163	156,083	266,967	485,324	5,411	1,436,126	2,413,074	11,158	2,424,232

Note: The statutory reserve represents the appropriation of certain percentages of profit after taxation of subsidiaries established in the People's Republic of China (the "PRC") as pursuant with the PRC regulations.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 HK\$'000	2011 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	252,014	386,274
Adjustments for:		
(Reversal of) allowance for inventories	(5,543)	9,305
Depreciation of property, plant and equipment	181,525	161,269
Gain on fair value change in derivative financial instruments	—	(50)
Interest on bank borrowings wholly repayable within five years	5,242	3,136
Increase in fair value of investment properties	(37,000)	(28,000)
Interest income	(18,554)	(16,956)
Gain on disposal of property, plant and equipment	(8,663)	(5,448)
Gain on disposal of a land lease	(1,091)	—
Release of prepaid lease payments	2,363	2,448
Impairment loss recovered in respect of trade receivables	(582)	(2,004)
Share-based payment expenses	—	3,185
Operating cash flows before movements in working capital	369,711	513,159
Decrease in inventories	227,519	8,081
Decrease in trade and other receivables	69,083	92,206
Decrease in bills receivable	8,523	5,416
(Decrease) increase in trade and other payables	(93,902)	10,735
Decrease in bills payable	(6,480)	(5,867)
Cash generated from operations	574,454	623,730
Income taxes paid	(49,733)	(101,429)
NET CASH FROM OPERATING ACTIVITIES	524,721	522,301
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(286,781)	(552,619)
Proceeds on disposal of property, plant and equipment	35,118	13,800
Interest received	18,554	16,956
Proceeds on disposal of a land lease	8,371	—
Payment for a land lease	—	(1,990)
NET CASH USED IN INVESTING ACTIVITIES	(224,738)	(523,853)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	2012 HK\$'000	2011 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(119,941)	(226,900)
Repayment of bank borrowings	(25,769)	(64,903)
Interest paid	(5,242)	(3,136)
Proceeds from new shares issued	771	5,898
Dividend paid to the non-controlling interests	—	(2,918)
New bank borrowings raised	—	60,560
NET CASH USED IN FINANCING ACTIVITIES	(150,181)	(231,399)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	149,802	(232,951)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	652,739	869,956
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,503	15,734
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	805,044	652,739

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009 — 2011 Cycle issued in 2012

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group’s investment property portfolios and concluded that none of the Group’s investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the “sale” presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties located in Hong Kong. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets (continued)

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group’s deferred tax liabilities being decreased by HK\$4,226,000 as at 1st January, 2011, with the corresponding credit being recognised in retained profits. Similarly, the deferred tax liabilities have been decreased by HK\$7,889,000 as at 31st December, 2011.

In the current year, no deferred taxes have been provided for changes in fair value of the Group’s investment properties. The change in accounting policy has resulted in the Group’s income tax expense for the years ended 31st December, 2012 and 31st December, 2011 being reduced by HK\$5,998,000 and HK\$3,663,000 respectively and hence resulted in profit for the years ended 31st December, 2012 and 31st December, 2011 being increased by HK\$5,998,000 and HK\$3,663,000 respectively.

Amendments to HKAS 1 Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is *Annual Improvements to HKFRSs (2009 – 2011 Cycle)*. The effective date of these amendments is annual periods beginning on or after 1st January, 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1st January, 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1st January, 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1st January, 2011 without the related notes.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the results for the current and prior years by line items are as follows:

	2012 HK\$'000	2011 HK\$'000
Decrease in income tax expense	5,998	3,663

The effects of the above changes in accounting policies on the financial positions of the Group as at 1st January, 2011 and 31st December, 2011 is as follows:

	As at 1st January, 2011 (originally stated) HK\$'000	Adjustments HK\$'000	As at 1st January, 2011 (restated) HK\$'000	As at 31st December, 2011 (originally stated) HK\$'000	Adjustments HK\$'000	As at 31st December, 2011 (restated) HK\$'000
Deferred tax liabilities	29,620	(4,226)	25,394	58,937	(7,889)	51,048
Total effects on net assets	2,185,368	4,226	2,189,594	2,316,632	7,889	2,324,521
Retained profits, total effects on equity	1,368,547	4,226	1,372,773	1,378,784	7,889	1,386,673

Impact on basic and diluted earnings per share

	Impact on basic earnings per share		Impact on diluted earnings per share	
	Year ended 31st December, 2012 HK cents	Year ended 31st December, 2011 HK cents	Year ended 31st December, 2012 HK cents	Year ended 31st December, 2011 HK cents
Figures before adjustments	30.18	43.45	30.17	43.33
Adjustments arising from changes in the Group's accounting policies in relation to: —application of amendments to HKAS 12 in respect of deferred taxes on investment properties	0.95	0.58	0.95	0.58
Figures after adjustments	31.13	44.03	31.12	43.91

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

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

Except as described above, the application of these amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle, except for the amendments HKAS 1 ¹
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1st January, 2013.

² Effective for annual periods beginning on or after 1st January, 2014.

³ Effective for annual periods beginning on or after 1st January, 2015.

⁴ Effective for annual periods beginning on or after 1st July, 2012.

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties 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 property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than freehold land and construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Construction in progress includes property, plant and equipment in the course of construction for production or administrative purposes. Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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 profit or loss 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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items 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 in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as approximate).

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 the profit before taxation as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of loans and receivables have been affected.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of loans and receivables (continued)

Objective evidence of impairment could include:

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

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables' original effective interest rate.

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, bills payable and unsecured bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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, 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

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 date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, 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 during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When the share options are exercised, the amount previously recognised in the 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 the share options reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The critical judgements in applying accounting policies, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements, are discussed below.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policies *(continued)*

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2012, the carrying amount of trade receivables (net of allowance for doubtful debts of approximately HK\$32,634,000) is approximately HK\$401,250,000 (31st December, 2011: HK\$420,893,000, net of allowance for doubtful debts of approximately HK\$34,447,000).

Allowance for inventories

Management of the Group reviews its inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review by making use of the aging analysis at the end of the reporting period and make allowance for obsolete items. As at 31st December, 2012, the carrying amount of inventories (net of allowance for inventories of approximately HK\$85,763,000) is approximately HK\$410,497,000 (31st December, 2011: HK\$628,230,000, net of allowance for inventories of approximately HK\$90,668,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 22 net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, retained profits and other reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012 HK\$'000	2011 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,244,340	1,120,206
Financial liabilities		
Amortised cost	367,254	498,747

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, bank balances and cash, trade and other payables, bills payable and unsecured bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(a) Interest rate risk

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(a) Interest rate risk *(continued)*

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 22 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates so as to minimise the fair value interest rate risk.

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly sensitive to the fluctuation of the Hong Kong Interbank Offered Rate and Cost of Funds Index arising from the Group's borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2011: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2012 would decrease/increase by approximately HK\$1,105,000 (2011: decrease/increase by approximately HK\$1,262,000).

(b) Currency risk

The Group's principal subsidiaries are operating in the PRC, Japan, Malaysia, Singapore and Taiwan. The transactions are denominated and settled in its respective functional currency. The management will consider using foreign exchange forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(b) Currency risk (continued)

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

	Liabilities		Assets	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
SGD	—	—	42	1,447
RMB	—	—	233,740	81,987
USD	23,707	29,543	7,141	8,325
EUR	—	—	33,530	45,886
JPY	36,059	60,560	9,634	5,768

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currency monetary assets and liabilities (excluding derivatives). No sensitivity analysis is presented for HKD against USD as HKD is pegged to USD. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2011: 5%) change in foreign currency rates. A negative number below indicates a decrease in post-tax profit for the year where the functional currency of the relevant group entity strengthens 5% (2011: 5%) against the relevant foreign currency. For a 5% (2011: 5%) weakening of the functional currency of the relevant group entity against the relevant foreign currency, there would be an equal and opposite impact on post-tax profit for the year.

	SGD Impact (i)		RMB Impact (i)		EUR Impact (i)		JPY Impact (i)	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Post-tax profit for the year	(2)	(69)	(11,130)	(3,904)	(1,597)	(2,185)	1,258	2,609

(i) This is mainly attributable to the exposure outstanding on receivables, payables, bank borrowings and bank balances in the respective foreign currency at year end.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31st December, 2012, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group, is the failure to recover the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivatives financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instrument. The table has been drawn up based on the undiscounted gross (inflows) and outflows on the derivative that require gross settlement. The liquidity analysis for the Group's derivative financial instrument is prepared based on the contractual maturity as the management considers that the contractual maturity is essential for an understanding of the timing of the cash flows of derivative.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
2012						
Non-derivative financial liabilities:						
Trade and other payables	N/A	33,650	69,135	11,669	114,454	114,454
Bills payable	N/A	13,516	15,269	2,943	31,728	31,728
Variable-rate bank borrowings	1.75	221,072	—	—	221,072	221,072
		268,238	84,404	14,612	367,254	367,254
2011						
Non-derivative financial liabilities:						
Trade and other payables	N/A	84,583	72,323	51,453	208,359	208,359
Bills payable	N/A	15,808	22,172	42	38,022	38,022
Variable-rate bank borrowings	1.37	252,366	—	—	252,366	252,366
		352,757	94,495	51,495	498,747	498,747

Bank loans with a repayment on demand clause are included in the “Less than 1 month or on demand” time band in the above maturity analysis. As at 31st December, 2012 and 31st December, 2011, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$221,072,000 and HK\$252,366,000 respectively. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$221,242,000 (2011: HK\$252,457,000).

The amounts included above for variable-rate bank borrowings of which the undiscounted cash flows are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. REVENUE

The Group is principally engaged in the manufacturing and marketing of mould bases and related products. Revenue represents the invoiced value of goods sold during the year, after allowances for returns and trade discounts excluding intra-group transactions.

8. SEGMENT INFORMATION

The Group only has one operating segment, based on information reported to the chief operating decision maker (the Group's board of directors) for the purposes of resources allocation and performance assessment, which is the aggregated results of the Group, including all income, expenses and tax charges.

As a result, there is only one reportable segment for the Group. For information regarding this segment, reference can be made to the consolidated financial statements as a whole.

The segment result of the Group represents profit after taxation set out in the consolidated statement of comprehensive income.

Entity-wide disclosures

As at 31st December, 2012 and 2011, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

8. SEGMENT INFORMATION *(continued)*

Entity-wide disclosures *(continued)*

The following is an analysis of the Group's revenue based on location of customers:

	2012	2011
	HK\$'000	HK\$'000
The PRC (excluding Hong Kong)	2,042,375	2,182,691
Hong Kong	5,378	5,708
Others	353,750	344,061
	2,401,503	2,532,460

The Group has a very wide customer base including in Europe, America and Asia. No single customer contributed more than 10% of the Group's revenue for each of the years ended 31st December, 2012 and 2011.

9. OTHER INCOME

	2012	2011
	HK\$'000	HK\$'000
Government grants (note)	968	1,139
Interest income	18,554	16,956
Rental income, net of direct outgoings of approximately HK\$349,000 (2011: HK\$337,000)	3,454	2,792
Gain on disposal of property, plant and equipment	8,663	5,448
Gain on disposal of a land lease	1,091	—
Sundry income	3,860	4,305
Net foreign exchange gain	5,424	11,582
Gain on fair value change in derivative financial instruments	—	50
	42,014	42,272

Note: The amount represents government rewards received during the year from the local treasury authority in the PRC as a general reward for the Group's contribution in business development.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2011: ten) directors were as follows:

	Siu Tit Lung	Siu Yuk Lung	Mak Koon Chi	Wai Lung Shing	Fung Wai Hing	Ting Chung Ho	Liu Wing Ting, Stephen	Lee Tat Yee	Lee Joo Hai	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
2012											
Fees	–	–	–	–	–	–	336	336	336	1,008	
Other emoluments											
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	1,908	–	–	–	20,316	
Contributions to retirement benefit schemes	713	713	214	214	171	210	–	–	–	2,235	
Bonus (note)	2,100	2,100	4,700	4,700	2,950	2,950	–	–	–	19,500	
Total emoluments	9,293	9,293	6,858	6,858	4,681	5,068	336	336	336	43,059	
							Chan Chun Sing, Colin	Liu Wing Ting, Stephen	Lee Tat Yee	Lee Joo Hai	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
							(note 1)				
2011											
Fees	–	–	–	–	–	–	288	324	324	324	1,260
Other emoluments											
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	1,831	–	–	–	–	20,239
Contributions to retirement benefit schemes	713	713	214	214	172	201	–	–	–	–	2,227
Bonus (note)	3,100	3,100	6,500	6,500	4,200	4,100	–	–	–	–	27,500
Share-based payments	71	71	236	236	236	236	71	71	71	71	1,370
Total emoluments	10,364	10,364	8,894	8,894	6,168	6,368	359	395	395	395	52,596

Note: The bonus is determined based on performance of the Group and the current market environment.

Note 1: Mr. Chan Chun Sing, Colin ceased to be a non-executive director of the Company since 1st January, 2012.

No directors waived any emoluments in the years ended 31st December, 2012 and 2011.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

11. INCOME TAX EXPENSE

	2012	2011
	HK\$'000	HK\$'000
		(restated)
The charge comprises:		
Hong Kong Profits Tax		
– current year	8,991	12,141
– (over)underprovision in prior years	(19)	52
	8,972	12,193
Taxation in jurisdictions outside Hong Kong		
– current year	41,367	71,377
– overprovision in prior years	(1,215)	(4,623)
– transfer from deferred taxation	6,130	1,236
	46,282	67,990
Deferred taxation (note 23)		
– current year	4,103	26,890
– transfer to current income tax	(6,130)	(1,236)
	(2,027)	25,654
	53,227	105,837

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries was entitled to an exemption from PRC income tax for two years starting from its first profit-making year, followed by a 50% relief in tax rate for the next three years. 2007 was the first year of tax exemption granted to that subsidiary. Under the EIT Law, 2011 was the last year of the relief and this subsidiary is subject to a tax rate of 25% (2011: 12.5%) for the current year.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries was entitled to a transitional tax rate of 24% during the year ended 31st December, 2011. This subsidiary was no longer entitled to the transitional rate and was subject to a tax rate of 25% since 1st January, 2012.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

11. INCOME TAX EXPENSE (continued)

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

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

	2012 HK\$'000	2011 HK\$'000 (restated)
Profit before taxation	252,014	386,274
Tax at PRC income tax rate of 25% (2011: 25%) (note)	63,004	96,569
Tax effect of non-deductible expenses	9,420	26,859
Tax effect of non-taxable income	(10,179)	(12,775)
Utilisation of tax losses previously not recognised	(1,077)	(397)
Tax effect of unused tax losses not recognised	1,099	1,979
Overprovision in prior years	(1,234)	(4,571)
Tax effect of tax exemption and relief granted to PRC subsidiaries	—	(187)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(11,363)	(18,451)
Deferred tax charge arising on undistributed profits of PRC subsidiaries from 1st January, 2008 onwards	3,557	16,811
Tax charge for the year	53,227	105,837

Note: The domestic tax rate applicable to the jurisdictions where the operations of the Group is substantially based is 25% of both years.

Details of deferred taxation are set out in note 23.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

12. PROFIT FOR THE YEAR

	2012	2011
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration		
– current year	4,536	3,855
– overprovision in prior year	(8)	(47)
Gross foreign exchange loss	1,196	8,462
Gross foreign exchange gain	(6,620)	(20,044)
Gain on fair value change in derivative financial instruments	–	(50)
Operating lease rentals in respect of		
– rented premises	12,554	12,021
– plant and machinery	92	118
Depreciation of property, plant and equipment	181,525	161,269
Release of prepaid lease payments	2,363	2,448
Retirement benefits scheme contributions	14,384	14,551
Impairment loss recovered in respect of trade receivables, net	(582)	(2,004)
(Reversal of) allowance for inventories	(5,543)	9,305

13. DIVIDENDS

	2012	2011
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
2012 Interim – HK6 cents (2011: 2011 interim dividend HK13 cents) per share	37,883	82,024
2011 Final – HK13 cents (2011: 2010 final dividend HK18 cents) per share	82,068	113,398
2011 Final Special – Nil (2011: 2010 final special dividend HK5 cents) per share	–	31,499
	119,951	226,921

The board of directors have determined that a final dividend of HK12 cents (2011: HK13 cents) per share amounting to approximately HK\$75,795,000 (2011: HK\$82,068,000) should be paid to the shareholders of the Company whose names appear in the register of members on 22nd May, 2013.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

14. EARNINGS PER SHARE

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

	2012	2011
	HK\$'000	HK\$'000
		(restated)
Profit for the year attributable to owners of the Company	196,529	277,628
Number of shares:		
	2012	2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	631,364,380	630,548,599
Effect of dilutive potential ordinary shares:		
Share options	195,718	1,705,123
Weighted average number of ordinary shares for the purpose of diluted earnings per share	631,560,098	632,253,722

15. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2011	56,500
Increase in fair value recognised in profit or loss	28,000
At 31st December, 2011	84,500
Increase in fair value recognised in profit or loss	37,000
At 31st December, 2012	121,500

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

The fair value of the Group's investment properties at 31st December, 2012 and 2011 have been arrived at on the basis of a valuation carried out by C S Surveyors Limited, independent qualified professional valuers related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held under medium-term operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Furniture, fixtures and fittings	Plant and machinery	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST							
At 1st January, 2011	21,317	467,795	167,216	1,567,889	58,418	33,250	2,315,885
Currency realignment	—	19,633	6,081	59,679	1,660	1,411	88,464
Transfer	—	25,158	—	4,629	—	(29,787)	—
Additions	—	33,024	4,694	300,407	11,285	206,743	556,153
Disposals	—	(3,283)	(13,993)	(67,579)	(30,178)	—	(115,033)
At 31st December, 2011	21,317	542,327	163,998	1,865,025	41,185	211,617	2,845,469
Currency realignment	—	4,167	808	16,187	79	1,642	22,883
Additions	—	2,894	5,698	169,919	7,582	100,061	286,154
Disposals	—	(48,902)	(14,456)	(43,834)	(9,009)	—	(116,201)
At 31st December, 2012	21,317	500,486	156,048	2,007,297	39,837	313,320	3,038,305
ACCUMULATED DEPRECIATION							
At 1st January, 2011	—	125,321	129,899	1,327,599	49,232	—	1,632,051
Currency realignment	—	5,911	5,173	54,505	1,582	—	67,171
Provided for the year	—	27,520	14,160	113,037	6,552	—	161,269
Eliminated on disposals	—	(716)	(10,783)	(65,208)	(29,974)	—	(106,681)
At 31st December, 2011	—	158,036	138,449	1,429,933	27,392	—	1,753,810
Currency realignment	—	1,504	575	14,067	62	—	16,208
Provided for the year	—	25,992	11,384	136,671	7,478	—	181,525
Eliminated on disposals	—	(24,053)	(13,748)	(43,834)	(8,112)	—	(89,747)
At 31st December, 2012	—	161,479	136,660	1,536,837	26,820	—	1,861,796
CARRYING AMOUNTS							
At 31st December, 2012	21,317	339,007	19,388	470,460	13,017	313,320	1,176,509
At 31st December, 2011	21,317	384,291	25,549	435,092	13,793	211,617	1,091,659

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

The carrying value of land and buildings above comprises:

	2012 HK\$'000	2011 HK\$'000
Freehold land outside Hong Kong	21,317	21,317
Building on land under medium-term or land use rights outside Hong Kong	339,007	384,291
	360,324	405,608

The construction in progress are building under construction and machinery of HK\$313,320,000 (2011: HK\$211,617,000) situated outside Hong Kong and are erected on land under medium-term land use rights.

17. PREPAID LEASE PAYMENTS

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

	2012 HK\$'000	2011 HK\$'000
Analysed for reporting purposes as:		
Non-current asset	100,155	108,914
Current asset	2,325	2,505
	102,480	111,419

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

18. INVENTORIES

	2012 HK\$'000	2011 HK\$'000
Raw materials	372,955	562,776
Work in progress	28,434	49,743
Finished goods	9,108	15,711
	410,497	628,230

The cost of inventories recognised as an expense during the year by the Group amounted to approximately HK\$1,853,389,000 (2011: HK\$1,842,030,000).

19. TRADE, BILLS AND OTHER RECEIVABLES

	2012 HK\$'000	2011 HK\$'000
Trade receivables	433,884	455,340
Less: allowance for doubtful debts	(32,634)	(34,447)
	401,250	420,893
Other receivables, deposits and prepayments	45,817	91,103
Total trade and other receivables	447,067	511,996
Bills receivable	30,523	38,906

In general, the Group allows a credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 HK\$'000	2011 HK\$'000
0 to 60 days	316,887	343,905
61 to 90 days	84,835	89,593
Over 90 days	30,051	26,301
	431,773	459,799

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

19. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

Aged analysis of trade receivables which are past due but not impaired

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK\$20,399,000 (2011: HK\$25,462,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss because the whole amount has been subsequently settled after the end of the reporting period. The Group does not hold any collateral over these balances.

	2012 HK\$'000	2011 HK\$'000
91 to 180 days	20,399	25,462

Other than the above trade receivables which are past due but not impaired, the Group has provided fully for all trade receivables over the credit period granted.

Movements in the allowance for doubtful debts

	2012 HK\$'000	2011 HK\$'000
Balance at the beginning of the year	34,447	41,931
Currency realignment	220	1,629
Impairment losses reversed	(834)	(6,896)
Amounts recovered during the year	(20)	(850)
Amounts written off as uncollectible	(1,451)	(7,109)
Impairment losses recognised on receivables	272	5,742
Balance at the end of the year	32,634	34,447

At the end of reporting period, the allowance for doubtful debts are individually impaired trade receivables, which are considered irrecoverable by the management after consideration of the credit quality of those individual customers and the aging of these receivables. The Group does not hold any collateral over these balances.

20. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at prevailing market saving rates and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 0.4% to 4.9% (2011: 0.4% to 4.9%) per annum for the year ended 31st December, 2012.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

21. TRADE, BILLS AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$75,513,000 (2011: HK\$167,230,000) and receipt in advances of approximately HK\$18,874,000 (2011: HK\$20,825,000).

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2012 HK\$'000	2011 HK\$'000
0 to 60 days	76,010	125,930
61 to 90 days	18,178	41,422
Over 90 days	13,053	37,900
	107,241	205,252

22. UNSECURED BANK BORROWINGS

The amounts represent floating rate bank loans repayable on demand.

The Group's borrowing that are denominated in currencies other than the functional currencies of the relevant group entities are set out below.

	Denominated in JYP HK\$'000
As at 31st December, 2012	36,059
As at 31st December, 2011	60,560

The bank loans carry interest at the Hong Kong Interbank Offered Rate plus a fixed margin or Cost of Funds Index of the relevant bank plus a fixed margin. The effective borrowing rates of the Group ranged from 1.05% to 3.65% (2011: 1.05% to 3.2%) per annum. During the year ended 31st December, 2012, the Group has no new loan (2011: HK\$61 million) for general working capital purpose.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

23. 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 properties HK\$'000	Withholding tax HK\$'000	Tax losses HK\$'000	Accrued expenses HK\$'000	Total HK\$'000
At 1st January, 2011 (as originally stated)	1,232	4,281	34,162	(55)	(10,000)	29,620
Effect of changes in accounting policies (see note 2)	—	(4,281)	—	55	—	(4,226)
At 1st January, 2011 (as restated)	1,232	—	34,162	—	(10,000)	25,394
Charge for the year	79	—	16,811	—	10,000	26,890
Transfer to current income tax	—	—	(1,236)	—	—	(1,236)
At 31st December, 2011 (as restated)	1,311	—	49,737	—	—	51,048
Charge for the year	546	—	3,557	—	—	4,103
Transfer to current income tax	—	—	(6,130)	—	—	(6,130)
At 31st December, 2012	1,857	—	47,164	—	—	49,021

At the end of the reporting period, the Group had unused tax losses of approximately HK\$47,103,000 (2011: HK\$54,767,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Except for unused tax losses of approximately HK\$39,960,000 will expire from 2015 to 2019, other unused tax losses may be carried forward indefinitely.

Under the EIT Law, starting from 1st January, 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned by the companies established in the PRC from the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such profits for the year amounting to approximately HK\$71,145,000 (2011: HK\$336,212,000). The Group has applied the preferential rate of 5% on such profits as all the Group's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

24. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Ordinary shares of HK\$0.1 each:				
At 1st January, 2011	1,000,000,000	100,000	629,689,303	62,969
Shares issued on exercise of share options	—	—	1,598,000	160
At 31st December, 2011	1,000,000,000	100,000	631,287,303	63,129
Shares issued on exercise of share options	—	—	340,000	34
At 31st December, 2012	1,000,000,000	100,000	631,627,303	63,163

The new shares rank pari passu with existing shares in all respects.

25. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 7th May, 2012, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the “2012 Scheme”) and the termination of the share option scheme of the Company which was adopted by the shareholders of the Company on 9th September, 2002 (the “2002 Scheme”). Thereafter, no option will be granted under the 2002 Scheme but the subsisting options granted prior to the termination of the 2002 Scheme will continue to be valid and exercisable in accordance with the terms of the 2002 Scheme.

Under the 2012 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 2012 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 6th May, 2022.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

25. SHARE OPTION SCHEME (continued)

The total number of shares in respect of which options may be granted under the 2012 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the 2012 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 exercise 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 ("Exercise Period"). Options may be exercised in accordance with the terms of the 2012 Scheme at any time during the Exercise 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.

As 31st December, 2012, no option was granted under the 2012 Scheme but the number of shares in respect of which options had been granted and remained outstanding under the 2002 scheme was 6,320,000 representing about 1% of the shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by the Participants and movements in such holdings during the years ended 31st December, 2012 and 2011:

Exercise price	Date of grant	Vesting period	Exercisable period	Outstanding	Exercised	Lapsed	Cancelled	Outstanding	Exercised	Lapsed	Outstanding
				at 1.1.2011	during the year ended 31.12.2011	during the year ended 31.12.2011	during the year ended 31.12.2011	at 31.12.2011 and 1.1.2012	during the year ended 31.12.2012	during the year ended 31.12.2012	at 31.12.2012
HK\$											
3.60	14.11.2007	1 year	14.11.2008–13.11.2011	1,946,000	(1,274,000)	(672,000)	–	–	–	–	–
2.27	14.1.2009	1 year	14.1.2010–13.1.2013	786,000	(10,000)	(12,000)	–	764,000	(340,000)	–	424,000
4.10	9.7.2010	1 year	9.7.2011–8.7.2014	6,748,000	(314,000)	(16,000)	(350,000)	6,068,000	–	(172,000)	5,896,000
Total				9,480,000	(1,598,000)	(700,000)	(350,000)	6,832,000	(340,000)	(172,000)	6,320,000
Exercisable at the end of the year								6,832,000			6,320,000

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

25. SHARE OPTION SCHEME (continued)

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

Exercise price	Outstanding at 1.1.2011	Exercised during the year ended 31.12.2011	Lapsed during the year ended 31.12.2011	Outstanding at 31.12.2011	Reclassification (note)	Outstanding at 1.1.2012	Exercised during the year ended 31.12.2012	Outstanding at 31.12.2012
HK\$								
3.60	700,000	(250,000)	(450,000)	—	—	—	—	—
2.27	600,000	—	—	600,000	(150,000)	450,000	(150,000)	300,000
4.10	2,900,000	—	—	2,900,000	(150,000)	2,750,000	—	2,750,000
Total	4,200,000	(250,000)	(450,000)	3,500,000	(300,000)	3,200,000	(150,000)	3,050,000
Exercisable at the end of the year				3,500,000		3,200,000		3,050,000

Note: Reclassification was made as Mr. Chan Chun Sing, Colin ceased to be a non-executive director of the Company since 1st January, 2012.

In respect of the share options exercised during the year ended 31st December, 2012, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$2.72 (2011: HK\$4.83) and at the dates of exercise was approximately HK\$2.69 (2011: HK\$4.81).

26. CAPITAL COMMITMENTS

	2012 HK\$'000	2011 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	69,150	71,802

Notes to the Consolidated Financial Statements

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27. OPERATING LEASES

The Group as lessee

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

	2012 HK\$'000	2011 HK\$'000
Within one year	7,898	7,353
In the second to fifth year inclusive	10,181	8,265
Over five years	2,165	2,954
	20,244	18,572

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

The Group as lessor

Property rental income earned during the year was approximately HK\$3,803,000 (2011: HK\$3,129,000).

At the end of the reporting period, 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:

	2012 HK\$'000	2011 HK\$'000
Within one year	1,662	3,174
In the second to fifth year inclusive	—	1,607
	1,662	4,781

The investment properties held have committed tenants for an average term of one (2011: two) year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

28. RETIREMENT BENEFITS SCHEME

The Group participates in both 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.

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,250 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 at rates ranging from 7% to 11% of the employee's basic salary, depending on the length of service with the Group.

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

The total cost charged to income approximately HK\$14,384,000 (2011: HK\$14,551,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2012 and 2011, no contribution due in respect of the reporting period had not been paid over to the schemes.

29. 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:

	2012	2011
	HK\$'000	HK\$'000
Short-term benefits	40,824	48,999
Post-employment benefits	2,235	2,227
Share-based payment expenses	—	1,370
	43,059	52,596

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2012 is as follows:

	2012	2011
	HK\$'000	HK\$'000
ASSETS		
Investment in a subsidiary	55,856	55,856
Amounts due from subsidiaries	835,668	605,417
Prepayments	227	229
Bank balances	354	344
	892,105	661,846
LIABILITIES		
Accrued charges	1,102	533
Amount due to a subsidiary	192,254	—
Dividend payable	103	93
	193,459	626
NET ASSETS	698,646	661,220
CAPITAL AND RESERVES		
Share capital	63,163	63,129
Reserves (note)	635,483	598,091
	698,646	661,220

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

	Share premium HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2011	148,276	4,538	664,509	817,323
Loss for the year	—	—	(1,234)	(1,234)
Recognition of equity-settled share-based payments	—	3,185	—	3,185
Transfer on lapse of share options	—	(823)	823	—
Share issued on exercise of share options	6,921	(1,183)	—	5,738
Final dividend for the year ended 31st December, 2010	—	—	(113,398)	(113,398)
Final special dividend for the year ended 31st December, 2010	—	—	(31,499)	(31,499)
Interim dividend for the year ended 31st December, 2011	—	—	(82,024)	(82,024)
At 31st December, 2011	155,197	5,717	437,177	598,091
Profit for the year	—	—	156,606	156,606
Transfer on lapse of share options	—	(157)	157	—
Share issued on exercise of share options	886	(149)	—	737
Final dividend for the year ended 31st December, 2011	—	—	(82,068)	(82,068)
Interim dividend for the year ended 31st December, 2012	—	—	(37,883)	(37,883)
At 31st December, 2012	156,083	5,411	473,989	635,483

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

31. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company as at 31st December, 2012 and 2011 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 (note a)	HK\$550,870,000	100	Manufacturing and marketing of mould bases
Lung Kee International Limited	Hong Kong	HK\$2 ordinary shares HK\$2,000,002 non-voting deferred shares (note b)	100	Investment holding
Lung Kee Metal Japan Company Limited	Japan	JPY300,000,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	RM750,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal Limited	Hong Kong	HK\$2 ordinary shares HK\$10,000,002 non-voting deferred shares (note b)	100	Manufacturing and marketing of mould bases
Super Visions International Limited	British Virgin Islands	US\$2	100	Holding and licensing of trademarks
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 (note a)	HK\$111,000,000	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 (note a)	US\$11,600,000	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\$36,880,000	70	Manufacturing and marketing of mould bases

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2012

31. 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
			%	
台州龍記金屬製品 有限公司 Taizhou Lung Kee Metal Products Co., Ltd.	The PRC (note a)	US\$6,000,000	100	Manufacturing and marketing of mould bases

Notes:

- a. These companies are wholly-owned foreign enterprises established in the PRC.
- b. The deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

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

Financial Summary

RESULTS

	Year ended 31st December,				2012 HK\$'000
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	
			(restated)	(restated)	
REVENUE	3,073,547	2,234,680	2,611,583	2,532,460	2,401,503
PROFIT BEFORE TAXATION	433,230	319,895	457,593	386,274	252,014
INCOME TAX EXPENSE	(140,942)	(98,935)	(130,879)	(105,837)	(53,227)
PROFIT FOR THE YEAR	292,288	220,960	326,714	280,437	198,787
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	288,333	220,928	323,051	277,628	196,529
NON-CONTROLLING INTERESTS	3,955	32	3,663	2,809	2,258
	292,288	220,960	326,714	280,437	198,787

ASSETS AND LIABILITIES

	At 31st December,				2012 HK\$'000
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	
			(restated)	(restated)	
TOTAL ASSETS	2,478,759	2,375,160	2,967,230	3,120,942	3,095,740
TOTAL LIABILITIES	(650,780)	(441,692)	(777,636)	(796,421)	(671,508)
NET ASSETS	1,827,979	1,933,468	2,189,594	2,324,521	2,424,232
EQUITY ATTRIBUTABLE TO					
OWNERS OF THE COMPANY	1,823,123	1,928,478	2,180,629	2,316,019	2,413,074
NON-CONTROLLING INTERESTS	4,856	4,990	8,965	8,502	11,158
TOTAL EQUITY	1,827,979	1,933,468	2,189,594	2,324,521	2,424,232

Properties held for Investment

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

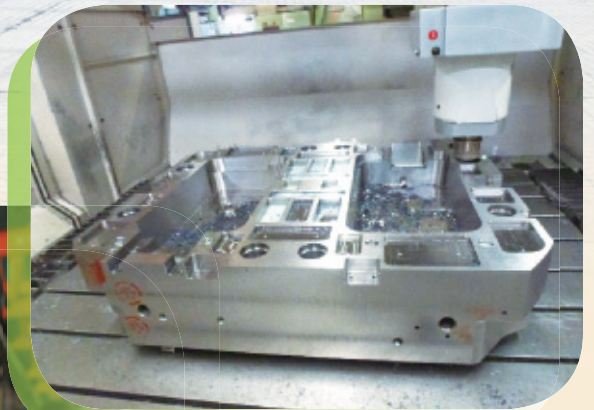


▲ 高精密模架工場。
Precision mould base factory.

▼ 將精密模板組裝成整套模架。
Assembly of mould base set from precision plates.



▼ 亞洲標準模架的組裝生產線。
Assembly line for Asian standard mould base.



▲ 高速加工中心專門切削形框及精孔。
High speed CNC machining centre for pocketing and making precision holes.



透過條碼系統，保障用料及倉賬的準確性，並提升材料的可追溯性。
Guaranteed accuracy in the usage and the inventory control of alloy steel, as well as the traceability of materials.



採用條碼系統做好合金鋼材的庫存管理。
Stock management of alloy steel by bar code system.



電腦數控車床配備機械手專門大批量生產模架配件。
CNC lathes equipped with robotic arms for mass production of mould base components.

龍記精密模具的標準配件。
Standard components of Lung Kee's precision moulds.

