LKM®

Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

Annual Report 2016

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Lung Kee (Bermuda) Holdings Limited | 2016 Annual Report

Corporate Information

EXECUTIVE DIRECTORS

Mr. Siu Tit Lung *(Chairman)*
Mr. Siu Yuk Lung *(Managing Director)*
Mr. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan
(appointed with effect from 1st January, 2017)
Mr. Siu Yu Hang, Leo
(appointed with effect from 1st January, 2017)

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
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Hong Kong

AUDITOR

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Certified Public Accountants
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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

MUFG Fund Services (Bermuda) Limited
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Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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, 2016.

BUSINESS REVIEW

The Group's revenue in the year ended 31st December, 2016 was approximately HK$2,213 million (2015: approximately HK$2,279 million). Profit attributable to owners of the Company in the year ended 31st December, 2016 was approximately HK$192 million (2015: approximately HK$126 million). Basic earnings per share in the year ended 31st December, 2016 was HK30.35 cents (2015: HK19.89 cents).

During the reviewed year of 2016, besides the market performance of the United States showed a more promising sign, no significant sign of recovery was witnessed in the external economy. Nevertheless, the gross profit margin of the Group's products increased due to the sustained improvement in its cost control and production efficiency of the business. Furthermore, the performance of the plant in Hangzhou city, Zhejiang Province, China had been improved compared with the same period in the previous year. In addition, other income was recorded resulting from the reclassification adjustment of translation reserve upon deregistration of a subsidiary in China. All these factors contributed to the substantial growth in the net profit of the Group compared with last year. In this connection, the Group had announced a positive profit alert in the beginning of this year.

PROSPECTS

The outlook of the global operating environment remains clouded by uncertainties. The United States economy progresses in a positive direction, however, with the new U.S. President assumed office, its foreign policy will be further tightened and protectionism gains power. To promote domestic employment opportunity, the United States will impose tariff on imported goods in order to discourage import trade. In this regard, business for those manufacturing sector with export oriented to the United State will be deeply affected. Moreover, as elections will soon take place in many Euro Zone countries, it is expected that the newly elected politicians will introduce changes on their foreign and domestic policy. Meanwhile, Britain will also initiate procedural step towards Brexit. All these factors cast instability on the global political and economic environment. Simultaneously, the occurrence of localized war, the threat of terror attack by Middle East countries and refugee issues still remain unsolved. As a result, the global business operating environment turns to be more unpredictable and unclear.

The China economy keeps relatively stable and shows a sign of mild recovery. Its Gross Domestic Product (GDP) growth still maintains at 6.5%, a notable driving force for economic growth. In seeking for long term economic growth, the China Government put forward measures such as "removal of productivity" to eliminate overcapacity and further ameliorate its aggregate economic structure. In the meantime, the development of automobile parts and components market continues to boom. It is anticipated that new vehicle models integrated with new technology and environmental concept will be launched to the market consecutively, which in turn will boost up demand of high quality mould products manufactured by the Group. It also helps the Group to promote its medium to high end in depth machining products to market. Following the rising of living standard of local Chinese, it is expected that the demand for innovated products and latest designed high-tech electronic products, intelligent mobile phone and intelligent household products will be increased continuously. It will bring new market opportunity to the Group and stimulate the sales growth of its mould products. At the same time, the mindset of new generation parents has changed and they realize that traditional toys can aid them in educating their children. In addition, China has abandoned the "one child" policy and encourages more birth, this will help the toy industry to revive its business from low ebb. In response to these, the Group will strengthen its sales team and direct sales channel so as to actively explore market and devise appropriate sales strategy targeted at the needs of different industries with a view to generate more revenue.

In line with the long-term development goal, the Group will keep pace with time to put forward improvement measures in enhancing production skills and product quality of its production plants in Heyuan, Guangdong Province and in Hangzhou city, Zhejiang Province. It aims at reinforcing the production scale and machining ability of the Group in order to fulfill the requirements of both China domestic market and overseas markets. By virtue of the slow down of increase rate in labor cost and the labor mobility, labor supply becomes more stable, enabling the Group to carry out manpower training in production skills in order to uplift its product quality and further fortify its competitive advantage.

The Group foresees that interest rate will be in upward trend. However, fluctuation of interest rate has only relatively light effect on the operation of the Group as it has adequate cash flow with no loan on hand. It is also expected that Renminbi will tend to be stable and only fluctuate within a predictable range, thus it alleviates its exchange risk, enabling the Group to set its long term operating strategy. The Group continues to implement effective cost monitoring measures to reduce its operation cost and risks in order to achieve a sound business operation and enhance its effectiveness.

As the Chinese Government has adopted effective measures to eliminate low productivity, the Group expects that the price of local mould steel will be increased. The Group will closely observe the market trend and cautiously regulate its inventory level so as to manage its material cost fluctuating at a reasonable range. For the imported steel, its price will keep stable with adjustment within narrowed range.

Looking ahead, the Group adopts prudent and pragmatic approach to face future challenges and business opportunities. Moreover, the Group continues to ameliorate its operation strategy in order to generate a more fruitful result and bring stable returns to shareholders.

Taking this opportunity, the Board of Directors would like to express our thanks to all staff for their hard work and contribution rendered to the Group in the past year. Also, sincere gratitude is extended to our shareholders and business partners for their considerable support to the Group.

Siu Tit Lung
Chairman

Hong Kong, 24th March, 2017

Management Discussion and Analysis

During the year ended 31st December, 2016, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of approximately HK$2,213 million and earnings of approximately HK$192 million for the year ended 31st December, 2016.

OPERATIONAL REVIEW

In the period under review, the Group's machining business performance was encouraging. Owing to the continued amelioration in production technique and product quality in its plants in China, it not only enhanced its productivity per capita, but also strengthened the aggregate competitiveness of the Group. Due to the insufficient machining capacity resulted from the shortage of manpower, some of the Group's clients inclined to place orders for quality mould products with high machining contents to the Group as substitution, thus directly increased the machining revenue of the Group and ultimately lifted up the profit margin of products.

The Group monitored its operation costs with favorable result. Though the raw material price and various costs fluctuated, the Group succeeded in restraining it at a reasonable level. The labor cost continued to rise but it was still managed, floating at a restricted range during the reviewed period. Moreover, the Group kept acquiring automated production equipment to replace the low efficient ones and outsourcing some of the non-core production process. These measures reduced operation cost effectively and further enhanced the gross profit.

Turning to the plant in Hangzhou city, Zhejiang Province, China, its production skills and operation progressed toward maturity gradually. Furthermore, sales promotion in the Eastern, Central and Northern regions of China had advanced steadily and the number of customers increased, bringing positive results to the Group. Consequently, its aggregate performance had been significantly improved compared with the same period in the last year.

Mould steel supply had experienced a transitional period in China, the price of the low to medium range local mould steel restored to its normal price from its lowest point during the review period. Fortunately, the Group had managed to regulate its order volume and inventory level so as to balance its raw material cost to a reasonable level. For the imported steel, the price fluctuated mildly and was relatively stable.

In conclusion, as compared with the same period in last year, the Group had registered a substantial growth in its annual profit and achieved a favorable result and stable development in its aggregate business.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2016, the Group had bank balances of approximately HK$745 million and did not have any borrowings.

The bank balances were placed in short term deposits with major banks in Hong Kong and the PRC.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2016, the Group employed a total of approximately 4,600 employees, including approximately 4,300 employees in its PRC production sites and approximately 300 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to 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, 2016, the Company has complied with all code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

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 of 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 had complied with the Model Code for the year ended 31st December, 2016.

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. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan (appointed with effect from 1st January, 2017)
Mr. Siu Yu Hang, Leo (appointed with effect from 1st January, 2017)

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. Mr. Siu Yuk Tung, Ivan is a son of Mr. Siu Tit Lung, a nephew of Mr. Siu Yuk Lung and a cousin of Mr. Siu Yu Hang, Leo. Mr. Siu Yu Hang, Leo is a son of Mr. Siu Yuk Lung, a nephew of Mr. Siu Tit Lung and a cousin of Mr. Siu Yuk Tung, Ivan.

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, 2016, 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**
Executive directors		
Mr. Siu Tit Lung *(Chairman)*	1/1	4/4
Mr. Siu Yuk Lung *(Managing Director)*	1/1	4/4
Mr. Mak Koon Chi (resigned with effect from 31st December, 2016)	1/1	4/4
Mr. Wai Lung Shing	1/1	4/4
Mr. Ting Chung Ho	1/1	4/4
Independent non-executive directors		
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 delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group while it reserves the right to decide all policy matters of the Group and material transactions.

The Board has delegated the responsibility for performing the corporate governance duties set out in the code provision D.3.1 of the Code to the Audit Committee.

Mr. Siu Yuk Tung, Ivan and Mr. Siu Yu Hang, Leo, the newly appointed directors of the Company, have received the comprehensive, formal and tailored induction on appointments. 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.

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, 2016. The individual training record of each director received for the year ended 31st December, 2016 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
Executive directors		
Mr. Siu Tit Lung *(Chairman)*	✓	✓
Mr. Siu Yuk Lung *(Managing Director)*	✓	✓
Mr. Mak Koon Chi (resigned with effect from 31st December, 2016)	✓	✓
Mr. Wai Lung Shing	✓	✓
Mr. Ting Chung Ho	✓	✓
Independent non-executive directors		
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, whereas the Managing Director implements the strategies approved by the Board.

NON-EXECUTIVE DIRECTORS

All independent 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. The independent non-executive directors 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.

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 diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) 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 Stock Exchange and the Company's website.

During the financial year ended 31st December, 2016, 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 *(Chairman)*	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 is a summary of the work performed by the Nomination Committee in 2016:

1. reviewed the structure, size and diversity of the Board. The Nomination Committee endorsed that the Board possessed a diversity of skills, expertise, experience and qualifications and believed that the Board performed 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 Tit Lung, Mr. Mak Koon Chi and Mr. Lee Joo Hai for the Board's recommendations to stand for election at the 2016 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 2015 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.

9. reviewed the Board Diversity Policy of the Company to see if there was any update.

10. launched the annual "Director's Self-Assessment Review".

11. Recommended to the Board the appointment of Mr. Siu Yuk Tung, Ivan and Mr. Siu Yu Hang, Leo as executive directors of the Company.

12. considered those topics, which were requested by the Board and reviewed those relevant documents.

Below is a summary of the Board Diversity Policy of the Company:

The Company recognises and embraces the benefits of having a diverse Board to enhance the overall quality of its performance.

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the aforesaid mentioned aspects. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will report annually on the Board's composition under diversified perspectives, and monitor the implementation of this policy. The Nomination Committee will discuss any policy's revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

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 Stock Exchange and the Company's website.

During the financial year ended 31st December, 2016, 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 *(Chairman)*	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 is a summary of the work performed by the Remuneration Committee in 2016:

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, considered the remuneration package of executive directors by making reference to the prevailing packages with companies listed on the main board of the Stock Exchange and recommended to the Board the increase of salaries of executive directors.

3. endorsed the increase of directors' fees of the independent non-executive directors of the Company approved by the Board.

4. ensured no director or any of his associates was involved in deciding his own remuneration.

5. reviewed the relevant disclosures made in the Directors' Report of the Annual Report.

6. reviewed the Corporate Governance Report, which was included in the Annual Report.

7. reviewed the Group's compliance with the Code.

8. recommended to the Board the remuneration packages of Mr. Siu Yuk Tung, Ivan and Mr. Siu Yu Hang, Leo, the newly appointed executive directors of the Company.

9. considered those topics, which were requested by the Board and reviewed those relevant documents.

The Remuneration Committee has adopted the model set out in the code provision B.1.2(c)(ii) of the Code, i.e. to make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Details of the remuneration of directors are disclosed on an individual basis and are set out in note 9 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 Audit Committee has accepted the Board's delegation of responsibility for performing the corporate governance duties set out in the code provision D.3.1 of the Code. The terms of reference of the Audit Committee are available on the website of the Stock Exchange and the Company's website.

During the financial year ended 31st December, 2016, 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.

During the financial year ended 31st December, 2016, 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 *(Chairman)*	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 is a summary of the work performed by the Audit Committee in 2016:

1. reviewed the Group's consolidated financial statements for the year ended 31st December, 2015 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, which was 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, 2016 to 30th April, 2016 with a recommendation to the Board for approval.

6. assessed broadly any special risks faced by the Group and reviewed the effectiveness of the risk management and internal control systems of the Group through the Risk Management and Internal Control Review Task Force, which was established by the Audit Committee. The findings were assessed by the Risk Management and Internal Control Review Task Force. The Audit Committee then reviewed these findings and reported the same to the Board.

7. reviewed the Group's consolidated financial statements for the six months period ended 30th June, 2016 and the interim results announcement with a recommendation to the Board for approval.

8. reviewed the Group's consolidated financial statements for the period from 1st January, 2016 to 30th September, 2016 with a recommendation to the Board for approval.

9. reviewed the Group's policies and practices on corporate governance and made recommendations to the Board.

10. reviewed the training and continuous professional development of directors.

11. reviewed the Group's compliance with the Code.

12. reviewed the annual internal audit plan and the related party transaction reports submitted by the Group's Internal Audit Department.

13. reviewed the findings and recommendations submitted by the Group's Internal Audit Department.

14. reviewed the reports including the 2016 audit planning report and the management letters submitted by the external auditor.

15. considered the 2016 audit fees with a recommendation to the Board for approval.

16. considered those topics, which were requested by the Board and reviewed those relevant documents.

At the Audit Committee meeting on 24th March, 2017, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December, 2016, the disclosure in this corporate governance report 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 2017 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2017 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.

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.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Risk Management and Internal Control Review Task Force of the Audit Committee. The Risk Management and Internal Control Review Task Force assists the Board and the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis and the Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The various departments of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to the directors of the Group at each regularly scheduled meeting throughout the year. The Internal Audit department reviews significant aspects of risk management and internal control for the Group, reports to the Board and the Audit Committee periodically, including amongst other things, significant risks of the Group and the appropriate mitigation of identified risks.

Internal Audit department reports to the Board and the Audit Committee periodically throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls. The annual work plan of Internal Audit covers major activities and processes of the Group's operations and businesses units. Special reviews are also performed at the Board' request. The results of these audit activities are communicated to the Board and the Audit Committee. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Board and the Audit Committee periodically.

The Internal Audit provides independent advices to the Board, the Audit Committee and the executive management of the Group on the adequacy and effectiveness of internal controls for the Group. The Head of Internal Audit reports directly to the Chairman of the Audit Committee and the respective directors (as the case may be).

The senior management of the Group, supported by the Board, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for reporting to the Board and/or the Audit Committee on the effectiveness of these systems.

The following key processes are used to identify, evaluate and manage the Group's significant risks:

1. the Board establishes the scope and the Audit Committee establishes the risk assessment criteria.

2. various departments identify the risks, which may potentially impact the achievement of their business objectives, and analyze and evaluate the significance of such risks.

3. various departments assess the adequacy of existing controls, determine and implement plans where risks are mitigated.

4. various departments monitor those activities to mitigate the risks.

5. Internal Audit tracks the progress of those activities to mitigate the risks and reports regularly to the Board and the Audit Committee.

The Company has adopted policies and procedures for assessing and improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to provide confirmation to the Board on the effectiveness of these systems annually.

The Board has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Board has designated the Head of Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to him for consideration by the Board.

The Company strictly regulates the handling and dissemination of inside information to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2016, the Risk Management and Internal Control Review Task Force assessed broadly any special risks faced by the Group and conducted a review on the effectiveness of the risk management and internal control systems of the Group. The Risk Management and Internal Control Review Task Force conducted interviews with the executive directors of the Company. The heads of major departments were required to undertake self-assessments of their key controls. The findings were assessed by the Risk Management and Internal Control Review Task Force. The Audit Committee then reviewed these findings and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

During 2016, the Internal Audit conducted selective reviews on the effectiveness of the risk management and internal control systems of the Group over operational, financial and compliance controls.

In addition to the review of risk management and internal controls undertaken within the Group, the external Auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external Auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

AUDITOR'S REMUNERATION

For the financial year ended 31st December, 2016, 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	3,106
Non-audit services	
— Interim review	470
— Taxation services	192
— Audit of provident fund	6
— Review of results announcement	47

COMPANY SECRETARY

Mr. Wai Lung Shing, an executive director of the Company, is the Company Secretary of the Company. Mr. Wai has taken no less than 15 hours of relevant professional training duly complied with the training requirement pursuant to Rule 3.29 of the Listing Rules for the year ended 31st December, 2016.

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 requisitionists 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 of 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 Unit A, 15th Floor, Kings Wing Plaza 2, No.1 On Kwan Street, Sha Tin, New Territories, 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.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company‘s constitutional documents during the financial year ended 31st December, 2016.

Hong Kong, 24th March, 2017

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, 2016.

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. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements.

There were no significant change to the Group's principal activities during the current year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35.

An interim dividend of HK7 cents per share amounting to approximately HK$44,217,000 and an interim special dividend of HK5 cents per share amounting to approximately HK$31,584,000 were paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK12 cents per share amounting to approximately HK$75,801,000 and a final special dividend of HK12 cents per share amounting to approximately HK$75,801,000 to shareholders registered on the register of members on 24th May, 2017 and the retention of the remaining profits for the year.

BUSINESS REVIEW

A business review of the Group for the year ended 31st December, 2016 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are shown in "Chairman's Statement" section and "Management Discussion and Analysis" section of this annual report. The capital risk management and the financial risk management objectives and policies of the Group are set out in notes 5 and 26 respectively to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in "Five-Year Financial Summary" section of this annual report.

Environmental policies and performance

As one of the world's largest mould base manufacturers and the leader of the mould base industry in the PRC, the Group believes that it should not only lead the PRC mould base industry to the world but also lead the industry to be carried on in an environmentally responsible way. The Group believes that in the long run, due performance of environmental responsibility would definitely improve the effectiveness of the utilisation of the Group's resources and would raise the economic efficiency to the Group.

BUSINESS REVIEW *(continued)*

The Group abides by all the applicable environmental laws and regulations of the places where the Group has business operations. The Group has established the environmental protection policies that include both emission reduction and energy-saving policies in order to minimise the impacts to the environment.

Compliance with the relevant laws and regulations that have a significant impact on the company

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact to the Group. The Audit Committee of the Company is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed.

Key relationships with stakeholders

The Group believes that its success depends on the support from the key stakeholders, which comprise employees, customers, suppliers and shareholders.

Employees

The Group respects its employees and endeavours to provide the better working conditions for its employees. The Group has established various policies in relation to the labour practices including the remuneration and dismissal, recruitment and promotion, working hours, holidays, disciplinary practice, equal opportunity, diversity and other benefits and welfare so as to provide a fair, healthy and safe working environments for all employees. The Group has also established the policies for remuneration of employees so as to provide the fair and competitive remuneration packages for the employees under the systemic remuneration management. The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects in order to build up a sound career platform for employees.

Customers

The Group aims at providing its customers with the qualified products and has adopted a system to control strictly the manufacturing processes of its products and the product quality. All products are manufactured according to the specified procedures and are required to undergo a thorough quality inspection process in order to assure the products quality. The Group has maintained a customer service team to handle the enquiries about the products from the customers. The customer service team handles the customers' feedbacks and complaints according to the stated procedures.

BUSINESS REVIEW *(continued)*

Suppliers

The Group used to work with the suppliers with the same objectives and develops mutually-successful working relationships with the key suppliers. The Group strictly follows its policy, which is constructed under the Group's corporate culture of integrity, and professional standard in the selection of suppliers and purchasing process. Although the cost of purchasing is a major consideration in selecting suppliers, the Group would also consider the suppliers' corporate social responsibility performances, which include the suppliers' performances on the aspects of legal and regulatory compliance, business ethics, labour practices and environmental protection etc.

Shareholders

One of the Group's objectives is to maximise shareholders' value and safeguard the interests of the shareholders. The Group believes that good governance is essential to achieving the aforesaid objective so that it has adopted the standards of corporate governance. The Group is committed to ensure the sustainable development of the Group and to maintain the stable dividend payouts after taking into account the capital adequacy levels, liquidity positions and business expansion needs of the Group.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 82.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2016 were revalued by an independent firm of qualified professional property valuers. The revaluation increase of HK$2,000,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income. Details of the movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2016 are set out on page 83.

PROPERTY, PLANT AND EQUIPMENT

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 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, 2016 represented the retained profits of approximately HK$290,835,000.

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 33% to the total purchases for the year while the Group's five largest suppliers accounted for 68% 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 (resigned with effect from 31st December, 2016)
Mr. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan (appointed with effect from 1st January, 2017)
Mr. Siu Yu Hang, Leo (appointed with effect from 1st January, 2017)

Independent non-executive directors
Mr. Liu Wing Ting, Stephen, JP
Dr. Lee Tat Yee
Mr. Lee Joo Hai

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Siu Yuk Tung, Ivan and Mr. Siu Yu Hang, Leo shall hold office until the forthcoming annual general meeting and shall be eligible for re-election.

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Siu Yuk Lung, Mr. Ting Chung Ho and Mr. Liu Wing Ting, Stephen 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).

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 66, 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 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 is the elder brother of Mr. Siu Yuk Lung, the father of Mr. Siu Yuk Tung, Ivan and the uncle of Mr. Siu Yu Hang, Leo.

Mr. Siu Yuk Lung, aged 63, 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 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. Siu is the younger brother of Mr. Siu Tit Lung, the father of Mr. Siu Yu Hang, Leo and the uncle of Mr. Siu Yuk Tung, Ivan.

Mr. Wai Lung Shing, aged 55, 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 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 and the Chinese Institute of Certified Public Accountants. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Ting Chung Ho, aged 63, 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 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 and a Master of Laws in Chinese Business Law. He is a member of The Hong Kong Institute of Directors.

Mr. Siu Yuk Tung, Ivan, aged 37, joined the Group in October 2004 as an assistant general manager of a subsidiary of the Company and has been appointed as an executive director of the Company since 1st January, 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from The University of Warwick, United Kingdom with a Bachelor of Engineering Degree in Mechanical Engineering. He worked in a sizeable organization prior to joining the Group in October 2004 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Tit Lung, a nephew of Mr. Siu Yuk Lung and a cousin of Mr. Siu Yu Hang, Leo.

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

Executive directors *(continued)*

Mr. Siu Yu Hang, Leo, aged 37, joined the Group in July 2008 as assistant to director of the Company and has been appointed as an executive director of the Company since 1st January, 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from the University College London, United Kingdom with a Bachelor of Science Degree in Mathematics with Economics and from the University of Cambridge, United Kingdom with a Certificate of Advanced Studies in Mathematics. He worked in an international financial institution prior to joining the Group in July 2008 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Yuk Lung, a nephew of Mr. Siu Tit Lung and a cousin of Mr. Siu Yuk Tung, Ivan.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 64, 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. He is a member of the Hospital Governing Committee of Kwai Chung Hospital, Princess Margaret Hospital and Tseung Kwan O Hospital. Mr. Liu 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 69, 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 61, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Singapore Chartered Accountants, the Malaysian Institute of Accountants 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 Hyflux Ltd, IPC Corporation Limited and Raffles United Holdings Limited (formerly known as "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 SinoCloud Group Limited, which is listed on the Catalist of the SGX-ST and is also an independent director of Agria Corporation, which was delisted from the New York Stock Exchange on 2nd January, 2017. 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' INTERESTS IN SHARES

At 31st December, 2016, 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: Personal interests	Number of shares held: Other interests	Total interests	Percentage of Company's issued share capital
Siu Tit Lung *(Notes 1 and 2)*	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	404,152,381	63.98%
Siu Yuk Lung *(Notes 1 and 2)*	Beneficial owner and founder of discretionary trust	37,941,444	366,210,937	404,152,381	63.98%
Mak Koon Chi *(Note 3)*	Beneficial owner	3,843,750	—	3,843,750	0.61%
Wai Lung Shing	Beneficial owner	3,843,750	—	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	—	720,000	0.11%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	150,000	0.02%
Lee Tat Yee	Beneficial owner	150,000	—	150,000	0.02%
Lee Joo Hai	Beneficial owner	300,000	—	300,000	0.05%

Notes:

1. 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.

2. 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.

3. Mr. Mak Koon Chi resigned as director of the Company on 31st December, 2016.

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.

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors nor 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, 2016.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2016, 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	57.97%
Schroders Plc	Investment manager	34,285,500	5.43%

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, 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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' INTERESTS IN ANY TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or 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.

PERMITTED INDEMNITY PROVISION

Pursuant to Bye-law 166(1) of the Company's Bye-Laws, directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he may incur or sustain by or about the execution of their duty in their offices or in relation thereto.

The Company has arranged appropriate directors' liability insurance coverage for the directors of the Company throughout the year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreement 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, 2016 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 Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the year.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 7 to 19.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company 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 assessed the independence of the independent non-executive directors and affirmed that all independent non-executive directors remained independent.

CHARITABLE DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$10,500.

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, 24th March, 2017

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED
龍記（百慕達）集團有限公司
(incorporated in Bermuda with limited liability)

Opinion

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 35 to 81, which comprise the consolidated statement of financial position as at 31st December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters *(continued)*

Key audit matters	How our audit addressed the key audit matters
Recognition of deferred tax asset in respect of tax losses	
We identified the recognition of deferred tax asset in respect of tax losses as a key audit matter due to the estimation by the management in relation to the recognition of such deferred tax asset. Deferred tax asset in respect of tax losses of approximately HK$20,285,000 was recognised based on the management's judgement in which sufficient future profits will be available in the future against the accumulated tax losses arising from one of the Group's PRC subsidiary based on the profit forecast prepared by the management. Details relating to the Group's deferred tax assets are set out in notes 4 and 17 to the consolidated financial statements.	Our procedures in relation to assessing the recognition of deferred tax asset in respect of tax losses included: • Understanding how the management's process in preparation of the profit forecast; • Assessing the key assumptions and judgements made by the management in the preparation of the profit forecast including growth rates and economic factors surrounding that PRC subsidiary; • Evaluating the historical accuracy of the profit forecast by comparing the historical profit forecast to actual result; • Assessing the reasonableness of the possible timing of the utilisation of the accumulated tax losses; • Evaluating the sensitivity analysis on the growth rates prepared by management and to assess the extent of impact on the financial forecast; and • Assessing the adequacy of the disclosures to the consolidated financial statements setting out the recognition bases of such deferred tax asset.

Key Audit Matters *(continued)*

Key audit matters	How our audit addressed the key audit matters
Estimated allowance for raw materials	
We identified estimated allowance for raw materials as a key audit matter due to management has made the allowance based on the estimation by their industry knowledge and experiences. Allowance for raw materials were based on assessment of the management, by considering the latest resale values, latest purchase prices, current market conditions and the aging analysis of raw materials. As at 31st December, 2016, the Group has raw materials with gross amount of approximately HK$414,088,000 with cumulative allowance of approximately HK$73,875,000. Details relating to the Group's inventories are set out in notes 4 and 18 to the consolidated financial statements.	Our procedures in relation to assessing the appropriateness of the estimated allowance for raw materials included: • Obtaining an understanding of how allowance for raw materials is estimated by the management; • Verifying the accuracy of the aging analysis of raw materials by utilising computer assisted audit techniques; • Discussing with the management and evaluating the basis of allowance for raw materials determined by the management, based on the latest resale values, latest purchase prices, current market conditions and the aging analysis of raw materials; • Tracing the resale values of raw materials to the available market data; • Testing subsequent purchase prices of raw materials, on a sample basis, to the purchase invoices; and • Evaluating the historical accuracy of the allowance estimation by management.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Other Information *(continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Woo King Wa.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th March, 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	6	**2,213,126**	2,279,124
Other income	8	**31,495**	54,931
Increase in fair value of investment properties	14	**2,000**	8,000
Changes in inventories of finished goods and work in progress		**53**	(9,542)
Raw materials and consumables used		**(772,613)**	(899,946)
Employee benefits expenses		**(555,669)**	(577,152)
Depreciation of property, plant and equipment		**(199,892)**	(226,367)
Other expenses		**(438,626)**	(457,857)
Interest on bank borrowings		**(5)**	(1,565)
Profit before taxation		**279,869**	169,626
Income tax expense	10	**(87,314)**	(42,605)
Profit for the year	11	**192,555**	127,021
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss			
Reclassification adjustment of translation reserve upon deregistration of a subsidiary		**(9,866)**	—
Exchange difference arising on translation of foreign operations		**(99,118)**	(125,527)
Other comprehensive expense for the year		**(108,984)**	(125,527)
Total comprehensive income for the year		**83,571**	1,494
Profit for the year attributable to:			
Owners of the Company		**191,731**	125,632
Non-controlling interests		**824**	1,389
		192,555	127,021
Total comprehensive income for the year attributable to:			
Owners of the Company		**82,442**	709
Non-controlling interests		**1,129**	785
		83,571	1,494
		HK cents	HK cents
Basic earnings per share	13	**30.35**	19.89

Consolidated Statement of Financial Position

At 31st December, 2016

	NOTES	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**179,500**	177,500
Property, plant and equipment	15	**884,164**	1,016,442
Prepaid lease payments — non-current portion	16	**72,495**	86,014
Deposits paid for acquisition of property, plant and equipment		**36,753**	52,217
Deferred tax assets	17	**29,933**	41,406
		1,202,845	1,373,579
Current assets			
Inventories	18	**397,783**	468,512
Trade, bills and other receivables	19	**370,192**	429,956
Prepaid lease payments — current portion	16	**1,796**	2,139
Bank balances and cash	20	**745,111**	505,127
		1,514,882	1,405,734
Non-current asset classified as held for sale	21	**15,665**	—
		1,530,547	1,405,734
Current liabilities			
Trade, bills and other payables	22	**366,482**	328,259
Taxation payable		**14,309**	7,883
Dividend payable		**162**	145
Unsecured bank borrowings — due within one year	23	**—**	1,879
		380,953	338,166
Net current assets		**1,149,594**	1,067,568
Total assets less current liabilities		**2,352,439**	2,441,147
Non-current liabilities			
Deferred tax liabilities	17	**23,811**	48,190
Other payables	22	**106,507**	96,488
		130,318	144,678
Net assets		**2,222,121**	2,296,469

Consolidated Statement of Financial Position

At 31st December, 2016

	NOTES	2016 HK$'000	2015 HK$'000
CAPITAL AND RESERVES			
Share capital	24	**63,168**	63,168
Reserves		**2,143,590**	2,219,067
Equity attributable to owners of the Company		**2,206,758**	2,282,235
Non-controlling interests		**15,363**	14,234
Total equity		**2,222,121**	2,296,469

The consolidated financial statements on pages 35 to 81 were approved and authorised for issue by the Board of Directors on 24th March, 2017 and are signed on its behalf by:

Siu Tit Lung
Executive Director and Chairman

Siu Yuk Lung
Executive Director and Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2016

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (Note)	Translation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1st January, 2015	63,168	156,213	278,129	449,634	1,422,816	2,369,960	13,449	2,383,409
Profit for the year	–	–	–	–	125,632	125,632	1,389	127,021
Other comprehensive expense for the year								
Exchange difference arising on translation of foreign operations	–	–	–	(124,923)	–	(124,923)	(604)	(125,527)
	–	–	–	(124,923)	–	(124,923)	(604)	(125,527)
Total comprehensive (expense) income for the year	–	–	–	(124,923)	125,632	709	785	1,494
Final dividend for the year ended 31st December, 2014 (note 12)	–	–	–	–	(44,217)	(44,217)	–	(44,217)
Interim dividend for the year ended 31st December, 2015 (note 12)	–	–	–	–	(44,217)	(44,217)	–	(44,217)
Transfer	–	–	7,894	–	(7,894)	–	–	–
At 31st December, 2015	63,168	156,213	286,023	324,711	1,452,120	2,282,235	14,234	2,296,469
Profit for the year	–	–	–	–	191,731	191,731	824	192,555
Other comprehensive expense for the year								
Reclassification adjustment of translation reserve upon deregistration of a subsidiary	–	–	–	(9,866)	–	(9,866)	–	(9,866)
Exchange difference arising on translation of foreign operations	–	–	–	(99,423)	–	(99,423)	305	(99,118)
	–	–	–	(109,289)	–	(109,289)	305	(108,984)
Total comprehensive (expense) income for the year	–	–	–	(109,289)	191,731	82,442	1,129	83,571
Final dividend for the year ended 31st December, 2015 (note 12)	–	–	–	–	(50,534)	(50,534)	–	(50,534)
Final special dividend for the year ended 31st December, 2015 (note 12)	–	–	–	–	(31,584)	(31,584)	–	(31,584)
Interim dividend for the year ended 31st December, 2016 (note 12)	–	–	–	–	(44,217)	(44,217)	–	(44,217)
Interim special dividend for the year ended 31st December, 2016 (note 12)	–	–	–	–	(31,584)	(31,584)	–	(31,584)
Transfer	–	–	9,191	–	(9,191)	–	–	–
At 31st December, 2016	63,168	156,213	295,214	215,422	1,476,741	2,206,758	15,363	2,222,121

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, 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**279,869**	169,626
Adjustments for:		
Allowance (recovered) recognised for inventories	**(9,191)**	14,164
Depreciation of property, plant and equipment	**199,892**	226,367
Interest on bank borrowings	**5**	1,565
Exchange gain on deregistration of a subsidiary	**(9,866)**	—
Increase in fair value of investment properties	**(2,000)**	(8,000)
Interest income	**(7,422)**	(12,453)
Gain on disposal of property, plant and equipment	**(5,922)**	(28,364)
Release of prepaid lease payments	**2,007**	2,279
Compensation for termination of agreement	**—**	(6,175)
Impairment loss recovered in respect of trade receivables	**(114)**	(4,439)
Operating cash flows before movements in working capital	**447,258**	354,570
Decrease in inventories	**53,095**	52,628
Decrease in trade, bills and other receivables	**36,409**	44,639
Increase (decrease) in trade, bills and other payables	**38,225**	(29,769)
Cash generated from operations	**574,987**	422,068
Income taxes paid	**(89,852)**	(49,196)
NET CASH FROM OPERATING ACTIVITIES	**485,135**	372,872
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(111,622)**	(102,580)
Deposit received in respect of disposal of property interests	**35,130**	—
Interest received	**7,422**	12,453
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**7,264**	46,737
NET CASH USED IN INVESTING ACTIVITIES	**(61,806)**	(43,390)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2016

	2016 HK$'000	2015 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(157,902)**	(88,425)
Repayment of bank borrowings	**(1,919)**	(161,156)
Interest paid	**(5)**	(1,565)
New bank borrowings raised	**–**	71,000
NET CASH USED IN FINANCING ACTIVITIES	**(159,826)**	(180,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**263,503**	149,336
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**505,127**	383,774
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(23,519)**	(27,983)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**745,111**	505,127

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2016

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 dollars, which is the same as the functional currency of the Company.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") during the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Clarifications[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1st January, 2018

2 Effective for annual periods beginning on or after 1st January, 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1st January, 2017

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

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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of each reporting period, 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 and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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 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 and 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 services, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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.

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 of disposal 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 in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on weighted average cost 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 recognised 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.

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 period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates 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 appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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 other 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.

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.

Current and deferred tax are recognised in profit or loss, except when they relate 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Financial instruments

Financial assets and financial liabilities are recognised 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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, bills and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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 when 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.

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 the 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, 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 by reference to the objective evidence.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of loans and receivables (continued)

The carrying amount of loans and receivables 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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance amount. Changes in the carrying amount of the allowance account are recognised in 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 was recognised, the previously recognised impairment loss is reversed through profit or to the extent that the carrying amount of the loan and receivable 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.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial 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.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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.

Key sources of estimation uncertainty

The following are 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.

Recognition of deferred tax asset in respect of tax losses

The realisation of the deferred tax asset mainly depends on whether sufficient future profits will be available in the future based on the profit forecast prepared by the management. In cases where the actual future profits generated are less than or more than expected, a reversal or a recognition of deferred tax assets in respect of tax loss would be recognised as profit or loss in the consolidated statement of profit or loss and other comprehensive income for the year in which such a reversal or recognition takes place. As at 31st December, 2016, the carrying amount of deferred tax asset in respect of tax losses is approximately HK$20,285,000 (2015: HK$32,516,000).

Estimated allowance for raw materials

Management of the Group reviews its allowance for raw materials at the end of the reporting period. Management estimates the amount of allowance for raw materials based on the latest resale values, latest purchase prices, current market conditions and aging analysis. The Group carries out a review by making use of the aging analysis at the end of the reporting period and make allowance for aged items. As at 31st December, 2016, the carrying amount of raw material is approximately HK$340,213,000 (net of allowance of approximately HK$73,875,000) (2015: HK$410,995,000 (net of allowance of approximately HK$89,627,000)).

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

Key sources of estimation uncertainty *(continued)*

Estimated allowance of trade and bills receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are made on trade and bills receivables whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for doubtful debts is required, the Group takes into consideration of the credit history of the trade receivables including default or delay in payments, settlement histories and aging analysis of the trade receivables. Following the identification of doubtful debts, the credit team discusses with the relevant customers and reports on the recoverability. Allowance is made for trade receivables that are unlikely to be fully recovered. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of trade receivables and doubtful debt expenses in the periods in which such estimate has been changed. At 31 December 2016, the carrying amount of trade and bills receivables are approximately HK$328,123,000 (2015: HK$365,839,000) (net of allowance for doubtful debts of HK$26,009,000 (2015: HK$27,585,000)).

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 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, as well as the issue of new debt and the redemption of existing debt.

6. 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 to external customers during the year, after allowances for returns and trade discounts.

7. SEGMENT INFORMATION

The Group only has one operating segment, based on information reported to the chief operating decision maker (the Company'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 revenue and segment result of the Group represents revenue and profit after taxation set out in the consolidated statement of profit or loss and other comprehensive income respectively.

Entity-wide disclosures

As at 31st December, 2016 and 2015, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the PRC.

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

	2016 **HK$'000**	2015 HK$'000
The PRC (excluding Hong Kong)	**1,905,401**	1,973,675
Hong Kong	**3,130**	4,863
Others	**304,595**	300,586
	2,213,126	2,279,124

The Group has a very wide customer base covering Europe, America and Asia. No single customer contributed more than 10% of the Group's revenue for each of the years ended 31st December, 2016 and 2015.

8. OTHER INCOME

	2016 **HK$'000**	2015 HK$'000
Interest income	**7,422**	12,453
Rental income, net of direct outgoings of approximately HK$513,000 (2015: HK$473,000)	**5,495**	4,556
Sundry income	**2,790**	3,383
Gain on disposal of property, plant and equipment and prepaid lease payments	**5,922**	28,364
Exchange gain on deregistration of a subsidiary	**9,866**	—
Compensation for termination of agreement	**—**	6,175
	31,495	54,931

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2015: eight) directors were as follows:

	Executive directors					**Independent non-executive directors**			
	Siu Tit Lung HK$'000	**Siu Yuk Lung HK$'000**	**Mak Koon Chi HK$'000 (Note 3)**	**Wai Lung Shing HK$'000**	**Ting Chung Ho HK$'000**	**Liu Wing Ting, Stephen HK$'000**	**Lee Tat Yee HK$'000**	**Lee Joo Hai HK$'000**	**Total HK$'000**
2016									
Fees (Note 1)	**–**	**–**	**–**	**–**	**–**	**492**	**459**	**444**	**1,395**
Other emoluments									
Salaries and other benefits	**7,440**	**7,440**	**2,292**	**2,292**	**2,228**	**–**	**–**	**–**	**21,692**
Contributions to retirement benefit schemes	**818**	**818**	**252**	**252**	**246**	**–**	**–**	**–**	**2,386**
Bonus (Note 2)	**2,400**	**2,400**	**3,000**	**6,800**	**4,600**	**–**	**–**	**–**	**19,200**
Total emoluments	**10,658**	**10,658**	**5,544**	**9,344**	**7,074**	**492**	**459**	**444**	**44,673**

	Executive directors					Independent non-executive directors			
	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Mak Koon Chi HK$'000	Wai Lung Shing HK$'000	Ting Chung Ho HK$'000	Liu Wing Ting, Stephen HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Total HK$'000
2015									
Fees (Note 1)	–	–	–	–	–	402	393	363	1,158
Other emoluments									
Salaries and other benefits	6,480	6,480	1,944	1,944	1,956	–	–	–	18,804
Contributions to retirement benefit schemes	713	713	214	214	215	–	–	–	2,069
Bonus (Note 2)	350	350	4,500	4,500	3,000	–	–	–	12,700
Total emoluments	7,543	7,543	6,658	6,658	5,171	402	393	363	34,731

Notes:

1. Their fees include those for services rendered by them as chairman/members of the Risk Management and Internal Control Review Task Force.

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

3. Mr. Mak Koon Chi resigned as director of the Company on 31st December, 2016.

No directors waived any emoluments in the years ended 31st December, 2016 and 2015.

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

10. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	**934**	447
— (over)underprovision in prior years	**(30)**	108
	904	555
Taxation in jurisdictions outside Hong Kong		
— current year	**76,588**	52,088
— overprovision in prior years	**(1,326)**	(106)
— transfer from deferred taxation	**23,650**	—
	98,912	51,982
Deferred taxation (note 17)		
— current year	**11,148**	(9,932)
— transfer to current income tax	**(23,650)**	—
	(12,502)	(9,932)
	87,314	42,605

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% for both years.

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

10. INCOME TAX EXPENSE *(continued)*

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

	2016 HK$'000	2015 HK$'000
Profit before taxation	**279,869**	169,626
Tax at PRC income tax rate of 25% (2015: 25%) (note)	**69,967**	42,407
Tax effect of non-deductible expenses	**12,259**	6,936
Tax effect of non-taxable income	**(7,463)**	(10,093)
Utilisation of tax losses previously not recognised	**(1,456)**	(4,836)
Tax effect of unused tax losses not recognised	**1,707**	3,539
(Over)underprovision in prior years	**(1,356)**	2
Tax effect of deductible temporary difference not recognised	**4,120**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,680)**	(2,892)
Deferred tax charge arising on undistributed profits of PRC subsidiaries	**11,216**	7,542
Tax charge for the year	**87,314**	42,605

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

11. PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 9)	**44,673**	34,731
Other staff costs	**477,260**	502,136
Retirement benefit scheme contributions (excluding contributions in respect of directors of the Company)	**33,736**	40,285
Total staff cost	**555,669**	577,152
Auditors' remuneration (including remuneration for non-audit services)	**3,821**	3,570
Gross foreign exchange loss	**5,114**	6,961
Gross foreign exchange gain	**(803)**	(5,156)
Operating lease rentals in respect of		
— rented premises	**13,747**	13,969
— plant and machinery	**98**	84
Release of prepaid lease payments	**2,007**	2,279
Impairment loss recovered in respect of trade receivables, net	**(114)**	(4,439)
Allowance (recovered) recognised for inventories	**(9,191)**	14,164

12. DIVIDENDS

	2016 HK$'000	2015 HK$'000
Dividends recognised as distribution during the year:		
2016 Interim — HK7 cents		
(2015: 2015 interim dividend of HK7 cents) per share	**44,217**	44,217
2016 Interim special — HK5 cents (2015: nil) per share	**31,584**	—
2015 Final — HK8 cents		
(2015: 2014 final dividend of HK7 cents) per share	**50,534**	44,217
2015 Final special — HK5 cents (2015: nil) per share	**31,584**	—
	157,919	88,434

The board of directors have determined that a final dividend of HK12 cents (2015: HK8 cents) per share amounting to approximately HK$75,801,000 (2015: HK$50,534,000) and a final special dividend of HK12 cents (2015: HK5 cents) per share amounting to approximately HK$75,801,000 (2015: HK$31,584,000) should be paid to the shareholders of the Company whose names appear in the register of members on 24th May, 2017.

13. BASIC EARNINGS PER SHARE

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

	2016 HK$'000	**2015 HK$'000**
Earnings:		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	**191,731**	125,632

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**631,677,303**	631,677,303

No diluted earnings per share are presented for both years as there were no potential ordinary shares in issue.

14. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2015	169,500
Unrealised fair value gain on property revaluation included in profit or loss	8,000
At 31st December, 2015	177,500
Unrealised fair value gain on property revaluation included in profit or loss	2,000
At 31st December, 2016	179,500

All of the Group's property interests held under 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.

The fair value of the Group's investment properties at 31st December, 2016 and 31st December, 2015 has been arrived at on the basis of a valuation carried out on the respective dates by C S Surveyors Limited, independent qualified professional valuers not connected to the Group.

The fair value was determined based on market comparable approach, where the prices per square feet of the properties are assessed by reference to market evidence of transaction prices for similar use of properties in the similar locations and conditions in Hong Kong. There has been no change from the valuation technique used in the prior year and it is classified as Level 3 hierarchy. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the price per square feet, which ranged from HK$6,218 to HK$13,162. A slight increase in the price per square feet used would result in a significant increase in fair value measurement of the respective investment properties, and vice versa.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Furniture, fixtures, fittings and other equipments	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, 2015	21,317	854,881	156,411	2,228,713	28,296	14,226	3,303,844
Currency realignment	–	(45,868)	(8,759)	(126,196)	(854)	(767)	(182,444)
Additions	–	806	2,287	107,606	4,776	31,169	146,644
Disposals	–	(28,870)	(4,561)	(40,408)	(6,798)	–	(80,637)
Reclassification	–	9,045	82	1,985	–	(11,112)	–
At 31st December, 2015	21,317	789,994	145,460	2,171,700	25,420	33,516	3,187,407
Currency realignment	–	(45,579)	(7,263)	(121,255)	(620)	(1,947)	(176,664)
Additions	–	3,084	14,768	103,689	5,327	218	127,086
Disposals	–	(3,505)	(5,255)	(47,080)	(4,937)	–	(60,777)
Reclassification	–	18,467	243	11,853	–	(30,563)	–
Transfer to non-current asset classified as held for sale	–	(34,468)	–	–	–	–	(34,468)
At 31st December, 2016	21,317	727,993	147,953	2,118,907	25,190	1,224	3,042,584
ACCUMULATED DEPRECIATION							
At 1st January, 2015	–	228,297	139,561	1,750,633	21,472	–	2,139,963
Currency realignment	–	(13,947)	(7,756)	(108,178)	(712)	–	(130,593)
Provided for the year	–	42,332	4,602	175,495	3,938	–	226,367
Eliminated on disposals	–	(14,274)	(4,305)	(40,235)	(5,958)	–	(64,772)
At 31st December, 2015	–	242,408	132,102	1,777,715	18,740	–	2,170,965
Currency realignment	–	(15,685)	(6,827)	(107,716)	(569)	–	(130,797)
Provided for the year	–	37,259	4,861	153,518	4,254	–	199,892
Eliminated on disposals	–	–	(5,098)	(46,618)	(4,286)	–	(56,002)
Transfer to non-current asset classified as held for sale	–	(25,638)	–	–	–	–	(25,638)
At 31st December, 2016	–	238,344	125,038	1,776,899	18,139	–	2,158,420
CARRYING AMOUNTS							
At 31st December, 2016	21,317	489,649	22,915	342,008	7,051	1,224	884,164
At 31st December, 2015	21,317	547,586	13,358	393,985	6,680	33,516	1,016,442

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment, except for freehold land and construction in progress, 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, fittings and other equipments	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.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land located in the PRC.

	2016 HK$'000	2015 HK$'000
Analysed for reporting purposes as:		
Non-current asset	**72,495**	86,014
Current asset	**1,796**	2,139
	74,291	88,153

17. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**(29,933)**	(41,406)
Deferred tax liabilities	**23,811**	48,190
	(6,122)	6,784

17. DEFERRED TAXATION *(continued)*

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

	Accelerated tax depreciation HK$'000	Withholding tax HK$'000	Tax losses HK$'000	Provisions HK$'000	Total HK$'000
At 1st January, 2015	532	40,648	(24,464)	—	16,716
(Credit) charge for the year	(6,005)	7,542	(8,052)	(3,417)	(9,932)
At 31st December, 2015	(5,473)	48,190	(32,516)	(3,417)	6,784
(Credit) charge for the year	(3,678)	11,216	5,799	(2,189)	11,148
Transfer to current income tax	—	(23,650)	—	—	(23,650)
Currency realignment	4,800	(11,945)	6,432	309	(404)
At 31st December, 2016	(4,351)	23,811	(20,285)	(5,297)	(6,122)

At the end of the reporting period, the Group has unused tax losses of approximately HK$147,476,000 (2015: HK$188,382,000) available for offset against future profits. A deferred tax asset of approximately RMB72,993,000 (equivalent to HK$81,140,000 (2015: HK$130,064,000)) has been recognised in respect of such losses generated by a PRC subsidiary.

The remaining tax losses of approximately HK$66,336,000 (2015: HK$58,318,000) are not recognised as deferred tax assets due to the unpredictability of future profit streams. Except for unused tax losses of approximately RMB72,993,000 (equivalent to HK$81,140,000) that will expire from 2018 to 2020, other unused tax losses may be carried forward indefinitely.

In addition, the Group has temporary differences of approximately HK$234,515,000 (2015: HK$234,159,000) are not recognised as deferred tax assets due to it is not probable and unpredictable that the temporary difference can be deductible according to the relevant tax law.

Under the EIT Law of PRC, 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 undistributed profits amounting to approximately HK$224,320,000 (2015: HK$150,840,000). 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.

18. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials (Note)	**340,213**	410,995
Work in progress	**37,111**	39,032
Finished goods	**20,459**	18,485
	397,783	468,512

Note: The aging analysis of the raw materials net of provision, are as follows:

	2016 HK$'000	2015 HK$'000
0 to 180 days	**191,367**	206,220
181 to 365 days	**87,448**	123,482
Over 1 year	**61,398**	81,293
	340,213	410,995

The cost of inventories recognised as an expense by the Group during the year amounted to approximately HK$1,612,359,000 (2015: HK$1,825,074,000).

19. TRADE, BILLS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**331,273**	360,312
Bills receivables	**22,859**	33,112
Less: allowance for doubtful debts	**(26,009)**	(27,585)
	328,123	365,839
Other receivables	**1,684**	6,083
VAT receivables	**—**	14,377
Deposits and prepayments	**40,385**	43,657
Total trade, bills and other receivables	**370,192**	429,956

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

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 dates at the end of the reporting period.

	2016 **HK$'000**	2015 HK$'000
0 to 60 days	**261,530**	265,990
61 to 90 days	**56,869**	73,273
Over 90 days	**9,724**	26,576
	328,123	365,839

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits and credit period 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.

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$8,643,000 (2015: HK$23,253,000) 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.

	2016 **HK$'000**	2015 HK$'000
91 to 180 days	**8,643**	23,253

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.

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

Movements in the allowance for doubtful debts

	2016	2015
	HK$'000	HK$'000
Balance at the beginning of the year	**27,585**	33,587
Currency realignment	**(1,313)**	(1,419)
Impairment loss recovered during the year	**(114)**	(4,439)
Amounts written off as uncollectible	**(149)**	(144)
Balance at the end of the year	**26,009**	27,585

At the end of reporting period, the allowance for doubtful debts made by the management were considered irrecoverable after consideration of the credit experiences with their customers. 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 balances and short-term bank deposits carry interest at market rates ranged from 0.001% to 6.7% (2015: 0.01% to 5.34%) per annum at 31st December, 2016.

21. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

On 4th July, 2016, 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd., an indirect wholly-owned subsidiary of the Company, had entered into an agreement with an independent third party (the "Purchaser") in relation to the disposal of the land use right of the land situated in Shanghai, the PRC and the related assets at a consideration of RMB90,000,000 (equivalent to approximately HK$100,044,000) (the "Disposal"). Accordingly, the land use right of the land and the related assets with carrying amount of approximately HK$15,665,000 have been reclassified from prepaid lease payments and property, plant and equipment to non-current asset classified as held for sale. Deposit received in respect of the Disposal amounted to approximately HK$33,348,000 was included in trade, bills and other payables as at 31st December, 2016. The legal title of land use right and the related assets had transferred to the Purchaser after the end of reporting period.

22. TRADE, BILLS AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**93,792**	86,017
Bills payables	**12,631**	21,644
Advance receipt from customers	**33,918**	42,651
VAT payables	**15,235**	—
Provision of employee economic compensation	**158,200**	144,456
Payables for salaries and bonuses	**65,040**	55,818
Deposits and accruals	**32,919**	33,701
Deposit received in respect of the Disposal (note 21)	**33,348**	—
Other payables	**27,906**	40,460
Total	**472,989**	424,747
Less: Amount due within one year shown under current liabilities	**(366,482)**	(328,259)
Amount due after one year	**106,507**	96,488

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

	2016 HK$'000	2015 HK$'000
0 to 60 days	**83,420**	71,096
61 to 90 days	**14,625**	23,545
Over 90 days	**8,378**	13,020
	106,423	107,661

23. UNSECURED BANK BORROWINGS

The amounts represent floating rate bank loans repayable on demand in 2015 and were fully repaid during the year ended 31st December, 2016.

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 1.32% to 3.70% in 2015.

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 31st December, 2014, 2015 and 2016	1,000,000,000	100,000	631,677,303	63,168

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. 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.

As at 31st December, 2016 and 31st December, 2015, no option was granted.

26. FINANCIAL INSTRUMENTS

26a. Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,077,273**	886,811
Financial liabilities		
Amortised cost	**163,537**	163,073

26. FINANCIAL INSTRUMENTS *(continued)*

26b. Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, bank balances and cash, trade, bills and other payables 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.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 23 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests 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 concentrated on 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 have been determined based on the exposure to interest rates for variable-rate bank deposits at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of bank deposits.

Based on the sensitivity analysis, the directors of the Company consider that the impact on profit or loss from changes in interest rates for both years is insignificant.

26. FINANCIAL INSTRUMENTS *(continued)*

26b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(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.

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	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
RMB	**—**	—	**51,150**	62,706
USD	**10,107**	16,359	**87,362**	20,367
EUR	**—**	—	**11,069**	4,953
JPY	**56**	61	**2,858**	49

26. FINANCIAL INSTRUMENTS *(continued)*

26b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(b) Currency risk *(continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currency monetary assets and liabilities. No sensitivity analysis is presented for HKD against USD as HKD is pegged to USD. 5% (2015: 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% (2015: 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 strengthen 5% (2015: 5%) against the relevant foreign currency. For a 5% (2015: 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.

	RMB Impact (i)		**EUR Impact (i)**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Post-tax profit for the year	**(1,918)**	(2,351)	**(415)**	(186)

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

26. FINANCIAL INSTRUMENTS *(continued)*

26b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31st December, 2016, 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. The credit team will discuss with the relevant customers and reports on their recoverability on a regular basis. 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 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 curve at the end of the reporting period.

26. FINANCIAL INSTRUMENTS *(continued)*

26b. 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
2016						
Non-derivative financial liabilities						
Trade, bills and other payables	**N/A**	**67,882**	**64,360**	**31,295**	**163,537**	**163,537**

	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
2015						
Non-derivative financial liabilities						
Trade, bills and other payables	N/A	44,778	72,275	44,141	161,194	161,194
Variable-rate bank borrowings	3.70	1,879	–	–	1,879	1,879
		46,657	72,275	44,141	163,073	163,073

As at 31st December, 2015, 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, the aggregate undiscounted principal amounts of these bank loans amounted to HK$1,879,000. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. As at 31st December, 2015, the aggregate principal and interest cash outflows will amount to HK$1,880,000.

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.

26. FINANCIAL INSTRUMENTS *(continued)*

26c. 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 at the end of the reporting period.

27. CAPITAL COMMITMENTS

	2016 **HK$'000**	2015 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**31,567**	54,964

28. 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:

	2016 **HK$'000**	2015 HK$'000
Within one year	**9,014**	11,216
In the second to fifth year inclusive	**6,737**	6,403
	15,751	17,619

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 five years.

28. OPERATING LEASES *(continued)*

The Group as lessor

Property rental income earned during the year was approximately HK$6,008,000 (2015: HK$5,029,000).

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:

	2016 **HK$'000**	2015 HK$'000
Within one year	**2,995**	3,300
In the second to fifth year inclusive	**513**	1,497
	3,508	4,797

The investment properties held have committed tenants for an average term of two (2015: two) years.

29. 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$1,500 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 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.

30. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	2016 **HK$'000**	2015 HK$'000
Rental expenses:		
— Silver Aim Limited and Triplefull Company Limited collectively	**455**	—
Rental deposit paid:		
— Silver Aim Limited and Triplefull Company Limited collectively	**556**	—

Note: The directors of Silver Aim Limited and Triplefull Company Limited are two directors of the Company and one of them is also the beneficial shareholder of both companies.

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

The remuneration of directors during the year was as follows:

	2016 **HK$'000**	2015 HK$'000
Short-term benefits	**23,087**	19,962
Bonus	**19,200**	12,700
Post-employment benefits	**2,386**	2,069
	44,673	34,731

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2016 is as follows:

ASSETS AND LIABILITIES

	2016 HK$'000	2015 HK$'000
Non-current asset		
Investment in a subsidiary	**55,856**	55,856
Current assets		
Amounts due from subsidiaries	**454,374**	414,001
Prepayments	**231**	227
Bank balances	**803**	278
	455,408	414,506
Current liabilities		
Accrued charges	**886**	1,155
Dividend payable	**162**	145
	1,048	1,300
Net current assets	**454,360**	413,206
Net assets	**510,216**	469,062
CAPITAL AND RESERVES		
Share capital	**63,168**	63,168
Reserves (note)	**447,048**	405,894
Total equity	**510,216**	469,062

The statements of financial position of the Company was approved and authorised for issue by the Board of Directors of the Company on 24th March, 2017 and are signed on its behalf by:

Siu Tit Lung
Executive Director and Chairman

Siu Yuk Lung
Executive Director and Managing Director

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

Note:

	Share premium HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1st January, 2015	156,213	339,063	495,276
Loss for the year	—	(948)	(948)
Final dividend for the year ended 31st December, 2014	—	(44,217)	(44,217)
Interim dividend for the year ended 31st December, 2015	—	(44,217)	(44,217)
At 31st December, 2015	156,213	249,681	405,894
Profit for the year	—	199,073	199,073
Final dividend for the year ended 31st December, 2015	—	(50,534)	(50,534)
Final special dividend for the year ended 31st December, 2015	—	(31,584)	(31,584)
Interim dividend for the year ended 31st December, 2016	—	(44,217)	(44,217)
Interim special dividend for the year ended 31st December, 2016	—	(31,584)	(31,584)
At 31st December, 2016	156,213	290,835	447,048

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Details of the Group's material subsidiaries as at 31st December, 2016 and 2015 which, in the opinion of the directors, principally affected the results or net assets of the Group are set out below. 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
杭州龍記金屬製品有限公司 Hangzhou Lung Kee Metal Products Co., Ltd.	The PRC (note a)	US$75,000,000	100	Manufacturing and 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 Limited	Hong Kong	HK$2 ordinary shares HK$10,000,002 non-voting deferred shares (note b)	100	Trading of mould bases and related products
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
Super Visions International Limited	British Virgin Islands	US$2	100	Holding and licensing of trademarks
仕霸工業股份有限公司 Taiwan Supertech Industrial Company Limited	Republic of China (note c)	NT$36,880,000	70	Manufacturing and marketing of mould bases

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(continued)*

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.

c. The entity contributes the Group's material non-controlling interest as at 31st December, 2016.

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

Five-Year Financial Summary

RESULTS

	Year ended 31st December,				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
REVENUE	2,401,503	2,221,203	2,403,429	2,279,124	**2,213,126**
PROFIT BEFORE TAXATION	252,014	191,571	171,553	169,626	**279,869**
INCOME TAX EXPENSE	(53,227)	(44,688)	(31,994)	(42,605)	**(87,314)**
PROFIT FOR THE YEAR	198,787	146,883	139,559	127,021	**192,555**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	196,529	145,197	137,837	125,632	**191,731**
NON-CONTROLLING INTERESTS	2,258	1,686	1,722	1,389	**824**
	198,787	146,883	139,559	127,021	**192,555**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
BASIC EARNING PER SHARE	31.13	22.99	21.82	19.89	**30.35**
DIVIDEND PER SHARE (Note)	18.00	28.00	13.00	20.00	**36.00**

ASSETS AND LIABILITIES

	At 31st December,				
	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
TOTAL ASSETS	3,095,740	3,209,787	3,007,420	2,779,313	**2,733,392**
TOTAL LIABILITIES	(671,508)	(719,484)	(624,011)	(482,844)	**(511,271)**
NET ASSETS	2,424,232	2,490,303	2,383,409	2,296,469	**2,222,121**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,413,074	2,477,816	2,369,960	2,282,235	**2,206,758**
NON-CONTROLLING INTERESTS	11,158	12,487	13,449	14,234	**15,363**
TOTAL EQUITY	2,424,232	2,490,303	2,383,409	2,296,469	**2,222,121**
	HK$	HK$	HK$	HK$	**HK$**
SHAREHOLDERS' FUND AT BOOK VALUE PER SHARE	3.82	3.92	3.75	3.61	**3.49**

Note: The dividend for the year represents dividend proposed for that financial year, not taken into account the year of payment.

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

中國廣東省河源廠房科研樓一角

A sight of the Technology Center at Heyuan factory, Guangdong Province, China

一件大型非標模架正進行加工

A large tailor made mould base is undergone machining

精密加工中心設備

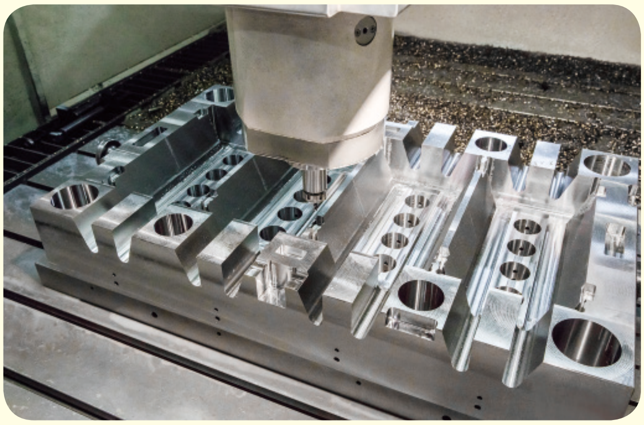
Precision CNC machining facilities

熱處理設備

Heat treatment facilities

模具鋼材倉庫

Mould steel store



一件複雜的模架正進行加工

A complicated mould base is undergone machining

先進加工中心生產線

Advanced CNC machine production line

加工中心正進行大型模架加工

CNC machine is processing machining process on a large mould base