Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

ANNUAL REPORT 2018

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2018 Annual Report
Lung Kee (Bermuda) Holdings Limited

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
Mr. Siu Yu Hang, Leo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lee Tat Yee
Mr. Lee Joo Hai
Mr. Wong Hak Kun

COMPANY SECRETARY

Mr. Wai Lung Shing

SOLICITORS

Woo Kwan Lee & Lo
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Hong Kong

AUDITOR

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Certified Public Accountants
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Hong Kong

PRINCIPAL BANKER

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1 Queen's Road Central
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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WEBSITE

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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, 2018.

BUSINESS REVIEW

The Group's revenue in the year ended 31st December, 2018 was approximately HK$2,580 million (2017: approximately HK$2,510 million). Profit attributable to owners of the Company in the year ended 31st December, 2018 was approximately HK$171 million (2017: approximately HK$278 million). Basic earnings per share in the year ended 31st December, 2018 was HK26.99 cents (2017: HK44.05 cents).

During the period of review, the Group had registered a positive growth in turnover in the first half year. Nevertheless, in the second half year, tension on the trade between China and the United States escalated which had impacted the global economy in various degrees and eventually exerted pressure on the Group's business performance. In addition, both labor and operating cost relatively increased. As a result, excluding the one-off profit from the disposal of the factory property of Shanghai Lung Kee Metal Products Co. Ltd., the Group's operating profit recorded a drop as compared with the year of 2017.

PROSPECTS

During the period of the announcement of Group's financial results, China and the United States have entered into the final stage of concluding the trade agreement that will bring a favorable turn to the global economy. However, discrepancy and uncertainty still exist in the trade relationship between China and the United States. The global business operating situation is still unpredictable and vulnerable. The Group will adopt a prudent attitude in facing various challenges ahead and will monitor its risk in order to seek a balance and stable growth.

Despite European countries are still confounded by the Brexit issue, yet its economic performance, as compared with other territories, is relatively acceptable. In light of this, the Group will keep exploring diverse overseas markets to facilitate its business diversification. Moreover, in spite of the domestic market of China has a bit slow down, the Group expects the Chinese government will introduce measures in stimulating economy that help to secure consumer confidence on consumption. The Group will devise suitable marketing strategy targeting on the development advantage and potential of each specific market in order to expand its sales in different territories. Furthermore, through promoting its online ordering system, the Group can achieve a higher degree of market penetration, generating more business opportunities.

Apart from this, the development of automobile industry has great impact on the business growth of the Group. In views of the uprising concern about the impact of emission of carbon dioxide on global climate change and the increasing awareness of environmental protection issue, production and promotion of new energy vehicle will take the lead in future development. However, as wide variation on the matching infrastructure exists between new energy vehicle and traditional vehicle, and also restricted by the internal economic development situation of individual country, determination and effort put forward by each individual country in promoting new energy vehicle differ in various degrees. Owing to this, it is expected the development of new energy vehicle in each individual country will not be in the same pace. The Group will keep close to the development trend of the global automobile market and work out corresponding development strategy in order to consolidate its leading position in the industry.

Chairman's Statement

To lessen the impact imposed by the external economic environment, the Group will keep enhancing its production effectiveness and reducing its operation cost with an aim to sustain its competitive edge. The Group will further strengthen its product quality in order to gain recognition and faith of its customers in using its products. The production plants in Heyuan city, Guangdong Province and in Hangzhou city, Zhejiang Province, China, will put sustainable effort in research and refining its production skills so as to uplift its machining ability and product quality. On the other hand, the Group will suitably make use of automated machinery and robotic arm in reducing its reliance on manpower, further improving production flow and flexibly deploying its manpower, consequently enabling the Group to escalate its aggregate production effectiveness.

Following the stability of Chinese economy, the Group expects the price of local mould steel will fluctuate but become steady. For the imported mould steel, it is expected its price will remain stable with only mild adjustment. The Group will closely monitor the material inventory level and its price, striving to reduce its burden imposed on the operation.

Despite business operation outlook is still unclear, the Group will adopt prudent and positive attitude and devote to secure a stable growth and reasonable return. Taking this opportunity, the Board of Directors would like to express thanks to all staff for their hard work and contribution rendered to the Group and sincere appreciation is expressed to the shareholders and business partners for their tremendous support to the Group.

Siu Tit Lung
Chairman

Hong Kong, 29th March, 2019

During the year ended 31st December, 2018, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of approximately HK$2,580 million and earnings of approximately HK$171 million for the year ended 31st December, 2018.

OPERATIONAL REVIEW

In the recent interim report, the Group had already outlined its concerns about the trade war between China and the United States on the business operating environment, yet the extent of its adverse effect exceeded expectations. Clouded by the uncertain trade relationship between China and the United States, those USA export-oriented enterprises in China were mostly affected. As dimmed by the unclear outlook, many new investment projects were halted or postponed, as a result, the pace of economic growth was slowed down. Moreover, domestic consumption confidence in China was also hit as consumers worried about the economic development ahead, thus their consumption decision tended to be more prudent and the domestic market was comparatively subsided. Consequently, the Group's turnover was also hindered in the second half year.

Despite the continued improvement in production skills and machining ability of the plant in Hangzhou city, Zhejiang Province, China, its performance and production effectiveness was not up to expectation as dragged by the market situation. Apart from this, the spiral rise of labor wages and operation costs further uplifted the production cost of the Group.

The price of local mould steel moderately fell in the fourth quarter of the reviewed period, however, it could not immediately reduce the material cost of the Group due to the lag behind effect on cost adjustment. Turning to the price of the imported mould steel, it still remained quite stable.

In conclusion, during the review period, as affected by the negative economic environment and increasing costs, the Group's business performance was not satisfactory relative to the year of 2017.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2018, the Group had bank balances of approximately HK$646 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, 2018, the Group employed a total of approximately 4,200 employees, including approximately 3,900 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 Report

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, 2018, 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, 2018.

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
Mr. Siu Yu Hang, Leo

Independent non-executive directors
Dr. Lee Tat Yee
Mr. Lee Joo Hai
Mr. Wong Hak Kun

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, 2018, 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. Wai Lung Shing	1/1	4/4
Mr. Ting Chung Ho	1/1	4/4
Mr. Siu Yuk Tung, Ivan	1/1	4/4
Mr. Siu Yu Hang, Leo	1/1	4/4
Independent non-executive directors		
Dr. Lee Tat Yee	1/1	4/4
Mr. Lee Joo Hai	1/1	4/4
Mr. Wong Hak Kun (appointed with effect from 1st June, 2018)	0/1	3/4
Mr. Liu Wing Ting, Stephen, JP (resigned with effect from 31st May, 2018)	1/1	1/4

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. Wong Hak Kun, the newly appointed independent non-executive director, has received the comprehensive, formal and tailored induction on his appointment. 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, 2018. The individual training record of each director received for the year ended 31st December, 2018 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. Wai Lung Shing	✓	✓
Mr. Ting Chung Ho	✓	✓
Mr. Siu Yuk Tung, Ivan	✓	✓
Mr. Siu Yu Hang, Leo	✓	✓
Independent non-executive directors		
Dr. Lee Tat Yee	✓	✓
Mr. Lee Joo Hai	✓	✓
Mr. Wong Hak Kun	✓	✓

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, Dr. Lee Tat Yee and Mr. Wong Hak Kun. 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, 2018, 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
Dr. Lee Tat Yee	4/4
Mr. Wong Hak Kun (appointed with effect from 1st June, 2018)	3/4
Mr. Liu Wing Ting, Stephen, JP (resigned with effect from 31st May, 2018)	1/4

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 2018:

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, including Mr. Wong Hak Kun who was appointed as an independent non-executive director with effect from 1st June, 2018, and reviewed the independent non-executive directors' annual confirmations on their independence.

3. nominated Mr. Siu Tit Lung, Mr. Wai Lung Shing and Dr. Lee Tat Yee for the Board's recommendations to stand for election at the 2018 annual general meeting of the Company and reviewed the relevant sections in the circular to the shareholders of the Company.

4. made recommendation to the Board on the appointment of Mr. Wong Hak Kun as an independent non-executive director of the Company, following the resignation of Mr. Liu Wing Ting, Stephen as an independent non-executive director of the Company.

5. endorsed the appointment of Mr. Wong Hak Kun as a member of Nomination Committee by the Board, following the resignation of Mr. Liu Wing Ting, Stephen as a member of Nomination Committee.

6. interviewed with the Chairman and the Managing Director of the Company to realize their plans for succession.

7. reviewed the retirement policy of the Group.

8. reviewed the relevant disclosures made in the Directors' Report of the 2017 annual report of the Company (the "Annual Report").

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

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

11. reviewed the Board Diversity Policy of the Company.

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

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

Below is the Nomination Policy of the Company:

Objective

1. This Policy aims to set out the major selection criteria and nomination procedures for the Nomination Committee of the Company to select and recommend candidates for directorship.

Selection Criteria

2. The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:-

    (a) Reputation for integrity;

    (b) Experience and reputation in the businesses of the Group and other relevant sectors;

    (c) Commitment in respect of sufficient time, the relevant interest and attention to the Group's business;

    (d) Diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional background, skills, knowledge and experience;

    (e) The ability to assist and support management and make significant contributions to the Group's success;

    (f) Compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive director; and

    (g) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

3. The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Bye-laws of the Company and other applicable rules and regulations.

Nomination Procedures

4. The Nomination Committee shall invite nominations of candidates from the Board members, if any, for consideration by the Nomination Committee.

5. The Nomination Committee shall identify individuals suitably qualified to become Board members and make recommendations for the Board's consideration and approval.

6. Regarding the appointment of any proposed candidates to become Board members, the Nomination Committee shall undertake adequate due diligence in respect of each proposed candidate and make recommendations for the Board's consideration and approval.

7. Regarding the re-appointment of any existing members of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, the proposed candidates to stand for re-election at a general meeting.

8. Regarding the procedures for shareholders' nomination of any proposed candidate for election as a director, please refer to the "Procedures for Shareholder to Propose a Person for Election as a Director", which is available on the Company's website.

9. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

Review of this Policy

10. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

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. Lee Joo Hai and Mr. Wong Hak Kun. 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, 2018, 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. Lee Joo Hai	4/4
Mr. Wong Hak Kun (appointed with effect from 1st June, 2018)	3/4
Mr. Liu Wing Ting, Stephen, JP (resigned with effect from 31st May, 2018)	1/4

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 2018:

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

2. assessed the performance of the executive directors and considered the remuneration package of executive directors by making reference to the prevailing packages with companies listed on the main board of the Stock Exchange.

3. made recommendation to the Board on the remuneration package of Mr. Wong Hak Kun, the newly appointed independent non-executive director.

4. endorsed the appointment of Mr. Wong Hak Kun as a member of Remuneration Committee by the Board, following the resignation of Mr. Liu Wing Ting, Stephen as a member of Remuneration Committee.

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. 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 8 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. Wong Hak Kun, 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. Wong Hak Kun 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, 2018, 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, 2018, the Audit Committee held four meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Mr. Wong Hak Kun *(Chairman)* (appointed with effect from 1st June, 2018)	3/4
Dr. Lee Tat Yee	4/4
Mr. Lee Joo Hai	4/4
Mr. Liu Wing Ting, Stephen, JP (resigned with effect from 31st May, 2018)	1/4

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 2018:

1. reviewed the Group's consolidated financial statements for the year ended 31st December, 2017 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. reviewed the Environmental, Social and Governance Report, which was published on the websites of the Stock Exchange and the Singapore Exchange Securities Trading Limited as well as the Company's website.

5. met with the external auditor without the presence of the executive directors of the Board.

6. endorsed the appointment of Mr. Wong Hak Kun as the chairman of Audit Committee by the Board, following the resignation of Mr. Liu Wing Ting, Stephen as a chairman of Audit Committee.

7. reviewed the Group's consolidated financial statements for the period from 1st January, 2018 to 31st May, 2018 with a recommendation to the Board for approval.

8. 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.

9. reviewed the Group's consolidated financial statements for the six months period ended 30th June, 2018 and the interim results announcement with a recommendation to the Board for approval.

10. reviewed the Group's consolidated financial statements for the period from 1st January, 2018 to 30th September, 2018 with a recommendation to the Board for approval.

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

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

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

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

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

16. reviewed the reports including the 2018 audit planning report and the management letters submitted by the external auditor.

17. considered the 2018 audit fees with a recommendation to the Board for approval.

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

At the Audit Committee meeting on 29th March, 2019, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December, 2018, 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 2019 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2019 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.

The 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's 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 by the Internal Audit Department periodically.

The Internal Audit Department 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 Department 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. the Internal Audit Department 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 Department to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations 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 2018, 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 2018, the Internal Audit Department 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, 2018, 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	3,236
Non-audit services	
— Interim review	480
— Taxation services	116
— Audit of provident fund	6
— Review of results announcement	50

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, 2018.

SHAREHOLDERS' RIGHTS

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

Pursuant to Bye-law 58 of the 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, 2018.

Hong Kong, 29th March, 2019

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, 2018.

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 33 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, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37.

An interim dividend of HK12 cents per share amounting to approximately HK$75,801,000 was 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 to shareholders registered on the register of members on 18th June, 2019, and the retention of the remaining profits for the year.

BUSINESS REVIEW

A business review of the Group for the year ended 31st December, 2018 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 26 and 27 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.

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.

BUSINESS REVIEW *(Continued)*

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.

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.

BUSINESS REVIEW *(Continued)*

Key relationships with stakeholders *(Continued)*

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 94.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2018 were revalued by an independent firm of qualified professional property valuers. The revaluation increase of HK$18,000,000 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 13 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2018 are set out on page 95.

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 14 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, 2018 represented the retained profits of approximately HK$461,675,000.

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 34% to the total purchases for the year while the Group's five largest suppliers accounted for 52% of the total purchases for the year.

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

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. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan
Mr. Siu Yu Hang, Leo

Independent non-executive directors
Dr. Lee Tat Yee
Mr. Lee Joo Hai
Mr. Wong Hak Kun (appointed on 1st June, 2018)
Mr. Liu Wing Ting, Stephen, JP (resigned on 31st May, 2018)

In accordance with Bye-law 86(2) of the Company's Bye-Laws, Mr. Wong Hak Kun 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. Siu Yuk Tung, Ivan and Mr. Lee Joo Hai 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 Director

Mr. Siu Tit Lung, aged 68, 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.

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

Executive Director *(Continued)*

Mr. Siu Yuk Lung, aged 65, 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 57, 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 65, 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 fellow of The Hong Kong Institute of Directors.

Mr. Siu Yuk Tung, Ivan, aged 39, 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 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.

Mr. Siu Yu Hang, Leo, aged 39, joined the Group in July 2008 as an assistant to director of the Company and has been appointed as an executive director of the Company since 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.

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

Independent non-executive directors

Dr. Lee Tat Yee, aged 71, has been an independent non-executive director of the Company since December 1992. He is the chairman of the Remuneration Committee of the Company. 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.

Mr. Lee Joo Hai, aged 63, has been appointed as an independent non-executive director of the Company since September 2004. He is the chairman of the Nomination Committee of the Company. 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 was a partner of a public accounting firm in Singapore before his retirement from the accounting firm. He has extensive experience in accounting and auditing. Mr. Lee is currently an independent director of Hyflux Ltd., Raffles United Holdings Limited and IPC Corporation Limited that he retired in April 2017 and was re-appointed in October 2018, which are all listed on the main board of The Singapore Exchange Securities Trading Limited ("SGX-ST"). He is also a director of PGG Wrightson Limited, which is listed on the main board of the New Zealand Stock Exchange, since October 2017. He is also an independent director of Agria Corporation, which was delisted from the New York Stock Exchange in January 2017. He is also an independent director of SinoCloud Group Limited, which is listed on the Catalist of the SGX-ST, and has tendered his resignation with effect from 31st March, 2019. 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.

Mr. Wong Hak Kun, aged 62, has been appointed as an independent non-executive director of the Company since June 2018. He is the chairman of the Audit Committee of the Company. Mr. Wong graduated from The University of Hong Kong with a Bachelor Degree in Social Sciences. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, the Chartered Institute of Management Accountants, United Kingdom and the Institute of Chartered Secretaries and Administrators, United Kingdom. He is also a fellow of The Hong Kong Institute of Directors. Mr. Wong was the Managing Partner of Deloitte China's ("Deloitte") Audit and Assurance practice before his retirement from Deloitte in May 2017. He was a partner of Deloitte since 1992 and served as a member of Deloitte's Governance Board from years 2000 to 2008. He has extensive experience in audit, assurance and management. Mr. Wong is an independent non-executive director of Yue Yuen Industrial (Holdings) Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited ("HKSE"), since June 2018 and is also an independent non-executive director of Zhejiang Cangnan Instrument Group Company Limited, which is listed on the main board of HKSE in January 2019. Save as disclosed above, Mr. Wong 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, 2018, 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

		Number of shares held				Percentage
Name of director	Capacity	Personal interests	Family interests	Other interests	Total interests	of Company's issued share capital
Siu Tit Lung *(Notes 1 and 2)*	Beneficial owner, interests jointly with another person and founder of discretionary trust	40,411,444	–	366,210,937	406,622,381	64.37%
Siu Yuk Lung *(Notes 1 and 2)*	Beneficial owner, interests jointly with another person and founder of discretionary trust	40,411,444	–	366,210,937	406,622,381	64.37%
Wai Lung Shing	Beneficial owner	3,843,750	–	–	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	–	–	720,000	0.11%
Siu Yuk Tung, Ivan *(Note 2)*	Beneficial owner and beneficiary of a trust	80,000	–	366,210,937	366,290,937	57.99%
Siu Yu Hang, Leo *(Notes 2 and 3)*	Interest of child or spouse and beneficiary of a trust	–	1,096,000	366,210,937	367,306,937	58.15%
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 35,101,288 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 (including Messrs. Siu Yuk Tung, Ivan and Siu Yu Hang, Leo), held 366,210,937 shares in the Company.

3. Mr. Siu Yu Hang, Leo and his spouse jointly held 1,096,000 shares in the Company.

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Interests in the Company *(Continued)*

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

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, 2018.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2018, 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 *(Note)*	57.97%
HSBC International Trustee Limited	Trustee	366,514,990 *(Note)*	58.02%
David Michael Webb	Beneficial owner and interest of a controlled corporation	37,904,498	6.00%

Note: HSBC International Trustee Limited, in its capacity as a trustee of a trust, controlled Pan Island Investments Limited and therefore was deemed to be interested in the shares of the Company in which Pan Island Investments Limited was interested. Accordingly, the 366,210,937 shares of the Company in which Pan Island Investments Limited was interested were duplicated with the interests attributed to HSBC International Trustee Limited.

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, 2018.

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, 2018 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 6 to 21.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company received, from each of the independent non-executive directors, Dr. Lee Tat Yee, Mr. Lee Joo Hai and Mr. Wong Hak Kun, 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.

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, 29th March, 2019

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 37 to 93 which comprise the consolidated statement of financial position as at 31st December, 2018, 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, 2018, 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 Matter

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 Matter *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Estimated allowance for raw materials

We identified estimated allowance for raw materials as a key audit matter due to the 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 market prices, latest order placing prices, aging analysis, subsequent usage of raw materials, subsequent sales orders of produced products and gross profit margin on each product sold. As at 31st December, 2018, the Group has raw materials with carrying amount of approximately HK$495,770,000 (net of allowance of approximately HK$79,561,000).

Details relating to the Group's inventories are set out in notes 4 and 17 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;
- Discussing with the management and evaluating the basis of allowance for raw materials determined by the management, based on the aging analysis, the latest market prices, the latest order placing prices of raw materials, subsequent usage of raw materials and the net realisable value of each produced product;
- Verifying the accuracy of the aging analysis of raw materials by utilising computer assisted audit techniques;
- Tracing the values of raw materials to the available market data;
- Testing subsequent order placing prices of raw materials, on a sample basis, to the purchase invoice;
- Testing subsequent sales orders, on a sample basis, to the absorption report and the final stock list and checking the subsequent selling price of each produced product and subsequent usage of the raw materials and recalculating the gross profit margin on each product sold; and
- Assessing the sufficiency and appropriateness and evaluating the accuracy of the allowance estimation by the 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.

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.

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

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.

- 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.

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

(Continued)

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 Chiu Mei Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29th March, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5	**2,580,453**	2,510,389
Other income, gains and losses	7	**9,566**	19,725
Gain on disposal of non-current asset classified as held for sale	20	**–**	67,149
Increase in fair value of investment properties	13	**18,000**	10,500
Impairment loss reversed in respect of trade and bills receivables, net		**3,946**	5,256
Changes in inventories of finished goods and work in progress		**(13,206)**	15,661
Raw materials and consumables used		**(1,070,487)**	(1,019,045)
Employee benefits expenses		**(592,353)**	(549,419)
Depreciation of property, plant and equipment		**(179,780)**	(178,853)
Other expenses		**(519,362)**	(496,714)
Profit before taxation		**236,777**	384,649
Income tax expense	9	**(66,256)**	(107,732)
Profit for the year	10	**170,521**	276,917
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**(93,176)**	136,134
Other comprehensive (expense) income for the year		**(93,176)**	136,134
Total comprehensive income for the year		**77,345**	413,051
Profit for the year attributable to:			
Owners of the Company		**170,521**	278,276
Non-controlling interests		**–**	(1,359)
		170,521	276,917
Total comprehensive income for the year attributable to:			
Owners of the Company		**77,345**	413,336
Non-controlling interests		**–**	(285)
		77,345	413,051
		HK cents	HK cents
Basic earnings per share	12	**26.99**	44.05

Consolidated Statement of Financial Position

At 31st December, 2018

	NOTES	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	**208,000**	190,000
Property, plant and equipment	14	**760,066**	861,407
Prepaid lease payments — non-current portion	15	**70,574**	76,290
Deposits paid for acquisition of property, plant and equipment		**25,583**	54,957
Deferred tax assets	16	**12,675**	21,628
		1,076,898	1,204,282
Current assets			
Inventories	17	**555,795**	529,737
Trade, bills and other receivables	18	**349,777**	441,939
Prepaid lease payments — current portion	15	**1,840**	1,938
Bank balances and cash	19	**645,777**	673,912
		1,553,189	1,647,526
Current liabilities			
Trade, bills and other payables	21	**291,156**	356,444
Contract liabilities	22	**22,853**	—
Taxation payable		**21,743**	17,260
Dividend payable		**212**	192
		335,964	373,896
Net current assets		**1,217,225**	1,273,630
Total assets less current liabilities		**2,294,123**	2,477,912
Non-current liabilities			
Deferred tax liabilities	16	**30,378**	26,102
Other payables	21	**96,914**	109,653
		127,292	135,755
Net assets		**2,166,831**	2,342,157

Consolidated Statement of Financial Position

At 31st December, 2018

	NOTE	**2018** **HK$'000**	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	24	**63,168**	63,168
Reserves		**2,103,663**	2,278,989
Total equity		**2,166,831**	2,342,157

The consolidated financial statements on pages 37 to 93 were approved and authorised for issue by the Board of Directors on 29th March, 2019 and are signed on its behalf by:

Siu Tit Lung	**Siu Yuk Lung**
Executive Director and Chairman	*Executive Director and Managing Director*

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2018

	Attributable to owners of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**Statutory reserve** HK$'000 (Note i)	**Translation reserve** HK$'000	**Retained profits** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1st January, 2017	63,168	156,213	295,214	215,422	1,476,741	2,206,758	15,363	2,222,121
Profit (loss) for the year	–	–	–	–	278,276	278,276	(1,359)	276,917
Other comprehensive income for the year								
Exchange difference arising on translation of foreign operations	–	–	–	135,060	–	135,060	1,074	136,134
Total comprehensive income (expense) for the year	–	–	–	135,060	278,276	413,336	(285)	413,051
Acquisition of additional interest of a subsidiary (note ii)	–	–	–	–	–	–	(15,078)	(15,078)
Final dividend for the year ended 31st December, 2016 (note 11)	–	–	–	–	(75,801)	(75,801)	–	(75,801)
Final special dividend for the year ended 31st December, 2016 (note 11)	–	–	–	–	(75,801)	(75,801)	–	(75,801)
Interim dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(75,801)	(75,801)	–	(75,801)
Interim special dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(50,534)	(50,534)	–	(50,534)
Transfer	–	–	22,547	–	(22,547)	–	–	–
At 31st December, 2017	63,168	156,213	317,761	350,482	1,454,533	2,342,157	–	2,342,157
Profit for the year	–	–	–	–	170,521	170,521	–	170,521
Other comprehensive expense for the year								
Exchange difference arising on translation of foreign operations	–	–	–	(93,176)	–	(93,176)	–	(93,176)
Total comprehensive (expense) income for the year	–	–	–	(93,176)	170,521	77,345	–	77,345
Final dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(101,069)	(101,069)	–	(101,069)
Final special dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(75,801)	(75,801)	–	(75,801)
Interim dividend for the year ended 31st December, 2018 (note 11)	–	–	–	–	(75,801)	(75,801)	–	(75,801)
Transfer	–	–	25,060	–	(25,060)	–	–	–
At 31st December, 2018	63,168	156,213	342,821	257,306	1,347,323	2,166,831	–	2,166,831

Notes:

(i) 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.

(ii) During the year ended 31st December, 2017, the Group acquired the remaining 30% equity interest in a non-wholly owned subsidiary for a consideration of New Taiwan Dollar 60,000,000 (equivalent to approximately HK$15,078,000). The transaction is accounted for as an equity transaction.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2018

	2018 **HK$'000**	2017 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**236,777**	384,649
Adjustments for:		
Allowance recognised for inventories	**6,791**	3,959
Depreciation of property, plant and equipment	**179,780**	178,853
Increase in fair value of investment properties	**(18,000)**	(10,500)
Interest income	**(10,670)**	(7,759)
Gain on disposal of property, plant and equipment and non-current asset classified as held for sale	**(2,857)**	(71,806)
Release of prepaid lease payments	**1,921**	1,856
Impairment loss reversed in respect of trade and bills receivables, net	**(3,946)**	(5,256)
Operating cash flows before movements in working capital	**389,796**	473,996
Decrease (increase) in trade, bills and other receivables	**73,780**	(34,766)
Decrease in contract liabilities	**(16,370)**	—
Increase in inventories	**(59,817)**	(102,572)
Decrease in trade, bills and other payables	**(19,414)**	(6,485)
Cash generated from operations	**367,975**	330,173
Income taxes paid	**(44,814)**	(98,805)
NET CASH FROM OPERATING ACTIVITIES	**323,161**	231,368
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(86,335)**	(126,474)
Interest received	**10,670**	7,759
Proceeds on disposal of property, plant and equipment	**5,562**	16,279
Net proceeds from disposal of non-current asset classified as held for sale	**—**	49,688
NET CASH USED IN INVESTING ACTIVITIES	**(70,103)**	(52,748)
FINANCING ACTIVITIES		
Dividends paid	**(252,651)**	(277,907)
Payment for acquisition of additional interest in a subsidiary	**—**	(15,078)
CASH USED IN FINANCING ACTIVITIES	**(252,651)**	(292,985)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**407**	(114,365)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**673,912**	745,111
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(28,542)**	43,166
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**645,777**	673,912

1. GENERAL

Lung Kee (Bermuda) Holdings Limited (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. In the opinion of the directors of the Company, the parent and ultimate parent is Pan Island Investments Limited, a company incorporated in the British Virgin Islands (the "BVI"). 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 ("HKD"), 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")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the "Group") have applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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 that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the source of manufacturing and marketing of mould bases and related products which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

2.1.1 Summary of effects arising from initial application of HKFRS 15

By adopting HKFRS 15, there was no impact on the retained profits as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 18.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31st December, 2017	Reclassification	Carrying amounts under HKFRS 15 at 1st January, 2018*
	HK$'000	HK$'000	HK$'000
Trade, bills and other payables	356,444	(39,223)	317,221
Contract liabilities	—	39,223	39,223

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note: As at 1st January, 2018, advances from customers of HK$39,223,000 included in trade, bills and other payables were reclassified to contract liabilities for HK$39,223,000.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 *Revenue from Contracts with Customers* (Continued)

2.1.1 Summary of effects arising from initial application of HKFRS 15 (Continued)

Without application of HKFRS 15, as at 31st December, 2018, the contract liabilities of HK$22,853,000 would be included in trade, bills and other payables.

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Decrease in contract liabilities	(16,370)	16,370	—
Decrease in trade, bills and other payables	(19,414)	(16,370)	(35,784)

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31st December, 2018, movements in working capital have been computed based on opening statement of financial position as at 1st January, 2018 as disclosed above.

There was no impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31st December, 2018.

2.2 HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets, and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 *Financial Instruments* *(Continued)*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2.2.1 Summary of effects arising from initial application of HKFRS 9

Classification and measurement of financial assets

The directors of the Company reviewed and assessed the Group's financial assets as at 1st January, 2018 based on the facts and circumstances that existed at that date and concluded that the Group's financial assets are continued to be measured at amortised cost upon adoption of HKFRS 9 which is the same as measured under HKAS 39.

Impairment under ECL model

As at 1st January, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and concluded that no material financial impact exists, and therefore no adjustment to the opening retained profits at 1st January, 2018 was recognised.

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 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

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 *(Continued)*

[1] Effective for annual periods beginning on or after 1st January, 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1st January, 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020
[5] Effective for annual periods beginning on or after 1st January, 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows except for the short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability within operating cash flows by the Group. Upfront prepaid lease payment will continue to be presented as investing cash flows in accordance to the nature, as appropriate.

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 *(Continued)*

HKFRS 16 *Leases* *(Continued)*

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments of HK$13,267,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,154,000 and refundable rental deposits received of HK$1,053,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right- of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties 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.

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*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 in 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 equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue recognition (prior to 1st January, 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1st January, 2018) *(Continued)*

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.

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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, 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 (or a cash-generating unit) 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 in profit or loss on a straight-line basis over the terms 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 terms.

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 terms.

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 the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 terms 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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. HKD) 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), 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 bases 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) 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 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.

In determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1st January, 2018. 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as other income.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair through profit or loss ("FVTPL").

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade, bills and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. Except for those debtors with credit-impaired are assessed individually, the ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the trade receivables are over three years past due, and the counterparty of the trade receivables has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status; and
- Nature, size and industry of debtors

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1st January, 2018)

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of loans and receivables (Continued)

Objective evidence of impairment could include:

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

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

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 loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets (Continued)

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 is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

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 at amortised cost

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

Interest expense is recognised on an effective interest basis.

Derecognition of financial liabilities

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

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 market prices, latest order placing prices, aging analysis, subsequent usage of raw materials, subsequent sales orders of produced products and gross profit margin on each product sold. As at 31st December, 2018, the carrying amount of raw materials is approximately HK$495,770,000 (net of allowance of approximately HK$79,561,000) (2017: HK$456,506,000 (net of allowance of approximately HK$79,379,000)).

Recognition of deferred tax asset in respect of tax losses

The realisability 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 asset in respect of tax losses 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, 2018, the carrying amount of deferred tax asset in respect of tax losses is approximately HK$8,251,000 (2017: HK$17,063,000).

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 uses provision matrix to calculate ECL for the trade receivables based on the grouping of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit impaired are assessed for ECL individually. At 31st December, 2018, the carrying amount of trade and bills receivables are approximately HK$266,535,000 (2017: HK$334,435,000) (net of allowance for doubtful debts of HK$16,257,000 (2017: HK$22,327,000)).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 27 and 18 respectively.

5. 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. The Group recognised revenue at a point in time.

Revenue from manufacturing and marketing of mould bases and related products

The Group manufactures and sells mould bases and related products directly to the customer, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the specific location (delivery). Transportation and other related activities that occur before the customers obtain control of the related goods are considered as fulfilment activities. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The Group allows credit periods ranging from 30 to 90 days to its trade customers.

The performance obligation of all contracts have an original expected duration of one year or less.

6. SEGMENT INFORMATION

The Group only has one operating segment, based on information reported to the chief operating decision maker (i.e. the Company's executive 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, 2018, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the People's Republic of China (the "PRC").

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

	2018 **HK$'000**	2017 HK$'000
The PRC (excluding Hong Kong)	**2,194,097**	2,186,355
Hong Kong	**4,189**	3,640
Others	**382,167**	320,394
	2,580,453	2,510,389

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 the year ended 31st December, 2018 (2017: Nil).

7. OTHER INCOME, GAINS AND LOSSES

	2018 **HK$'000**	2017 HK$'000
Interest income	**10,670**	7,759
Rental income, net of direct outgoings of approximately HK$546,000 (2017: HK$542,000)	**3,005**	2,927
Sundry income	**3,787**	2,088
Gain on disposal of property, plant and equipment	**2,857**	4,657
Net foreign exchange (loss) gain	**(10,753)**	2,294
	9,566	19,725

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2017: nine) directors were as follows:

	Executive directors						Independent non-executive directors				
	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Wai Lung Shing HK$'000	Ting Chung Ho HK$'000	Siu Yuk Tung, Ivan HK$'000	Siu Yu Hang, Leo HK$'000	Liu Wing Ting, Stephen HK$'000 (Note 4)	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Wong Hak Kun HK$'000 (Note 5)	Total HK$'000
2018											
Fees (Note 1)	–	–	–	–	–	–	160	422	407	291	1,280
Other emoluments (Note 2)											
Salaries and other benefits	8,400	8,400	2,640	2,569	1,920	1,998	–	–	–	–	25,927
Contributions to retirement benefit schemes	924	924	290	283	211	18	–	–	–	–	2,650
Bonus (Note 3)	1,500	1,500	6,000	4,000	2,000	2,000	–	–	–	–	17,000
Total emoluments	10,824	10,824	8,930	6,852	4,131	4,016	160	422	407	291	46,857

	Executive directors						Independent non-executive directors			
	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Wai Lung Shing HK$'000	Ting Chung Ho HK$'000	Siu Yuk Tung, Ivan HK$'000	Siu Yu Hang, Leo HK$'000	Liu Wing Ting, Stephen HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Total HK$'000
2017										
Fees (Note 1)	–	–	–	–	–	–	447	422	407	1,276
Other emoluments (Note 2)										
Salaries and other benefits	8,400	8,400	2,640	2,477	1,920	1,988	–	–	–	25,825
Contributions to retirement benefit schemes	924	924	290	272	211	18	–	–	–	2,639
Bonus (Note 3)	2,800	2,800	8,900	6,000	3,000	3,000	–	–	–	26,500
Total emoluments	12,124	12,124	11,830	8,749	5,131	5,006	447	422	407	56,240

Notes:

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

2. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

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

4. Mr. Liu Wing Ting, Stephen resigned as an independent non-executive director with effect from 31st May, 2018.

5. Mr. Wong Hak Kun was appointed as an independent non-executive director with effect from 1st June, 2018.

8. DIRECTORS' EMOLUMENTS *(Continued)*

No directors waived any emoluments in the years ended 31st December, 2018 and 2017.

During the year, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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

9. INCOME TAX EXPENSE

	2018	2017
	HK$'000	HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	**1,098**	296
— overprovision in prior years	**(14)**	(60)
	1,084	236
Taxation in jurisdictions outside Hong Kong		
— current year	**51,122**	85,858
— overprovision in prior years	**(22)**	(40)
— transfer from deferred taxation	**—**	11,116
	51,100	96,934
Deferred taxation (note 16)		
— charge for the year	**14,072**	21,678
— transfer to current income tax	**—**	(11,116)
	14,072	10,562
	66,256	107,732

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

9. INCOME TAX EXPENSE *(Continued)*

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. 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.

The income tax expense 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:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**236,777**	384,649
Tax at PRC income tax rate of 25% (2017: 25%) (note)	**59,194**	96,162
Tax effect of non-deductible expenses	**18,936**	9,862
Tax effect of non-taxable income	**(5,936)**	(10,239)
Utilisation of tax losses previously not recognised	**(4,476)**	(3,547)
Tax effect of unused tax losses not recognised	**3**	5
Overprovision in prior years	**(36)**	(100)
Tax effect of deductible temporary difference not recognised	**—**	5,294
Utilisation of deductible temporary difference previously not recognised	**(2,594)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(4,705)**	(1,582)
Deferred tax charge arising on undistributed profits of PRC subsidiaries	**5,870**	11,877
Income tax expense for the year	**66,256**	107,732

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

Details of deferred taxation are set out in note 16.

10. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 8)	**46,857**	56,240
Other staff costs	**513,703**	461,877
Retirement benefit scheme contributions (excluding contributions in respect of directors of the Company)	**31,793**	31,302
Total staff costs	**592,353**	549,419
Auditors' remuneration (including remuneration for non-audit services)	**3,888**	3,659
Operating lease rentals in respect of		
— rented premises	**13,743**	12,057
— plant and machinery	**36**	125
Release of prepaid lease payments	**1,921**	1,856
Allowance recognised for inventories	**6,791**	3,959
Tooling costs and repair and maintenance expenses for production (included as other expenses)	**194,117**	194,488

11. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution during the year:		
2018 Interim — HK12 cents (2017: 2017 interim dividend of HK12 cents) per share	**75,801**	75,801
2018 Interim special — nil (2017: 2017 interim special dividend of HK8 cents) per share	**—**	50,534
2017 Final — HK16 cents (2017: 2016 final dividend of HK12 cents) per share	**101,069**	75,801
2017 Final special — HK12 cents (2017: 2016 final special dividend of HK12 cents) per share	**75,801**	75,801
	252,671	277,937

The board of directors have determined that a final dividend of HK12 cents (2017: final dividend of HK16 cents and final special dividend of HK12 cents) per share amounting to approximately HK$75,801,000 (2017: final dividend of HK$101,069,000 and final special dividend of HK$75,801,000) should be paid to the shareholders of the Company whose names appear in the register of members on 18th June, 2019.

12. 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:

	2018	2017
	HK$'000	HK$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	**170,521**	278,276

	2018	2017
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share	**631,677,303**	631,677,303

No diluted earnings per share is presented for both years as there is no potential ordinary shares outstanding during the year or at the end of the reporting period.

13. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2017	179,500
Unrealised fair value gain on property revaluation included in profit or loss	10,500
At 31st December, 2017	190,000
Unrealised fair value gain on property revaluation included in profit or loss	18,000
At 31st December, 2018	208,000

All of the Group's property interests are situated in Hong Kong and held under operating leases to earn rentals and for capital appreciation purposes. These properties 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, 2018 and 31st December, 2017 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$7,719 to HK$15,122 (2017: HK$6,647 to HK$14,002). 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.

There were no transfers into or out of Level 3 during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Furniture, fixtures, fittings and other equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1st January, 2017	21,317	727,993	147,953	2,118,907	25,190	1,224	3,042,584
Currency realignment	–	57,147	10,873	171,122	1,127	96	240,365
Additions	–	253	818	102,377	4,669	153	108,270
Disposals	–	–	(11,371)	(54,774)	(6,410)	–	(72,555)
Reclassification	–	1,473	–	–	–	(1,473)	–
At 31st December, 2017	21,317	786,866	148,273	2,337,632	24,576	–	3,318,664
Currency realignment	–	(39,712)	(6,726)	(116,670)	(615)	–	(163,723)
Additions	–	347	922	107,858	6,582	–	115,709
Disposals	–	(5,861)	(1,060)	(53,250)	(2,737)	–	(62,908)
At 31st December, 2018	21,317	741,640	141,409	2,275,570	27,806	–	3,207,742
ACCUMULATED DEPRECIATION							
At 1st January, 2017	–	238,344	125,038	1,776,899	18,139	–	2,158,420
Currency realignment	–	20,111	10,232	149,624	1,080	–	181,047
Provided for the year	–	37,482	5,716	131,808	3,847	–	178,853
Eliminated on disposals	–	–	(1,871)	(53,246)	(5,946)	–	(61,063)
At 31st December, 2017	–	295,937	139,115	2,005,085	17,120	–	2,457,257
Currency realignment	–	(16,418)	(6,494)	(105,715)	(531)	–	(129,158)
Provided for the year	–	38,885	4,422	132,074	4,399	–	179,780
Eliminated on disposals	–	(4,126)	(943)	(52,689)	(2,445)	–	(60,203)
At 31st December, 2018	–	314,278	136,100	1,978,755	18,543	–	2,447,676
CARRYING AMOUNTS							
At 31st December, 2018	21,317	427,362	5,309	296,815	9,263	–	760,066
At 31st December, 2017	21,317	490,929	9,158	332,547	7,456	–	861,407

14. 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 equipment	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.

15. PREPAID LEASE PAYMENTS

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

	2018	2017
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Non-current asset	**70,574**	76,290
Current asset	**1,840**	1,938
	72,414	78,228

16. DEFERRED TAXATION

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

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**(12,675)**	(21,628)
Deferred tax liabilities	**30,378**	26,102
	17,703	4,474

16. 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, 2017	(4,351)	23,811	(20,285)	(5,297)	(6,122)
Charge for the year	3,876	11,877	4,622	1,303	21,678
Transfer to current income tax	—	(11,116)	—	—	(11,116)
Currency realignment	398	1,530	(1,400)	(494)	34
At 31st December, 2017	(77)	26,102	(17,063)	(4,488)	4,474
Charge (credit) for the year	(439)	5,870	8,295	346	14,072
Currency realignment	21	(1,594)	517	213	(843)
At 31st December, 2018	(495)	30,378	(8,251)	(3,929)	17,703

At the end of the reporting period, the Group has unused tax losses of approximately HK$51,656,000 (2017: HK$113,128,000) available for offset against future profits. A deferred tax asset of approximately RMB28,988,000 (equivalent to HK$33,004,000) (2017: RMB56,897,000 (equivalent to HK$68,248,000)) has been recognised in respect of such losses generated by a PRC subsidiary.

The remaining tax losses of approximately HK$18,652,000 (2017: HK$44,880,000) are not recognised as deferred tax assets due to the unpredictability of future profit streams. Except for unused tax losses of approximately RMB28,988,000 (equivalent to HK$33,004,000) that will expire from 2019 to 2020 (2017: 2018 to 2020), other unused tax losses may be carried forward indefinitely.

In addition, the Group has temporary differences of approximately HK$245,315,000 (2017: HK$255,692,000) in respect of inventory provision and economic compensation provision 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$607,560,000. 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.

17. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials (Note)	**495,770**	456,506
Work in progress	**42,462**	43,353
Finished goods	**17,563**	29,878
	555,795	529,737

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

	2018 HK$'000	2017 HK$'000
0 to 180 days	**346,039**	336,410
181 to 365 days	**83,247**	75,071
Over 1 year	**66,484**	45,025
	495,770	456,506

The cost of inventories recognised as an expense by the Group during the year amounted to approximately HK$1,998,189,000 (2017: HK$1,857,766,000).

18. TRADE, BILLS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**263,697**	327,579
Bills receivables	**19,095**	29,183
Less: allowance for doubtful debts	**(16,257)**	(22,327)
	266,535	334,435
Other receivables	**1,234**	2,510
Deposits and prepayments	**82,008**	104,994
Total trade, bills and other receivables	**349,777**	441,939

18. 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 credit losses) presented based on the invoice dates at the end of the reporting period.

	2018 **HK$'000**	2017 HK$'000
0 to 60 days	**201,896**	254,824
61 to 90 days	**46,652**	53,918
Over 90 days	**17,987**	25,693
	266,535	334,435

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

As at 31st December, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$33,006,000 (2017: HK$47,134,000) which are past due as at the reporting date. Out of the past due balances, HK$16,750,000 (2017: HK$24,807,000) has been past due 90 days or more and is not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Movements in the allowance for doubtful debts

	2017 HK$'000
Balance at beginning of the year	26,009
Impairment loss reversed during the year	(5,256)
Amounts written off as uncollectible	(57)
Currency realignment	1,631
Balance at end of the year	22,327

Details of impairment assessment of trade, bills and other receivables for the year ended 31st December, 2018 are set out in note 27.

19. 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 0.01% to 4% (2017: 0.01% to 3.8%) per annum at 31st December, 2018.

20. 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 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"). 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 rights of the land has been transferred during the year ended 31st December 2017 and the related non-current asset has been derecognised from the consolidated statement of financial position. As a result, a before income tax disposal gain of approximately RMB59,561,000 (equivalent to approximately HK$67,149,000) was recognised in 2017. The after income tax gain attributable to the owners of the Company was approximately RMB49,703,000 (equivalent to approximately HK$56,035,000).

21. TRADE, BILLS AND OTHER PAYABLES

	Note	**2018** **HK$'000**	2017 HK$'000
Trade payables		**93,580**	97,537
Bills payables		**15,712**	15,723
Advance receipt from customers	2.1.1	**—**	39,223
VAT payables		**21,650**	16,027
Provision of employee economic compensation		**150,940**	171,071
Payables for salaries and bonuses		**62,598**	78,673
Deposits and accruals		**28,555**	27,847
Other payables		**15,035**	19,996
Total		**388,070**	466,097
Less: Amount due within one year shown under current liabilities		**(291,156)**	(356,444)
Amount due after one year		**96,914**	109,653

21. TRADE, BILLS AND OTHER PAYABLES *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
0 to 60 days	**84,519**	78,993
61 to 90 days	**15,519**	22,323
Over 90 days	**9,254**	11,944
	109,292	113,260

In general, the credit period on the purchases of goods ranges from 30 days to 150 days.

22. CONTRACT LIABILITIES

The Group receives certain percentage of the contract value from customers when they sign the sale contracts or place their purchase orders. This gives rise to contract liability at the start of a contract until revenue is recognised. Upon delivery, the Group satisfies the related performance obligation and entitle the remaining percentage of the contract value.

During the year ended 31st December, 2018, revenue recognised in the current year relating to carried-forward contract liabilities is HK$39,223,000.

23. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable HK$'000
At 1st January, 2017	162
Financing cash flows	(277,907)
Dividend declared	277,937
At 31st December, 2017	192
Financing cash flows	(252,651)
Dividend declared	252,671
At 31st December, 2018	212

24. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	HK$'000	Number of shares	HK$'000
Ordinary shares of HK$0.1 each:				
At 1st January, 2017 and 31st December, 2017 and 2018	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"). 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.

No option was granted during the both years and outstanding at the end of both reporting periods.

26. 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 years.

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.

27. FINANCIAL INSTRUMENTS

27a. Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
At amortised cost	**916,586**	–
Loans and receivables (including cash and cash equivalents)	**–**	1,013,477
Financial liabilities		
At amortised cost	**159,958**	171,383

27b. 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 dividend payable. 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 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.

Sensitivity analysis

In the opinion of the directors of the Company, no sensitivity analysis is prepared for the interest rate risk for variable-rate bank deposits since the impact on profit or loss from changes in interest rates for both years is insignificant.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. 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 and Taiwan. The transactions are denominated and settled in their respective functional currency. 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**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi ("RMB")	**–**	–	**56,964**	104,331
United States Dollar ("USD")	**12,332**	13,576	**30,640**	60,026
Euro ("EUR")	**–**	–	**10,117**	8,281
Japanese Yen ("JPY")	**44**	56	**100**	1,273

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 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% (2017: 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% (2017: 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% (2017: 5%) against the relevant foreign currency. For a 5% (2017: 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.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(b) Currency risk (Continued)

Sensitivity analysis *(Continued)*

The above JPY dominated assets and liabilities are insignificant to the Group. Accordingly, no sensitivity analysis is presented for JPY against the functional currency of the respective entities.

	RMB Impact (i)		EUR Impact (i)	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Post-tax profit for the year	**(2,136)**	(3,912)	**(379)**	(311)

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

Credit risk and impairment assessment

At 31st December, 2018, the Group's maximum exposure to credit risk, which could cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on a regular basis. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances with credit-impaired are assessed individually; and trade balances not credit-impaired based on provision matrix with appropriate grouping for impairment allowance. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank balances

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Trade receivables

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Trade receivables with credit-impaired are assessed individually, and those not credit-impaired are assessed collectively using a provision matrix with appropriate grouping for impairment allowance. The impairment allowance based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including the time value of money where appropriate.

Bills and other receivables

In determining the ECL for bills and other receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding bills and other receivables are insignificant.

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. Trade receivables consist of a large number of customers that are spread over a number of counterparties.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Category	Description	Trade receivables	Other financial assets
Grade A	The counterparty has a low risk of default and has no past due amounts	Lifetime ECL — not credit-impaired	12m ECL
Grade B	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	N/A
Grade C	Debtor frequently repays after due dates but usually settle after due date with a longer period	Lifetime ECL — not credit-impaired	N/A
Grade D	There has been a significant increase in credit risk since initial recognition	Lifetime ECL — not credit-impaired	N/A
Grade E	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired	N/A
Specific Provision	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Lifetime ECL — credit-impaired	Lifetime ECL — 100% credit-impaired

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 31st December, 2018.

Internal credit rating	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
Grade A: Totally secure	0.0%	22,928	—
Grade B: Above average secure	1.0%	53,142	531
Grade C: Average secure	2.0%	82,715	1,654
Grade D: Below average secure	3.5%	34,524	1,209
Grade E: With moderate risk	12.0%	65,370	7,845
		258,679	11,239
Specific provision (credit-impaired)	100%	5,018	5,018
		263,697	16,257

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Provision matrix — internal credit rating (Continued)

The estimated loss rates are determined based on historical observed default rates over the expected lives of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach

	Lifetime ECL (provision matrix) HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
Balance at 1st January, 2018	12,276	10,051	22,327
Impairment losses recognised	3,790	1,693	5,483
Impairment losses reversed during the period	(3,608)	(5,821)	(9,429)
Amounts written off as uncollectible	(1,230)	—	(1,230)
Currency realignment	11	(905)	(894)
Balance at 31st December, 2018	11,239	5,018	16,257

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the trade receivables are over three years past due, and the counterparty of the trade receivables has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the debtors to recover the amount due.

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.

27. FINANCIAL INSTRUMENTS *(Continued)*

27b. 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$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
2018								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	61,409	76,437	21,900	–	–	159,746	159,746
Dividend payable	N/A	212	–	–	–	–	212	212
		61,621	76,437	21,900	–	–	159,958	159,958

	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$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
2017								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	63,293	69,179	38,719	–	–	171,191	171,191
Dividend payable	N/A	192	–	–	–	–	192	192
		63,485	69,179	38,719	–	–	171,383	171,383

27c. Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are 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 cost in the consolidated financial statements approximate their respective fair values at the end of the reporting period.

28. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	27,432	14,351

29. 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 and plant and machinery, which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**7,333**	11,489
In the second to fifth year inclusive	**5,934**	11,043
	13,267	22,532

Operating lease payments represent rental payables by the Group for certain of its office premises and staff quarters and the plant and machinery in certain overseas subsidiaries. Leases are negotiated for an average term ranged from one to five years.

Included above are the commitments with related parties for future minimum lease payments to Silver Aim Limited and Triplefull Company Limited within one year and in the second to fifth year of HK$2,333,000 (2017: HK$1,667,000) and HK$1,750,000 (2017: nil) respectively.

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.

The Group as lessor

Property rental income earned during the year was approximately HK$3,551,000 (2017: HK$3,469,000).

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:

	2018 HK$'000	2017 HK$'000
Within one year	**2,763**	2,272
In the second to fifth year inclusive	**3,391**	1,043
	6,154	3,315

The investment properties held have committed tenants for an average term ranged from one to three (2017: ranged from one to three) years.

30. RETIREMENT BENEFITS SCHEMES

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 Schemes 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.

31. RELATED PARTY TRANSACTIONS

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

	2018 **HK$’000**	2017 HK$’000
Rental expenses:		
— Silver Aim Limited and Triplefull Company Limited collectively	**2,055**	1,963
Rental deposit paid:		
— Silver Aim Limited and Triplefull Company Limited collectively	**583**	556

The compensation of key management personnel (representing directors of the Company) during the year was as follows:

	2018 **HK$’000**	2017 HK$’000
Short-term benefits	**27,207**	27,101
Bonus	**17,000**	26,500
Post-employment benefits	**2,650**	2,639
	46,857	56,240

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2018 is as follows:

ASSETS AND LIABILITIES

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investment in a subsidiary	**55,856**	55,856
Amount due from a subsidiary	**47,995**	47,512
	103,851	103,368
Current assets		
Amount due from a subsidiary	**577,338**	429,376
Prepayments	**236**	232
Bank balances	**823**	452
	578,397	430,060
Current liabilities		
Accrued charges	**980**	497
Dividend payable	**212**	192
	1,192	689
Net current assets	**577,205**	429,371
Net assets	**681,056**	532,739
CAPITAL AND RESERVES		
Share capital	**63,168**	63,168
Reserves (note)	**617,888**	469,571
Total equity	**681,056**	532,739

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors of the Company on 29th March, 2019 and are signed on its behalf by:

Siu Tit Lung
Executive Director and Chairman

Siu Yuk Lung
Executive Director and Managing Director

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2017	156,213	290,835	447,048
Profit for the year	—	300,460	300,460
Final dividend for the year ended 31st December, 2016	—	(75,801)	(75,801)
Final special dividend for the year ended 31st December, 2016	—	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2017	—	(75,801)	(75,801)
Interim special dividend for the year ended 31st December, 2017	—	(50,534)	(50,534)
At 31st December, 2017	156,213	313,358	469,571
Profit for the year	—	400,988	400,988
Final dividend for the year ended 31st December, 2017	—	(101,069)	(101,069)
Final special dividend for the year ended 31st December, 2017	—	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2018	—	(75,801)	(75,801)
At 31st December, 2018	156,213	461,675	617,888

33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Details of the Group's material subsidiaries as at 31st December, 2018 and 2017 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 2018 %	2017 %	Principal activities
河源龍記金屬製品有限公司 Heyuan Lung Kee Metal Products Co., Ltd.*	The PRC (note)	HK$550,870,000	**100**	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)	US$75,000,000	**100**	100	Manufacturing and marketing of mould bases
Lung Kee International Limited	Hong Kong	HK$2	**100**	100	Investment holding
Lung Kee Metal Limited	Hong Kong	HK$2	**100**	100	Trading and marketing of mould bases and related products
Lung Kee Metal Japan Company Limited	Japan	JPY300,000,000	**100**	100	Manufacturing and marketing of mould bases
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit 750,000	**100**	100	Manufacturing and marketing of mould bases
Super Visions International Limited	The BVI	US$2	**100**	100	Holding and licensing of trademarks
台灣龍記金屬製品股份有限公司 Taiwan Lung Kee Metal Products Co., Ltd.	Republic of China	NT$36,880,000	**100**	100	Manufacturing and marketing of mould bases

* For translation purpose only.

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

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,				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
REVENUE	2,403,429	2,279,124	2,213,126	2,510,389	**2,580,453**
PROFIT BEFORE TAXATION	171,553	169,626	279,869	384,649	**236,777**
INCOME TAX EXPENSE	(31,994)	(42,605)	(87,314)	(107,732)	**(66,256)**
PROFIT FOR THE YEAR	139,559	127,021	192,555	276,917	**170,521**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	137,837	125,632	191,731	278,276	**170,521**
NON-CONTROLLING INTERESTS	1,722	1,389	824	(1,359)	**—**
	139,559	127,021	192,555	276,917	**170,521**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
BASIC EARNING PER SHARE	21.82	19.89	30.35	44.05	**26.99**
DIVIDEND PER SHARE (Note)	13.00	20.00	36.00	48.00	**24.00**

ASSETS AND LIABILITIES

	At 31st December,				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
TOTAL ASSETS	3,007,420	2,779,313	2,733,392	2,851,808	**2,630,087**
TOTAL LIABILITIES	(624,011)	(482,844)	(511,271)	(509,651)	**(463,256)**
NET ASSETS	2,383,409	2,296,469	2,222,121	2,342,157	**2,166,831**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,369,960	2,282,235	2,206,758	2,342,157	**2,166,831**
NON-CONTROLLING INTERESTS	13,449	14,234	15,363	—	**—**
TOTAL EQUITY	2,383,409	2,296,469	2,222,121	2,342,157	**2,166,831**
	HK$	HK$	HK$	HK$	**HK$**
SHAREHOLDERS' FUND AT BOOK VALUE PER SHARE	3.75	3.61	3.49	3.71	**3.43**

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

INVESTMENT PROPERTIES

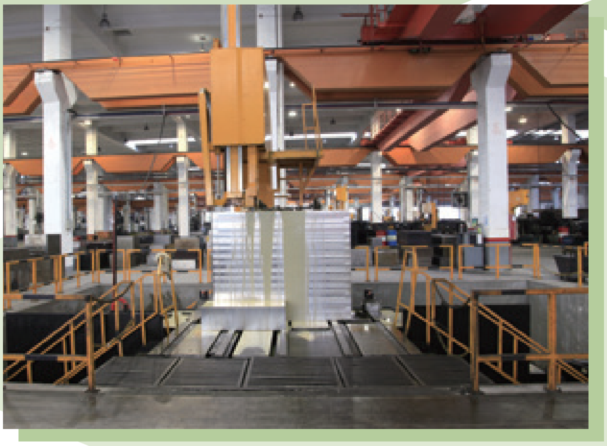
Location	Type of properties	Attributable interest	Lease term
Workshop 6 on ground floor Kwong Sang Hong Centre Nos.151–153 Hoi Bun Road Kowloon	Office premises	100%	Medium-term lease
Workshop No.2 on ground floor and the yard adjoining thereto Hung Tat Industrial Building No.43 Hung To Road Kowloon	Factory	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

真空熱處理爐及井式回火爐提供穩定的熱處理加工服務

Vacuum furnaces and vertical tempering furnaces provide stable heat treatment services

精密模架生產線

Production lines for high precision mould bases



立式帶鋸將鋼材鍛件切成粗形

Vertical band saws cut steel blocks into rough shape

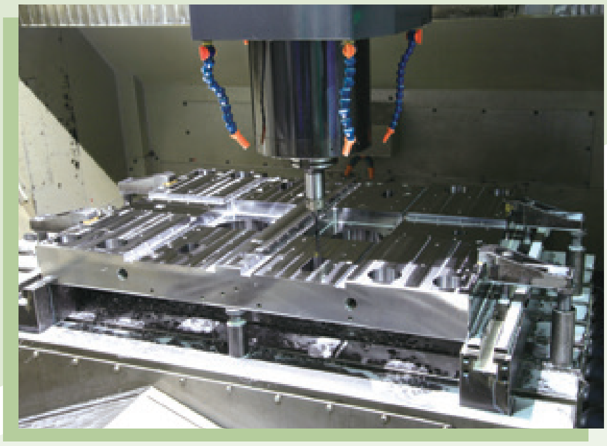
中國廣東省河源廠的模具鋼材倉庫一角

A view of mould steel warehouse at Heyuan factory, Guangdong Province, China

大型壓鑄模架
A large mould base for die casting mould

在標準模架生產線上組裝模架
Assembling standard mould bases on the production line

先進CNC設備配合優良的品質監控制度提供加工服務以滿足客戶需要
Advanced CNC machines together with good quality control system provide machinery services satisfying customers' needs



一件複雜的模架正進行加工
A complex mould base is undergoing machining