



Lung Kee (Bermuda) Holdings Limited

Stock Code: 255



2010
Annual Report



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Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Chan Chun Sing, Colin

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Wai Lung Shing

SOLICITORS

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

AUDITOR

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

PRINCIPAL BANKER

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

20th Floor
Crocodile Center
79 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

WEBSITE

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

Chairman's Statement

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, 2010.

BUSINESS REVIEW

The Group's revenue in the year ended 31st December, 2010 was approximately HK\$2,612 million (2009: approximately HK\$2,235 million). Profit attributable to owners of the Company in the year ended 31st December, 2010 was approximately HK\$319 million (2009: approximately HK\$221 million). Basic earnings per share in the year ended 31st December, 2010 was HK50.77 cents (2009: HK35.61 cents).

It has been more than two years since the outbreak of financial tsunami in 2008. The global economy has experienced a difficult adjustment process and gradually recovered. In this connection, the Group's performance during the review year has significantly improved and hit the target. As a result, the Group's turnover in 2010, when compared with that of 2009, registered a substantial growth. The Group's turnover was closed to the level prior to the financial tsunami with a record high profit.

PROSPECTS

Resorting to its solid foundation and ample management experience, the Group succeeded in achieving satisfactory results during the year under review. With its strong competitive edge, the Group continues to march towards a long-term and stable development growth.

Following the economic recovery of European countries and the United States, the global consumer market shows signals of turnaround and rebound. Due to the expressed concern on environmental protection by European countries and the United States, market demand for low-carbon and energy-saving products increases. To cope with the environment protection trend, manufacturers are keen to develop new low-carbon and energy saving products such as battery car and fuel-efficient models promoted by the automobile industry in response to the need of modern society. In this connection, new products integrated with environmental protection concept will rejuvenate the global consumer market, which in turn bring new business opportunities to the Group.

The Group expects China will sustain continuous economic development and stable growth in GDP. The rise of average wage in China will drive up domestic demand in consumer market. It is expected that the Group's domestic business will continue booming and contribute stable income to the Group.

In light of the development of the entire China market, the Group has invested in setting up a new plant in Hangzhou city, Zhejiang Province, China covering an area of 180,000 square meters. It is anticipated that the new plant will be developed in phases and completed in three years. The Group has just taken over the land and will expedite the construction process. It is estimated the construction of infrastructure and plant will be completed at the end of this year; machineries and other equipments can be installed at the beginning of 2012 and production can be partly operated in the midst of 2012. With the convenient location of the new plant, the Group can easily access to customers dispersed in the Zhejiang and Jiangsu Provinces in a shorter distant. It facilitates the Group to serve its customers more closely by entertaining their needs more effectively with an aim to enlarge its market shares in Eastern region of China. Once the new plant operates smoothly, the Group will reengineer all its plants in Eastern regions of China in order to uplift its

Chairman's Statement

production effectiveness and competitiveness. Turning to the plants in Southern regions of China, the Group keeps on reinforcing its production capability and product precision, seeking improvement on its productivity and product quality. It is hoped that the business development of the Group in the Southern, Eastern and Northern regions of China can achieve a stable and long-term growth, which will eventually fortify its leading position and competitive edge.

The Group has devised plans in counteracting the ever-increasing operating cost and fierce market competition. In views of the severe skilled labor shortage prevailing in China, the Group has already put forward a comprehensive human resources policy in advance, apart from offering reasonable salary packages; a relatively competitive fringe benefits package is also presented. Together with an effective training program and the promotion of cultural activities, the Group succeeds in maintaining skilled labor and attracting fresh members to join in. However, though the Group does not suffer serious labor shortage, its labor cost unavoidably increases.

The Group expects that the import and China mould steel will fluctuate according to the market situation. In views of this, the Group will intensely monitor the market situation and steel price changes, and prudently regulate its inventory level, with an aim to minimize production cost. Despite the fluctuation of foreign currency, as Renminbi is the dominating trading currency in its business transactions, the Group still maintains a relative stable currency policy. Moreover, the Group keeps adequate funds in meeting various investment and operation needs, which will not be affected by the rise of loan rate.

Japan has recently suffered a massive earthquake and tsunami, resulting tragic loss of lives and damage to property. The Group expresses its deepest condolences to this tragic event and hope that Japan can overcome the difficulties soon. The Group expects its business in Japan will be hampered in this relation, however, its negative impact is relatively mild as compared with the scale of business of the Group as a whole. The Group will closely monitor the development of the mishap in Japan and the situation of its Japanese business partners and will react appropriately.

Looking ahead, the Group will stick to its prudent and pragmatic principles in meeting challenges and capturing the new business opportunity. The Group also strives to seek for excellence in its management and production skills in order to secure its leading position in the industry and deliver a stable and substantial return to shareholders.

Taking this opportunity, the Board of Directors would like to express our thanks to all staff for their efforts and contribution rendered. Also, sincere gratitude is extended to our shareholders and business partners for their great support.

Siu Tit Lung
Chairman

Hong Kong, 25th March, 2011

Management Discussion and Analysis

During the year ended 31st December, 2010, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of approximately HK\$2,612 million and earnings of approximately HK\$319 million for the year ended 31st December, 2010.

OPERATIONAL REVIEW

During the year under review, the Group achieved a steady business development and growth. As the Chinese government encouraged domestic consumption, with an aim to boost economic development, local consumer market in China has experienced a rapid growth. Domestic demand for automobiles and household appliances increased substantially. Triggered by such economic stimulus measures, the Group recorded a satisfactory turnover in its domestic sales business in China. Following the gradual economic recovery of overseas markets, including Europe and America, the export business of China has gradually revived. Equipped with the production skills and market competitive edge for high precision moulds, the Group matched perfectly the need of overseas customers having stringent requirements and high quality demand in mould products; this brought a favorable growth in turnover to the Group. At the same time, due to the serious shortage of skilled labor and the upsurge of labor cost in China, some of our customers in China tend to order quality mould products and parts from the Group, incorporating more machining services in their orders. This further expedited the Group's pace in developing the in-depth machining services for the medium-high end mould industry and enlarged the income source of the Group.

Moreover, the Group's effort to enhance cost control and uplift operation efficiency has gained reasonable return. The Group adopts an effective resources management policy in regulating its production material in order to lower its production cost. In views of the fluctuation of mould steel price, the Group only made procurement at suitable time and at reasonable level, succeeding in maintaining a relatively stable mould steel price throughout the reviewed year. On the other hand, some of the manufacturers in China face a severe labor shortage problem. However, through continuously upgrading its machinery equipment and realignment of its production process, the Group achieves a greater degree of automation and batch production. In this relation, despite labor cost still surges upward, the Group has enjoyed a positive growth both in its efficiency and output value per head. At the same time, the Group has executed persistently its cost monitoring measures, which further lower its operational cost and uplift its operation effectiveness as a whole.

Facing the ever-increasing operating costs such as oil price, transportation and labor cost, the Group appropriately adjusted its prices in order to maintain its high quality products and services provided to customers and to alleviate the pressure of uplifted operating costs.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2010, the Group had bank balances of approximately HK\$870 million. The bank balances were placed in short term deposits with major banks in Hong Kong and the PRC.

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

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

GEARING RATIO

Total debts of the Group were approximately HK\$258 million, equal to approximately 12% of equity attributable to owners of the Company of approximately HK\$2,176 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2010, the Group employed a total of approximately 6,300 employees, including approximately 5,900 employees in its PRC production sites and approximately 400 employees in Hong Kong and other countries. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.

Corporate Governance Report

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, 2010, the Company complied with all requirements set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

A. DIRECTORS

A.1 The Board

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

During the financial year ended 31st December, 2010, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:

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

A.2 Chairman and Managing Director

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

Corporate Governance Report

A.3 Board composition

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

Executive directors

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

Non-executive director

Mr. Chan Chun Sing, Colin

Independent non-executive directors

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

Two independent non-executive directors possess recognised professional qualifications in accounting. The independent non-executive directors bring independent judgement, knowledge and experience to the Board.

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

A.4 Appointment, re-election and removal

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

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

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

Corporate Governance Report

During the financial year ended 31st December, 2010, the Nomination Committee held four meetings. The attendance of each member is set out as follows:

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

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

For the financial year ended 31st December, 2010, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board. The Nomination Committee concluded that the Board possesses of a diversity of skills, expertise, experience and qualifications and believed that the Board performs its duties competently. The Nomination Committee has also assessed the independence of all the independent non-executive directors.

A.5 Responsibilities of directors

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

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

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

A.6 Supply of and access to information

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

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

Corporate Governance Report

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

During the financial year ended 31st December, 2010, the Remuneration Committee held four meetings. The attendance of each member is set out as follows:

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

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

For the financial year ended 31st December, 2010, the Remuneration Committee has considered and approved the Group's policy for the remuneration of directors and senior management. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 10 to the consolidated financial statements.

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

In order to attract, retain and motivate talented executives/employees to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out in note 26 to the consolidated financial statements.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

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

The directors acknowledge their responsibility to prepare the 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, 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.

C.2 Internal controls

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

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

Corporate Governance Report

C.3 Audit Committee

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

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

During the financial year ended 31st December, 2010, the Audit Committee held four meetings. The attendance of each member is set out as follows:

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

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

A summary of the work performed by the Audit Committee for the financial year ended 31st December, 2010 is set out in "Audit Committee Report" of the Annual Report for the year ended 31st December, 2010 (the "Annual Report").

C.4 Fee paid/payable to Group's auditor

For the financial year ended 31st December, 2010, 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	3,027
Non-audit services	
– Interim review	400
– Taxation services	191
– Liquidation consulting services to a non wholly-owned subsidiary	84
– Audit of provident fund	5
– Review of results announcement	42

D. DELEGATION BY THE BOARD

D.1 Management functions

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

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

D.2 Board committees

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

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. 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.

E.2 Voting by poll

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.

Audit Committee Report

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

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

During the financial year ended 31st December, 2010, 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. The chairman of the Audit Committee reported the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee were circulated to the Board for information.

The following was a summary of the work performed by the Audit Committee in 2010:

1. review of the Group's consolidated financial statements for the year ended 31st December, 2009 and the annual results announcement with a recommendation to the Board for approval;
2. met with the external auditor without the presence of the executive directors of the Board;
3. review of the Group's consolidated financial statements for the period from 1st January, 2010 to 30th April, 2010 with a recommendation to the Board for approval;
4. through the Internal Control Review Task Force to assess broadly any special risks faced by the Group and to review the effectiveness of the internal control system of the Group;
5. review of the Group's consolidated financial statements for the six months period ended 30th June, 2010 and the interim results announcement with a recommendation to the Board for approval;
6. review of the Group's consolidated financial statements for the period from 1st January, 2010 to 30th September, 2010 with a recommendation to the Board for approval;
7. review of the compliance by the Group with the Code on Corporate Governance Practices;
8. review of the annual internal audit plan submitted by the Group's Internal Audit Department;

Audit Committee Report

9. review of the findings and recommendations submitted by the Group's Internal Audit Department;
10. review of the report and management letter submitted by external auditor;
11. review of the audit plan for the year ended 31st December, 2010 submitted by external auditor; and
12. consideration of the 2010 audit fees with a recommendation to the Board for approval.

At the Audit Committee meeting on 25th March, 2011, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December, 2010 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 2011 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2011 annual general meeting of the Company.

Audit Committee Members:

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

Mr. Chan Chun Sing, Colin

Dr. Lee Tat Yee

Mr. Lee Joo Hai

Hong Kong, 25th March, 2011

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, 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated statement of comprehensive income on page 30.

An interim dividend of HK13 cents per share amounting to approximately HK\$81,684,000 and a special dividend of HK5 cents per share amounting to approximately HK\$31,417,000 were paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK18 cents per share and a special dividend of HK5 cents per share to shareholders registered on the register of members on 9th May, 2011, amounting to approximately HK\$144,897,000, and the retention of the remaining profit.

FINANCIAL SUMMARY

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

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2010 were revalued by an independent firm of qualified professional property valuers. The revaluation increase of HK\$15,100,000 has been recognised in the consolidated statement of comprehensive income. Details of the movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2010 are set out on page 79.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred capital expenditure in respect of factory premises and staff quarters at a cost of approximately HK\$34 million. The Group continued its plant expansion policy and expended approximately HK\$83 million on new plant and machinery and approximately HK\$9 million on other furniture and equipment during the year. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 25 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, 2010 represented the retained profits of approximately HK\$664,509,000.

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 17% to the total purchases for the year while the Group's five largest suppliers accounted for 50% of the total purchases for the year.

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

DIRECTORS

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

Executive directors

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

Non-executive director

Mr. Chan Chun Sing, Colin

Independent non-executive directors

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

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

Directors' Report

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 60, elder brother of Mr. Siu Yuk Lung and brother-in-law of Mr. Chan Chun Sing, Colin, has been an executive director and the chairman of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for overall strategic planning and corporate development of the Group. He has many years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Dongguan City and Heyuan City, Guangdong Province in the People's Republic of China (the "PRC").

Mr. Siu Yuk Lung, aged 57, younger brother of Mr. Siu Tit Lung and brother-in-law of Mr. Chan Chun Sing, Colin, has been an executive director and the managing director of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, Rickdee Investments Limited and Robin Hill Investments Limited, the substantial shareholders of the Company. Mr. Siu is responsible for policy making and corporate management of the Group. He has many years of experience in metal trading and mould base manufacturing. He has, since 1995, been serving as a member of the Executive Committee of the Hong Kong Mould Association. He is also an honorary citizen of Heyuan City, Guangdong Province in the PRC.

Mr. Mak Koon Chi, aged 52, has been an executive director of the Company since December 1992 and is a director of certain subsidiaries of the Company. He is a past chairman of the Society of Manufacturing Engineers (Hong Kong Chapter) and a fellow of The Hong Kong Institute of Directors. Mr. Mak is responsible for policy making, marketing, product development and technological development of the Group and has many years of experience in mould base manufacturing. Mr. Mak graduated from the Hong Kong Polytechnic University and Murdoch University, Australia with a Master of Business Administration Degree.

Mr. Wai Lung Shing, aged 49, has been an executive director of the Company since December 1992. He is the company secretary of the Company. He is also a director and a company secretary of certain subsidiaries of the Company. Mr. Wai is responsible for policy making, finance and administration functions of the Group. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from the University of Warwick, United Kingdom with a Master of Business Administration Degree. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He is also a member of the Institute of Chartered Accountants in England and Wales. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

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

Executive directors *(continued)*

Mr. Fung Wai Hing, aged 58, has been an executive director of the Company since August 1997 and is a director of certain subsidiaries of the Company. Mr. Fung is responsible for policy making and trading business of the Group. Mr. Fung graduated from the University of Birmingham, United Kingdom with a Master of Science Degree in Industrial Management, and from The University of Hong Kong with a Master of Business Administration Degree. He is a past president of the Institute of Industrial Engineers (Hong Kong Chapter). He is the Honorary President of the Hong Kong Diecasting and Foundry Association, a member of the Steering Committee of the Industrial Centre of the Hong Kong Polytechnic University, and a fellow of The Hong Kong Institute of Directors. He has extensive experience in the trading business.

Mr. Ting Chung Ho, aged 57, joined the Group in March 2000 as a general manager of a subsidiary of the Company in the PRC and has been appointed as an executive director of the Company since April 2008 and is also a director of certain subsidiaries of the Company. Mr. Ting is responsible for policy making and operation management of the Company. He has many years of experience in enterprise operation and management. Mr. Ting graduated from the Open University of Hong Kong with a Master of Business Administration Degree. He is an associate of The Hong Kong Institute of Directors.

Non-executive director

Mr. Chan Chun Sing, Colin, aged 56, brother-in-law of Messrs. Siu Tit Lung and Siu Yuk Lung, has been appointed to the Board of the Company since December 1992. He is a non-executive director of the Company. Mr. Chan graduated from the University of Toronto, Canada with a Bachelor of Science (Hons.) Degree in Engineering and from the Chinese University of Hong Kong with a Master of Business Administration Degree. He is a fellow of The Hong Kong Institute of Directors. Mr. Chan has over 20 years of management experience leading the Asia Pacific organisation of multinational companies in the technology and manufacturing industry. He has also taken on management consulting projects to help clients in building brand loyalty, making step-wise improvements in business operations, and in facilitating the development and execution of corporate strategies.

Independent non-executive directors

Mr. Liu Wing Ting, Stephen, Justice of Peace, aged 58, has been an independent non-executive director of the Company since December 1992. He is a member of Anhui Provincial Committee of Chinese People's Political Consultative Conference. Mr. Liu has been practising as a certified public accountant for many years and is a founder director of Hong Kong Aids Foundation Limited, a member of the Prince of Wales Hospital Governing Committee of the Hospital Authority and a member of the Audit Committee of the University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He has wide experience in auditing, taxation and financial management in various fields and industries. He is the chairman of the Audit Committee of the Company.

Directors' Report

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

Independent non-executive directors *(continued)*

Dr. Lee Tat Yee, aged 63, has been an independent non-executive director of the Company since December 1992. Dr. Lee obtained his doctorate degree from the University of Queensland, Australia and is a Chartered Engineer of the Engineering Council in the United Kingdom. He is a fellow of The Hong Kong Institute of Directors. Dr. Lee was a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems and retired. He is the chairman of the Remuneration Committee of the Company.

Mr. Lee Joo Hai, aged 55, has been appointed as an independent non-executive director of the Company in September 2004. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Malaysian Institute of Accountants, the Institute of Certified Public Accountants of Singapore and the Singapore Institute of Directors. He is also a fellow of The Hong Kong Institute of Directors. He has extensive experience in accounting and auditing. He is presently a partner of a public accounting firm in Singapore. He is the chairman of the Nomination Committee of the Company. Mr. Lee is currently an independent director of Adampak Limited (previously listed on the Sesdaq of The Singapore Exchange Securities Trading Limited ("SGX-ST")), Food Junction Holdings Limited (previously listed on the Sesdaq of the SGX-ST), Hyflux Ltd, IPC Corporation Limited, Kian Ho Bearings Limited and Asiasons WFG Financial Ltd. (formerly known as Westcomb Financial Group Limited) (previously listed on the Sesdaq of the SGX-ST), which are all listed on the main board of the SGX-ST. He is also an independent director of Armarda Group Limited, which is listed on the Catalist of the SGX-ST (previously the Sesdaq of the SGX-ST) and is also an independent director of Agria Corporation, which is listed on the Nasdaq. Mr. Lee was also an independent director of AGVA Corporation Limited from June 2003 to May 2009, FDS Networks Group Ltd from June 2000 to February 2010 and Unisteel Technology Limited from August 2000 to December 2008, which were all listed on the SGX-ST. Save as disclosed above, Mr. Lee did not hold other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2010, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Interests in the Company

Name of director	Capacity	Number of shares held		Number of share options and corresponding number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
		Personal interests	Other interests			
Siu Tit Lung (Notes 1, 2 and 4)	Beneficial owner and founder of discretionary trust	37,941,444	307,617,187	150,000	345,708,631	54.90%
Siu Yuk Lung (Notes 1, 3 and 4)	Beneficial owner and founder of discretionary trust	37,941,444	307,617,187	150,000	345,708,631	54.90%
Mak Koon Chi	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Wai Lung Shing	Beneficial owner	3,843,750	—	500,000	4,343,750	0.69%
Fung Wai Hing	Beneficial owner	2,457,031	—	500,000	2,957,031	0.47%
Ting Chung Ho	Beneficial owner	620,000	—	600,000	1,220,000	0.19%
Chan Chun Sing, Colin	Beneficial owner	150,000	—	450,000	600,000	0.10%
Liu Wing Ting, Stephen	Beneficial owner	150,000	—	450,000	600,000	0.10%
Lee Tat Yee	Beneficial owner	150,000	—	450,000	600,000	0.10%
Lee Joo Hai	Beneficial owner	—	—	450,000	450,000	0.07%

Directors' Report

DIRECTORS' INTERESTS IN SHARES *(continued)*

Interests in the Company *(continued)*

Notes:

1. Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 32,631,288 shares in the Company and each owned a further 5,310,156 shares in the Company registered in their own names.
2. Rickdee Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Tit Lung other than Mr. Siu Tit Lung himself are beneficiaries, held 58,593,750 shares in the Company.
3. Robin Hill Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Mr. Siu Yuk Lung other than Mr. Siu Yuk Lung himself are beneficiaries, held 58,593,750 shares in the Company.
4. Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung other than Messrs. Siu Tit Lung and Siu Yuk Lung themselves are beneficiaries, held 249,023,437 shares in the Company.

Interests in associated corporations of the Company

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

DIRECTORS' INTERESTS IN SHARES *(continued)*

Interests in associated corporations of the Company *(continued)*

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

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

Save as disclosed herein and in the section "Share Options" and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2010.

SHARE OPTIONS

Particulars of the Company's share option scheme and other details are set out in note 26 to the consolidated financial statements.

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

	Number of share options					Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2010	Granted during the year	Lapsed during the year	Exercised during the year	At 31st December, 2010			
Category 1: Directors								
Siu Tit Lung	150,000	—	—	(150,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Siu Yuk Lung	150,000	—	—	(150,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Mak Koon Chi	500,000	—	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Wai Lung Shing	500,000	—	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10

Directors' Report

SHARE OPTIONS *(continued)*

	Number of share options					Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2010	Granted during the year	Lapsed during the year	Exercised during the year	At 31st December, 2010			
Category 1: Directors <i>(continued)</i>								
Fung Wai Hing	500,000	—	—	(500,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Ting Chung Ho	200,000	—	—	(100,000)	100,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	400,000	—	—	(400,000)	—	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	500,000	—	—	500,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Chan Chun Sing, Colin	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Liu Wing Ting, Stephen	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Tat Yee	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Lee Joo Hai	150,000	—	—	—	150,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	150,000	—	—	—	150,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	150,000	—	—	150,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	3,600,000	2,900,000	—	(2,300,000)	4,200,000			

SHARE OPTIONS *(continued)*

	Number of share options				At 31st December, 2010	Date of grant	Exercisable period	Exercise price per share HK\$
	At 1st January, 2010	Granted during the year	Lapsed during the year	Exercised during the year				
Category 2: Employees								
	2,966,000	—	(196,000)	(1,524,000)	1,246,000	14th November, 2007	14th November, 2008 to 13th November, 2011	3.60
	3,378,000	—	(60,000)	(3,132,000)	186,000	14th January, 2009	14th January, 2010 to 13th January, 2013	2.27
	—	3,848,000	—	—	3,848,000	9th July, 2010	9th July, 2011 to 8th July, 2014	4.10
Total	6,344,000	3,848,000	(256,000)	(4,656,000)	5,280,000			
Total all categories	9,944,000	6,748,000	(256,000)	(6,956,000)	9,480,000			

The closing price of the Company's shares immediately before 9th July, 2010, the date of grant of options in 2010 was HK\$4.01.

In respect of the share options exercised during the year ended 31st December, 2010, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$4.40.

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2010, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	249,023,437	39.55%
Rickdee Investments Limited	Beneficial owner	58,593,750	9.31%
Robin Hill Investments Limited	Beneficial owner	58,593,750	9.31%
Commonwealth Bank of Australia	Interest of controlled corporation	50,276,108	7.98%
JPMorgan Chase & Co.	Custodian corporation/ approved lending agent	33,284,500	5.29%

Directors' Report

SUBSTANTIAL SHAREHOLDERS *(continued)*

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

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2010.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st December, 2010 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 2002. Details of the scheme are set out in note 26 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

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, 25th March, 2011

Independent Auditor's Report



TO THE MEMBERS OF LUNG KEE (BERMUDA) HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 77, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Independent Auditor's Report

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25th March, 2011

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2010

	Notes	2010 HK\$'000	2009 HK\$'000
Revenue	7	2,611,583	2,234,680
Other income	9	14,581	33,816
Increase in fair value of investment properties	15	15,100	7,800
Changes in inventories of finished goods and work in progress		(17,566)	(11,261)
Raw materials and consumables used		(1,080,763)	(1,028,495)
Employee benefits expenses		(495,654)	(392,791)
Depreciation and amortisation of property, plant and equipment		(168,126)	(198,461)
Other expenses		(420,452)	(323,760)
Interest on bank borrowings wholly repayable within five years		(1,110)	(1,633)
Profit before taxation		457,593	319,895
Income tax expense	11	(135,105)	(98,935)
Profit for the year	12	322,488	220,960
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		90,589	2,275
Total comprehensive income for the year		413,077	223,235
Profit for the year attributable to:			
Owners of the Company		318,825	220,928
Non-controlling interests		3,663	32
		322,488	220,960
Total comprehensive income for the year attributable to:			
Owners of the Company		409,102	223,165
Non-controlling interests		3,975	70
		413,077	223,235
		HK cents	HK cents
Earnings per share	14		
— Basic		50.77	35.61
— Diluted		50.49	35.52

Consolidated Statement of Financial Position

At 31st December, 2010

	Notes	2010 HK\$'000	2009 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	56,500	41,400
Property, plant and equipment	16	683,834	710,750
Prepaid lease payments — non-current portion	17	105,959	42,308
Deposits paid for acquisition of property, plant and equipment		5,027	15,916
		851,320	810,374
Current assets			
Inventories	18	620,020	426,115
Trade and other receivables	19	580,470	479,470
Bills receivable	19	44,038	28,340
Prepaid lease payments — current portion	17	1,426	1,049
Taxation recoverable		—	66
Bank balances and cash	20	869,956	629,746
		2,115,910	1,564,786
Current liabilities			
Trade and other payables	21	429,706	324,711
Bills payable	21	44,502	36,141
Taxation payable		19,811	13,946
Dividend payable		72	74
Derivative financial instruments	22	50	417
Unsecured bank borrowings — due within one year	23	258,101	46,707
		752,242	421,996
Net current assets		1,363,668	1,142,790
Total assets less current liabilities		2,214,988	1,953,164
Non-current liability			
Deferred tax liabilities	24	29,620	19,696
		2,185,368	1,933,468

Consolidated Statement of Financial Position

At 31st December, 2010

	Note	2010 HK\$'000	2009 HK\$'000
CAPITAL AND RESERVES			
Share capital	25	62,969	62,274
Reserves		2,113,434	1,866,204
Equity attributable to owners of the Company		2,176,403	1,928,478
Non-controlling interests		8,965	4,990
Total equity		2,185,368	1,933,468

The consolidated financial statements on pages 30 to 77 were approved and authorised for issue by the Board of Directors on 25th March, 2011 and are signed on its behalf by:

Siu Tit Lung
DIRECTOR

Siu Yuk Lung
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2010

	Attributable to owners of the Company						Sub-total	Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Translation reserve	Share options reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000 (note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2009	62,002	116,067	133,137	297,504	10,481	1,203,932	1,823,123	4,856	1,827,979
Profit for the year	—	—	—	—	—	220,928	220,928	32	220,960
Exchange difference arising on translation of foreign operations	—	—	—	2,237	—	—	2,237	38	2,275
Total comprehensive income for the year	—	—	—	2,237	—	220,928	223,165	70	223,235
Recognition of equity-settled share-based payments	—	—	—	—	2,600	—	2,600	—	2,600
Transfer on cancellation/lapse of share options	—	—	—	—	(5,965)	5,965	—	—	—
Share issued on exercise of share options	272	11,507	—	—	(1,987)	—	9,792	—	9,792
Final dividend for the year ended									
31st December, 2008 (note 13)	—	—	—	—	—	(68,201)	(68,201)	—	(68,201)
Interim dividend for the year ended									
31st December, 2009 (note 13)	—	—	—	—	—	(62,001)	(62,001)	—	(62,001)
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	—	64	64
Transfer	—	—	43,135	—	—	(43,135)	—	—	—
At 31st December, 2009	62,274	127,574	176,272	299,741	5,129	1,257,488	1,928,478	4,990	1,933,468
Profit for the year	—	—	—	—	—	318,825	318,825	3,663	322,488
Exchange difference arising on translation of foreign operations	—	—	—	90,277	—	—	90,277	312	90,589
Total comprehensive income for the year	—	—	—	90,277	—	318,825	409,102	3,975	413,077
Recognition of equity-settled share-based payments	—	—	—	—	3,018	—	3,018	—	3,018
Transfer on lapse of share options	—	—	—	—	(161)	161	—	—	—
Share issued on exercise of share options	695	20,702	—	—	(3,448)	—	17,949	—	17,949
Final dividend for the year ended									
31st December, 2009 (note 13)	—	—	—	—	—	(69,043)	(69,043)	—	(69,043)
Interim dividend for the year ended									
31st December, 2010 (note 13)	—	—	—	—	—	(81,684)	(81,684)	—	(81,684)
Interim special dividend for the year ended									
31st December, 2010 (note 13)	—	—	—	—	—	(31,417)	(31,417)	—	(31,417)
Transfer	—	—	25,783	—	—	(25,783)	—	—	—
At 31st December, 2010	62,969	148,276	202,055	390,018	4,538	1,368,547	2,176,403	8,965	2,185,368

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

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	2010 HK\$'000	2009 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	457,593	319,895
Adjustments for:		
Allowance for (reversal of allowance for) inventories	9,874	(29,958)
Depreciation of property, plant and equipment	168,126	198,461
(Gain) loss on fair value change in derivative financial instruments	(367)	417
Interest on bank borrowings wholly repayable within five years	1,110	1,633
Increase in fair value of investment properties	(15,100)	(7,800)
Interest income	(4,264)	(3,185)
Gain on disposal of property, plant and equipment	(1,208)	(103)
Release of prepaid lease payments	1,385	1,078
Impairment loss recognised (recovered) in respect of trade receivables	2,792	(1,548)
Share-based payment expenses	3,018	2,600
Operating cash flows before movements in working capital	622,959	481,490
(Increase) decrease in inventories	(181,506)	244,210
(Increase) decrease in trade and other receivables	(80,479)	49,636
(Increase) decrease in bills receivable	(12,587)	30,425
Increase (decrease) in trade and other payables	92,387	(25,071)
Increase (decrease) in bills payable	6,974	(17,476)
Cash generated from operations	447,748	763,214
Income taxes paid	(123,714)	(105,889)
Income taxes refunded	—	629
NET CASH FROM OPERATING ACTIVITIES	324,034	657,954
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(114,952)	(67,612)
Payment for a land lease	(63,638)	—
Proceeds on disposal of property, plant and equipment	10,451	2,564
Interest received	4,264	3,185
Deferred consideration received	—	2,483
NET CASH USED IN INVESTING ACTIVITIES	(163,875)	(59,380)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	2010 HK\$'000	2009 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(182,146)	(130,180)
Repayment of bank borrowings	(24,215)	(202,403)
Interest paid	(1,110)	(1,633)
New bank borrowings raised	230,000	46,214
Proceeds from new shares issued	17,949	9,792
Capital contribution by a minority shareholder of a subsidiary	—	64
NET CASH FROM (USED IN) FINANCING ACTIVITIES	40,478	(278,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS	200,637	320,428
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	629,746	309,259
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	39,573	59
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	869,956	629,746

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

1. GENERAL

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

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

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

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

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners
HK - Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HKFRS 3 (as revised in 2008) Business Combinations and HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions and the requirements in HKAS 27 (as revised in 2008) in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary has also been applied prospectively by the Group on or after 1st January, 2010 in accordance with the relevant transitional provisions.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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

HKFRS 3 (as revised in 2008) Business Combinations and HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements *(continued)*

As there was no transaction during the current year in which HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) are applicable, the application of HKFRS 3 (as revised in 2008), HKAS 27 (as revised in 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (as revised in 2008), HKAS 27 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. The application of the amendment to HKAS 17 has had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“HK Int 5”) clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time (“repayment on demand clause”) should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (continued)

As all bank loans outstanding in 2010 and 2009 are due to be settled within one year after the end of the reporting period have been classified as current liabilities, the application of HK Int 5 has had no impact on the reported profit or loss or earnings per share for the current and prior years. However, such term loans are now presented in the earliest time band in the maturity analysis for financial liabilities (see notes 6b and 23 for details).

Except as described above, the application of the other new and revised Standards and Interpretations in the current year has had no material effect on the Group’s accounting policies and the consolidated financial statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (as revised in 2009)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.

² Effective for annual periods beginning on or after 1st July, 2010.

³ Effective for annual periods beginning on or after 1st July, 2011.

⁴ Effective for annual periods beginning on or after 1st January, 2013.

⁵ Effective for annual periods beginning on or after 1st January, 2012.

⁶ Effective for annual periods beginning on or after 1st January, 2011.

⁷ Effective for annual periods beginning on or after 1st February, 2010.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. If the presumption is not rebutted, the directors anticipate that the application of the amendments to HKAS 12 may decrease the deferred tax liability recognised for investment properties that are measured using the fair value model.

Except as described above, the directors of the Company anticipate that the application of other new and revised Standards or Interpretations will have no material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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 certain investment properties and financial instruments that are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Basis of consolidation

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

Property, plant and equipment

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Inventories

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

Foreign currencies

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the 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 rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

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

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

Retirement benefits costs

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

Borrowing costs

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. 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.

Effective interest method

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

Loans and receivables

Loans and receivables (including trade and other receivables, bills receivable and bank balances) 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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Impairment of loans and receivables

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of loans and receivables (continued)

Objective evidence of impairment could include:

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

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Equity-settled share-based payment transactions

Share options granted to directors and employees

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to the share options reserve.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2010, the carrying amount of trade receivables (net of allowance for doubtful debts of approximately HK\$41,931,000) is approximately HK\$476,892,000 (31st December, 2009: HK\$429,828,000, net of allowance for doubtful debts of approximately HK\$40,251,000).

Allowance for inventories

Management of the Group reviews its inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review by making use of the aging analysis at the end of the reporting period and make allowance for obsolete items. As at 31st December, 2010, the carrying amount of inventories (net of allowance for inventories of approximately HK\$77,810,000) is approximately HK\$620,020,000 (31st December, 2009: HK\$426,115,000, net of allowance for inventories of approximately HK\$64,915,000).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 23 net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, retained profits and other reserves.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2010 HK\$'000	2009 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,406,650	1,092,934
Financial liabilities		
Amortised cost	453,877	208,640
Derivative financial instruments	50	417

6b. Financial risk management objectives and policies

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

Market risk

(a) Interest rate risk

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

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 23 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rates so as to minimise the fair value interest rate risk.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(a) Interest rate risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's pre-tax profit for the year ended 31st December, 2010 would decrease/increase by approximately HK\$1,291,000 (2009: decrease/increase by approximately HK\$234,000).

(b) Currency risk

The Group's principal subsidiaries are operating in the PRC and most of the transactions are denominated and settled in RMB. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The 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 reporting date are as follows:

	Liabilities		Assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
SGD	—	—	165	3,310
RMB	—	—	98,314	70
USD	29,931	25,175	1,285	256,195
EUR	—	1,255	52,212	40,885
JPY	—	13,207	24,675	268

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(b) Currency risk (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currency monetary assets and liabilities (excluding derivatives). No analysis is presented for derivatives as the impact to the Group is considered insignificant. No sensitivity analysis is also presented for HKD against USD as HKD is pegged to USD. 5% (2009: 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% (2009: 5%) change in foreign currency rates. A negative number below indicates a decrease in pre-tax profit for the year where the functional currency of the relevant group entity strengthen 5% (2009: 5%) against the relevant foreign currency. For a 5% (2009: 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 pre-tax profit for the year, and the balances below would be positive (except JPY 2009).

	SGD Impact (i)		RMB Impact (i)		EUR Impact (i)		JPY Impact (i)	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Pre-tax profit for the year	(8)	(158)	(4,682)	(3)	(2,486)	(1,887)	(1,175)	616

- (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

As at 31st December, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is the failure to recover the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

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

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

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivatives financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
2010						
Non-derivative financial liabilities:						
Trade and other payables	N/A	64,212	58,951	28,111	151,274	151,274
Bills payable	N/A	8,654	30,380	5,468	44,502	44,502
Variable-rate bank borrowings	1.03	258,101	—	—	258,101	258,101
		330,967	89,331	33,579	453,877	453,877
Derivative settled gross:						
Foreign exchange forward contract						
— inflow		(1,561)	—	—	(1,561)	(1,561)
— outflow		1,611	—	—	1,611	1,611
		50	—	—	50	50
	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
2009						
Non-derivative financial liabilities:						
Trade and other payables	N/A	44,217	70,863	10,712	125,792	125,792
Bills payable	N/A	5,142	30,999	—	36,141	36,141
Variable-rate bank borrowings	2.21	46,707	—	—	46,707	46,707
		96,066	101,862	10,712	208,640	208,640

N/A — Not applicable

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

Bank loans with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31st December, 2010 and 31st December, 2009, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$258,101,000 and HK\$46,707,000 respectively. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$258,261,000 (2009: HK\$47,472,000).

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

6c. Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of derivative financial instruments are determined with reference to the exchange rate on contract date and the exchange rate at the end of the reporting period as determined by the relevant bank; and
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) 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 costs in the consolidated financial statements approximate to their respective fair values.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value *(continued)*

The Group is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy should have the following levels:

- (a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- (b) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the Group's derivative financial instruments, with carrying value of approximately HK\$50,000 (2009: HK\$417,000) as set out in note 22, is based on Level 2 measurement.

7. REVENUE

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

8. SEGMENT INFORMATION

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

8. SEGMENT INFORMATION *(continued)*

Entity-wide disclosures

As at 31st December, 2009 and 2010, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the PRC.

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

	2010 HK\$'000	2009 HK\$'000
The PRC (excluding Hong Kong)	2,269,224	1,916,419
Hong Kong	8,078	7,002
Others	334,281	311,259
	2,611,583	2,234,680

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31st December, 2009 and 2010.

9. OTHER INCOME

	2010 HK\$'000	2009 HK\$'000
Government grants (note)	1,277	20,414
Interest income	4,264	3,185
Rental income, net of direct outgoings of approximately HK\$287,000 (2009: HK\$272,000)	2,451	2,377
Gain on disposal of property, plant and equipment	1,208	103
Sundry income	5,014	7,737
Gain in fair value change in derivative financial instruments	367	—
	14,581	33,816

Note: The amount represents government grants received during the year from the local treasury authority in the PRC as a general support for the Group's contribution in advanced technology development.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the ten (2009: ten) directors were as follows:

	Siu Tit Lung	Siu Yuk Lung	Mak Koon Chi	Wai Lung Shing	Fung Wai Hing	Ting Chung Ho	Chan Chun Sing, Colin	Liu Wing Ting, Stephen	Lee Tat Yee	Lee Joo Hai	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2010											
Fees	—	—	—	—	—	—	288	324	324	324	1,260
Other emoluments											
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	1,777	—	—	—	—	20,185
Contributions to retirement benefit schemes	713	713	214	214	172	195	—	—	—	—	2,221
Bonus (note)	3,800	3,800	7,500	7,500	4,800	4,600	—	—	—	—	32,000
Share-based payments	67	67	224	224	224	223	67	67	67	67	1,297
Total emoluments	11,060	11,060	9,882	9,882	6,756	6,795	355	391	391	391	56,963
	Siu Tit Lung	Siu Yuk Lung	Mak Koon Chi	Wai Lung Shing	Fung Wai Hing	Ting Chung Ho	Chan Chun Sing, Colin	Liu Wing Ting, Stephen	Lee Tat Yee	Lee Joo Hai	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009											
Fees	—	—	—	—	—	—	264	300	300	300	1,164
Other emoluments											
Salaries and other benefits	6,480	6,480	1,944	1,944	1,560	1,773	—	—	—	—	20,181
Contributions to retirement benefit schemes	713	713	214	214	172	194	—	—	—	—	2,220
Bonus (note)	2,300	2,300	5,500	5,500	3,300	3,100	—	—	—	—	22,000
Share-based payments	59	59	226	226	226	181	68	68	68	68	1,249
Total emoluments	9,552	9,552	7,884	7,884	5,258	5,248	332	368	368	368	46,814

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

No directors waived any emoluments in the years ended 31st December, 2009 and 2010.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

11. INCOME TAX EXPENSE

	2010 HK\$'000	2009 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	1,483	77
– underprovision in prior years	44	5
	1,527	82
Taxation in jurisdictions outside Hong Kong		
– current year	122,704	68,687
– underprovision in prior years	124	11,867
– transfer from deferred taxation	826	12,651
	123,654	93,205
Deferred taxation (note 24)		
– current year	10,750	18,299
– transfer to current income tax	(826)	(12,651)
	9,924	5,648
	135,105	98,935

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

Taxation in jurisdictions outside Hong Kong is calculated based on the applicable rates in those jurisdictions. The domestic tax rate applicable to the jurisdictions where the operations of the Group is substantially based is 25% for both years.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

11. INCOME TAX EXPENSE *(continued)*

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

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is entitled to a transitional tax rate of 22% for the current year. This subsidiary was granted advanced-technology relief from 50% PRC income tax for three years commenced from the year of grant. Under the EIT Law, the subsidiary enjoyed the tax relief by enjoying a concessionary tax rate of 15% until the end of 2009.

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

	2010 HK\$'000	2009 HK\$'000
Profit before taxation	457,593	319,895
Tax at PRC income tax rate of 25% (2009: 25%)	114,398	79,974
Tax effect of non-deductible expenses	25,280	24,884
Tax effect of non-taxable income	(5,445)	(18,970)
Utilisation of tax losses previously not recognised	(8,938)	(3,206)
Tax effect of unused tax losses not recognised	5,393	5,510
Underprovision in prior years	168	11,872
Tax effect of tax exemption and relief granted to PRC subsidiaries	(943)	(2,314)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(11,705)	(15,813)
Deferred tax liabilities arising on undistributed profits of PRC subsidiaries from 1st January, 2008 onwards	16,897	16,998
Tax charge for the year	135,105	98,935

Details of deferred taxation are set out in note 24.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

12. PROFIT FOR THE YEAR

	2010	2009
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Allowance for (reversal of allowance for) inventories	9,874	(29,958)
Auditors' remuneration		
— current year	3,417	3,374
— overprovision in prior year	—	(287)
Gross foreign exchange loss	7,950	1,710
Gross foreign exchange gain	(2,698)	(4,714)
(Gain) loss on fair value change in derivative financial instruments	(367)	417
Operating lease rentals in respect of		
— rented premises	10,947	10,118
— plant and machinery	143	101
Release of prepaid lease payments	1,385	1,078
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$39,000 in 2009 (2010: Nil)	15,390	16,507
Impairment loss recognised (recovered) in respect of trade receivables, net	2,792	(5,390)

13. DIVIDENDS

	2010	2009
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
2010 Interim — HK13 cents (2009: 2009 interim dividend HK10 cents) per share	81,684	62,001
2010 Interim special — HK5 cents (2009: Nil) per share	31,417	—
2009 Final — HK11 cents (2009: 2008 final dividend HK11 cents) per share	69,043	68,201
	182,144	130,202

The board of directors have determined that a final dividend of HK18 cents (2009: HK11 cents) per share amounting to approximately HK\$113,398,000 (2009: HK\$69,043,000) and a final special dividend of HK5 cents (2009: Nil) per share amounting to approximately HK\$31,499,000 (2009: Nil) should be paid to the shareholders of the Company whose names appear in the register of members on 9th May, 2011.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

14. EARNINGS PER SHARE

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

	2010 HK\$'000	2009 HK\$'000
Profit for the year attributable to owners of the Company	318,825	220,928
	2010	2009
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	627,929,802	620,339,714
Effect of dilutive potential ordinary shares:		
Share options	3,501,192	1,568,888
Weighted average number of ordinary shares for the purpose of diluted earnings per share	631,430,994	621,908,602

15. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1st January, 2009	33,600
Increase in fair value recognised in profit or loss	7,800
At 31st December, 2009	41,400
Increase in fair value recognised in profit or loss	15,100
At 31st December, 2010	56,500

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

The fair values of the Group's investment properties at 31st December, 2009 and 2010 have been arrived at on the basis of valuations carried out by C S Surveyors Limited, an independent firm of qualified professional property valuers not connected with the Group. C S Surveyors Limited is a member of The Hong Kong Institute of Surveyors. The valuations were arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Buildings HK\$'000	Furniture, fixtures and fittings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST							
At 1st January, 2009	21,317	449,178	159,108	1,454,793	63,526	5,417	2,153,339
Currency realignment	—	694	236	3,277	69	8	4,284
Transfer	—	5,425	—	—	—	(5,425)	—
Additions	—	2,761	5,733	41,686	8,834	64	59,078
Disposals	—	(363)	(3,088)	(3,864)	(5,334)	—	(12,649)
At 31st December, 2009	21,317	457,695	161,989	1,495,892	67,095	64	2,204,052
Currency realignment	—	18,964	8,161	70,411	2,057	3	99,596
Transfer	—	66	—	—	—	(66)	—
Additions	—	1,073	6,425	82,568	2,526	33,249	125,841
Disposals	—	(10,003)	(9,359)	(80,982)	(13,260)	—	(113,604)
At 31st December, 2010	21,317	467,795	167,216	1,567,889	58,418	33,250	2,315,885
DEPRECIATION AND AMORTISATION							
At 1st January, 2009	—	73,934	97,771	1,078,667	51,411	—	1,301,783
Currency realignment	—	144	200	2,832	70	—	3,246
Provided for the year	—	24,610	17,827	149,177	6,847	—	198,461
Eliminated on disposals	—	(19)	(1,964)	(2,716)	(5,489)	—	(10,188)
At 31st December, 2009	—	98,669	113,834	1,227,960	52,839	—	1,493,302
Currency realignment	—	4,713	6,468	61,853	1,950	—	74,984
Provided for the year	—	25,012	18,502	118,670	5,942	—	168,126
Eliminated on disposals	—	(3,073)	(8,905)	(80,884)	(11,499)	—	(104,361)
At 31st December, 2010	—	125,321	129,899	1,327,599	49,232	—	1,632,051
CARRYING AMOUNTS							
At 31st December, 2010	21,317	342,474	37,317	240,290	9,186	33,250	683,834
At 31st December, 2009	21,317	359,026	48,155	267,932	14,256	64	710,750

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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

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

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

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

The carrying value of land and buildings above comprises:

	2010 HK\$'000	2009 HK\$'000
Freehold land outside Hong Kong	21,317	21,317
Building held under medium-term leases or land use rights outside Hong Kong	342,474	359,026
	363,791	380,343

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

17. PREPAID LEASE PAYMENTS

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

	2010 HK\$'000	2009 HK\$'000
Analysed for reporting purposes as:		
Non-current asset	105,959	42,308
Current asset	1,426	1,049
	107,385	43,357

Included in medium-term prepaid lease payments are land use rights with carrying amount of HK\$63,638,000 (2009: Nil) which are located in the PRC. The Group is in the process of obtaining the land use right certificates.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

18. INVENTORIES

	2010 HK\$'000	2009 HK\$'000
Raw materials	559,420	347,949
Work in progress	47,408	66,454
Finished goods	13,192	11,712
	620,020	426,115

The cost of inventories recognised as an expense during the year by the Group amounted to approximately HK\$1,801,012,000 (2009: HK\$1,630,358,000).

19. TRADE, BILLS AND OTHER RECEIVABLES

	2010 HK\$'000	2009 HK\$'000
Trade receivables	518,823	470,079
Less: allowance for doubtful debts	(41,931)	(40,251)
	476,892	429,828
Other receivables	103,578	49,642
Total trade and other receivables	580,470	479,470
Bills receivable	44,038	28,340

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

	2010 HK\$'000	2009 HK\$'000
0 to 60 days	403,311	353,595
61 to 90 days	94,727	86,023
Over 90 days	22,892	18,550
	520,930	458,168

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

19. TRADE, BILLS AND OTHER RECEIVABLES (continued)

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

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of approximately HK\$17,590,000 (2009: HK\$9,183,000) which are past due at the reporting date for which the Group has not provided for impairment loss because management believes in the credit quality of these trade debtors. The amount has been subsequently settled after the end of the reporting period. The Group does not hold any collateral over these balances.

	2010 HK\$'000	2009 HK\$'000
91 to 180 days	17,590	9,183
over 180 days	—	—
Total	17,590	9,183

Other than the above trade receivables which are past due but not impaired, the Group has provided fully for all trade receivables over 90 days.

Movements in the allowance for doubtful debts

	2010 HK\$'000	2009 HK\$'000
Balance at the beginning of the year	40,251	49,559
Currency realignment	2,033	56
Impairment losses reversed	(1,377)	(4,754)
Amounts recovered during the year	(363)	(3,842)
Amounts written off as uncollectible	(3,145)	(3,974)
Impairment losses recognised on receivables	4,532	3,206
Balance at the end of the year	41,931	40,251

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

20. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at market interest rates and are with maturity of three months or less. The bank deposits carry interest at rates ranged from 0.4% to 4.2% (2009: 0.4% to 4.8%).

At 31st December, 2009, bank balances and cash included foreign currency-linked deposits with the aggregate principal amount of US\$7,000,000 (equivalent to approximately HK\$54,285,000). The foreign currency-linked deposits contained embedded derivatives that were not closely related to the host contracts and were separately accounted for and presented in the consolidated statement of financial position. Details of the derivative financial instruments are set out in note 22.

21. TRADE, BILLS AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$131,688,000 (2009: HK\$101,543,000) and receipt in advances of approximately HK\$18,797,000 (2009: HK\$16,390,000).

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

	2010 HK\$'000	2009 HK\$'000
0 to 60 days	139,643	106,471
61 to 90 days	27,714	16,203
Over 90 days	8,833	15,010
	176,190	137,684

22. DERIVATIVE FINANCIAL INSTRUMENTS

At 31st December, 2010, the amount represented foreign currency forward contract entered into by the Group, the major terms of which are as follows:

Notional amount	Maturity
Sell USD207,030/Buy EUR150,000	On 18th January, 2011

At 31st December, 2009, the Group entered into the foreign currency-linked deposits which contained embedded derivatives that were not closely related to the host contracts. The fair value of the embedded derivatives as at 31st December, 2009 was approximately HK\$417,000. The contracts were fully settled in January 2010.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

23. UNSECURED BANK BORROWINGS

The amounts represent floating rate bank loans repayable on demand.

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

	Denominated in JPY HK\$'000
As at 31st December, 2010	—
As at 31st December, 2009	12,988

The bank loans carry interest at the Hong Kong Interbank Offered Rate plus a fixed margin or Cost of Funds plus a fixed margin. The effective borrowing rates of the Group ranged from 0.94% to 2.54% (2009: 0.94% to 3.25%) per annum. During the year, the Group obtained a new loan of approximately HK\$230 million (2009: HK\$46 million) for general working capital purpose.

24. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation of investment properties	Withholding tax	Tax losses	Accrued expenses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2009	763	555	13,744	(1,014)	—	14,048
Charge (credit) for the year	822	1,193	16,998	(714)	—	18,299
Transfer to current income tax	—	—	(12,651)	—	—	(12,651)
At 31st December, 2009	1,585	1,748	18,091	(1,728)	—	19,696
(Credit) charge for the year	(353)	2,533	16,897	1,673	(10,000)	10,750
Transfer to current income tax	—	—	(826)	—	—	(826)
At 31st December, 2010	1,232	4,281	34,162	(55)	(10,000)	29,620

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

24. DEFERRED TAXATION *(continued)*

At the end of the reporting period, the Group had unused tax losses of approximately HK\$51,937,000 (2009: HK\$87,930,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such tax losses of approximately HK\$333,000 (2009: HK\$10,473,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately HK\$51,604,000 (2009: HK\$77,457,000) due to the unpredictability of future profit streams. Most of the unused tax losses may be carried forward indefinitely.

According to the EIT Law, starting from 1st January, 2008, 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC from the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such profits since 1st January, 2008 amounting to approximately HK\$337,953,000 (2009: HK\$339,960,000). 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.

25. 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, 2009	1,000,000,000	100,000	620,013,303	62,002
Shares issued on exercise of share options	—	—	2,720,000	272
At 31st December, 2009	1,000,000,000	100,000	622,733,303	62,274
Shares issued on exercise of share options	—	—	6,956,000	695
At 31st December, 2010	1,000,000,000	100,000	629,689,303	62,969

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

26. SHARE OPTION SCHEME

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

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

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

During the year ended 31st December, 2010, 6,748,000 share options with an exercise price of HK\$4.10 per share were granted on 9th July, 2010. The estimated fair value of the options granted was approximately HK\$6,296,000 (HK\$0.933 per option).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

26. SHARE OPTION SCHEME (continued)

The above fair value was calculated using the Binomial Model. The inputs into the model are as follows:

Closing price of the Company's share at the date of grant	HK\$4.10
Exercise price	HK\$4.10
Expected volatility	43% per annum
Expected life	4 years
Risk-free rate of interest	0.98% per annum
Expected dividend yield	6.5% per annum

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

The Binomial Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimates. Changes in variables and assumptions may result in changes in the fair value of the options.

The Group recognised a total expense of approximately HK\$3,018,000 (2009: HK\$2,600,000) for the year in relation to the share options granted by the Company.

At 31st December, 2010, the number of shares in respect of which options had been granted and which remained outstanding under the 2002 Scheme was 9,480,000 (2009: 9,944,000), representing 1.51% (2009: 1.6%) of the shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by the Participants and movements in such holdings during the years ended 31st December, 2009 and 2010:

Exercise price	Date of grant	Vesting period	Exercisable period	Outstanding at 1.1.2009	Granted during the year ended 31.12.2009	Exercised during the year ended 31.12.2009	Lapsed during the year ended 31.12.2009	Cancelled during the year ended 31.12.2009	Outstanding at 31.12.2009 and 1.1.2010	Granted during the year ended 31.12.2010	Exercised during the year ended 31.12.2010	Lapsed during the year ended 31.12.2010	Outstanding at 31.12.2010
HK\$													
3.82	3.11.2006	1 year	4.11.2007-3.11.2010	5,742,000	-	-	(118,000)	(5,624,000)	-	-	-	-	-
3.60	14.11.2007	1 year	14.11.2008-13.11.2011	6,966,000	-	(2,720,000)	(480,000)	-	3,766,000	-	(1,624,000)	(196,000)	1,946,000
2.27	14.1.2009	1 year	14.1.2010-13.1.2013	-	6,638,000	-	-	(460,000)	6,178,000	-	(5,332,000)	(60,000)	786,000
4.10	9.7.2010	1 year	9.7.2011-8.7.2014	-	-	-	-	-	-	6,748,000	-	-	6,748,000
Exercisable at the end of the year									3,766,000				2,732,000

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

26. SHARE OPTION SCHEME *(continued)*

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

Exercise price	Outstanding at 1.1.2009	Granted during the year ended 31.12.2009	Cancelled during the year ended 31.12.2009	Exercised during the year ended 31.12.2009	Outstanding at 31.12.2009 and 1.1.2010	Granted during the year ended 31.12.2010	Exercised during the year ended 31.12.2010	Outstanding at 31.12.2010
HK\$								
3.82	2,530,000	—	(2,530,000)	—	—	—	—	—
3.60	3,400,000	—	—	(2,600,000)	800,000	—	(100,000)	700,000
2.27	—	2,800,000	—	—	2,800,000	—	(2,200,000)	600,000
4.10	—	—	—	—	—	2,900,000	—	2,900,000
Exercisable at the end of the year					800,000			1,300,000

During the year ended 31st December, 2010, the total amount of consideration received from the Participants for taking up the options granted was HK\$148.

The closing price of the Company's share immediately before 9th July, 2010, the date of grant of options in 2010 was HK\$4.01.

In respect of the share options exercised during the year ended 31st December, 2010, the weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was approximately HK\$4.40.

27. CAPITAL COMMITMENTS

	2010 HK\$'000	2009 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	310,556	43,418

28. OPERATING LEASES

The Group as lessee

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

	2010 HK\$'000	2009 HK\$'000
Within one year	7,609	6,716
In the second to fifth year inclusive	3,468	2,481
	11,077	9,197

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

28. OPERATING LEASES (continued)

The Group as lessee (continued)

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

The Group as lessor

Property rental income earned during the year was approximately HK\$2,738,000 (2009: HK\$2,649,000).

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:

	2010 HK\$'000	2009 HK\$'000
Within one year	1,861	2,739
In the second to fifth year inclusive	—	1,082
	1,861	3,821

The investment properties held have committed tenants for an average term of two years.

29. RETIREMENT BENEFITS SCHEME

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

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

The ORSO Scheme is funded by monthly contributions from the Group only at rates ranging from 7% to 11% of the employee's basic salary, depending on the length of service with the Group.

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

The total cost charged as expenses in the consolidated statement of comprehensive income of approximately HK\$15,390,000 (2009: HK\$16,507,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31st December, 2010, contributions of approximately HK\$58,000 (2009: HK\$63,000) due in respect of the reporting period had not been paid over to the schemes.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. RELATED PARTY TRANSACTIONS

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

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

	2010 HK\$'000	2009 HK\$'000
Short-term benefits	53,445	43,345
Post-employment benefits	2,221	2,220
Share-based payment expenses	1,297	1,249
	56,963	46,814

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2010 is as follows:

	2010 HK\$'000	2009 HK\$'000
ASSETS		
Investment in a subsidiary	55,856	55,856
Amounts due from subsidiaries	824,413	990,957
Prepayments	145	226
Bank balances	475	378
	880,889	1,047,417
LIABILITIES		
Accrued charges	525	813
Amount due to a subsidiary	—	—
Dividend payable	72	74
	597	887
NET ASSETS	880,292	1,046,530
CAPITAL AND RESERVES		
Share capital	62,969	62,274
Reserves (note)	817,323	984,256
	880,292	1,046,530

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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

Note:

	Share premium HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2009	116,067	10,481	530,372	656,920
Profit for the year	—	—	445,418	445,418
Recognition of equity-settled share-based payments	—	2,600	—	2,600
Transfer on cancellation/lapse of share options	—	(5,965)	5,965	—
Share issued on exercise of share options	11,507	(1,987)	—	9,520
Final dividend for the year ended 31st December, 2008	—	—	(68,201)	(68,201)
Interim dividend for the year ended 31st December, 2009	—	—	(62,001)	(62,001)
At 31st December, 2009	127,574	5,129	851,553	984,256
Loss for the year	—	—	(5,061)	(5,061)
Recognition of equity-settled share-based payments	—	3,018	—	3,018
Transfer on lapse of share options	—	(161)	161	—
Share issued on exercise of share options	20,702	(3,448)	—	17,254
Final dividend for the year ended 31st December, 2009	—	—	(69,043)	(69,043)
Interim dividend for the year ended 31st December, 2010	—	—	(81,684)	(81,684)
Interim special dividend for the year ended 31st December, 2010	—	—	(31,417)	(31,417)
At 31st December, 2010	148,276	4,538	664,509	817,323

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

32. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company as at 31st December, 2009 and 2010 which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company	Principal activities
河源龍記金屬製品有限公司 Heyuan Lung Kee Metal Products Co., Ltd.	The PRC	HK\$550,870,000 (note a)	100	Manufacturing and marketing of mould bases
Lung Kee International Limited	Hong Kong	HK\$2 ordinary shares HK\$2,000,002 non-voting deferred shares (note b)	100	Investment holding
Lung Kee Metal Japan Company Limited	Japan	JPY300,000,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal (Malaysia) Sdn. Bhd.	Malaysia	RM750,000	100	Manufacturing and marketing of mould bases
Lung Kee Metal Limited	Hong Kong	HK\$2 ordinary shares HK\$10,000,002 non-voting deferred shares (note b)	100	Manufacturing and marketing of mould bases
Super Visions International Limited	British Virgin Islands	US\$2	100	Holding and licensing of trademarks
龍記鋼材製品(廣州保稅區)有限公司 Lung Kee Steel Products (Guangzhou Free Trade Zone) Co., Ltd.	The PRC	HK\$111,000,000 (note a)	100	Manufacturing and marketing of mould bases
上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd.	The PRC	US\$11,600,000 (note a)	100	Manufacturing and marketing of mould bases
仕霸工業股份有限公司 Taiwan Supertech Industrial Company Limited	Republic of China	NT\$36,880,000	70	Manufacturing and marketing of mould bases

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/ paid up capital indirectly held by the Company	Principal activities
台州龍記金屬製品有限公司 Taizhou Lung Kee Metal Products Co., Ltd.	The PRC	US\$6,000,000 (note a)	100	Manufacturing and marketing of mould bases

Notes:

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

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

Financial Summary

RESULTS

	Year ended 31st December,				2010 HK\$'000
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	
REVENUE	2,135,360	2,702,099	3,073,547	2,234,680	2,611,583
PROFIT BEFORE TAXATION	182,089	362,881	433,230	319,895	457,593
INCOME TAX EXPENSE	(31,021)	(55,381)	(140,942)	(98,935)	(135,105)
PROFIT FOR THE YEAR	151,068	307,500	292,288	220,960	322,488
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	150,463	305,851	288,333	220,928	318,825
NON-CONTROLLING INTERESTS	605	1,649	3,955	32	3,663
	151,068	307,500	292,288	220,960	322,488

ASSETS AND LIABILITIES

	At 31st December,				2010 HK\$'000
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	
TOTAL ASSETS	2,310,684	2,713,387	2,478,759	2,375,160	2,967,230
TOTAL LIABILITIES	(1,068,936)	(1,128,360)	(650,780)	(441,692)	(781,862)
NET ASSETS	1,241,748	1,585,027	1,827,979	1,933,468	2,185,368
EQUITY ATTRIBUTABLE TO					
OWNERS OF THE COMPANY	1,244,351	1,584,097	1,823,123	1,928,478	2,176,403
NON-CONTROLLING INTERESTS	(2,603)	930	4,856	4,990	8,965
TOTAL EQUITY	1,241,748	1,585,027	1,827,979	1,933,468	2,185,368

Properties held for Investment

Investment properties

Location	Type of properties	Attributable interest	Lease term
Workshop 6 on ground floor Kwong Sang Hong Centre Nos.151-153 Hoi Bun Road Kowloon	Office premises	100%	Medium-term lease
Workshop No.2 on ground floor and the yard adjoining thereto Hung Tat Industrial Building No.43 Hung To Road Kowloon	Factory	100%	Medium-term lease
Factory A, C on G/F Mai Hing Industrial Building Nos.16-18 Hing Yip Street Kowloon	Factory	100%	Medium-term lease
Car parking space No. L2 and L5 on G/F Mai Hing Industrial Building Nos.16-18 Hing Yip Street Kowloon	Carpark	100%	Medium-term lease



Lung Kee Group has been actively participating in overseas mould trade shows for over one decade, promoting the LKM brand to the market. (Photo: Lung Kee Group's booth in the 2010 EUROMOLD exhibition in Frankfurt, Germany).

十多年來龍記集團不遺餘力參加國外模具展覽會，積極推廣LKM品牌。(圖為在德國法蘭克福2010 EUROMOLD展會的攤位)。



Advances in manufacturing techniques and mould designs create special machining precision requirement for many mould products. Lung Kee Group possesses a state-of-the-art 5-axis machining facilities, enabling the Group to provide faster and higher precision sub-contracting service for the moulding industry.

模具設計及生產技術日新月異，不少模具產品需要特殊加工精度。集團擁有最先進的五軸加工設備，向模具界提供更快更精的加工服務。

Steel is the essential ingredient of a mould. In the last two decades, Lung Kee Group has been traveling all over the world to source the best tool steels, enabling it to fulfil the demand of super quality steel requirement of the mould producers.

模具生產的原材料是鋼材，龍記集團在過往二十年間走遍全球鋼廠，訂購優質工具鋼，以滿足模具生產商對優質鋼材的需求。



High speed machining technique is a current trend for the mould industry. It makes difficult machining task much more easy and possible. Lung Kee Group possess the big high speed machining centers which enable the Group to provide more suitable services greatly shortening the production cycle.

高速加工技術是近年模具工業的趨勢，能使模具內一些難以處理的加工變得容易。龍記集團擁有的大型高速加工機床，為客戶提供更妥貼的服務，使生產周期大大縮短。





Residual internal stress can result in the deformation of mould plates after cutting and machining processes of steel material. Lung Kee Group's high precision mould bases overcome the problem through careful selection of raw materials together with stress-releasing heat treatment of steel material before machining.

鋼材在切削加工成模具之後，常因殘餘內應力而導致模板變形。龍記集團的高精模架，除了在選材方面非常用心之外，鋼材在加工前會先經過「消除內應力」的調質處理。



Following the booming of the China big domestic market, the demand for large-sized electrical products and automobile is greatly increased. Lung Kee Group's large-sized mould base production line is well-equipped with advanced precision machineries, capable of providing the quick and comprehensive sub-contracting service for various designs of large-sized moulds.

隨着中國龐大內銷市場的蓬勃，大型家電和汽車的需求大增。龍記集團大型模架生產線，擁有先進的加工設備，為各種設計的大型模具提供快速而全面的加工服務。

Following the continuous growth of the China mould market, the demand for precision mould base is rising continuously. A workshop occupying 10,000 square meters is built next to the southern side of Lung Kee Group's Heyuan plant. The fully air-conditioned workshop will be installed with high precision machineries, and will strengthen Lung Kee Group's one stop precision machining sub-contracting service for customers requiring high precision in the whole China.

隨着中國模具市場的不斷增長，對精密模架的需求量也不斷上升。龍記集團河源廠在南面相連的一萬多平方米空地上，建成全空調之精密加工車間，強化對全國高精度要求的客戶提供一站式精密加工服務。

