LKM®

Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

2022
ANNUAL REPORT

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Lung Kee (Bermuda) Holdings Limited
2022 Annual Report

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Siu Tit Lung *(Chairman)*
Mr. Siu Yuk Lung *(Managing Director)*
Mr. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan
Mr. Siu Yu Hang, Leo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lee Tat Yee
Mr. Lee Joo Hai
Mr. Wong Hak Kun
Ms. He Lamei

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
Registered Public Interest Entity Auditor
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

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit A, 15th Floor
Kings Wing Plaza 2
No. 1 On Kwan Street
Sha Tin
New Territories
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, 2022.

BUSINESS REVIEW

The Group's revenue for the year ended 31st December, 2022 was HK$1,601,433,000 (2021: HK$2,273,399,000). Profit attributable to owners of the Company for the year ended 31st December, 2022 was HK$15,814,000 (2021: HK$227,841,000). Basic earnings per share for the year ended 31st December, 2022 was HK2.50 cents (2021: HK36.07 cents).

In the year under review, due to the outbreak of the Coronavirus Disease 2019 ("COVID-19") in certain regions of China repeatedly, pandemic prevention measures further tightened in addition to unfavorable global economic factors, the aggregate purchase orders in the market reduced significantly. The overall market situation for the second half year of 2022 was worse than that in the first half year. Coupled with the increase of raw materials costs and the relatively fixed operating costs, all these resulted in a substantial decrease in the Group's gross and net profit. Consequently, the net profit recorded by the Group had dropped significantly as compared with the year of 2021. Therefore, the Group had issued a profit warning to shareholders and potential investors on 6th January, 2023 pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PROSPECTS

With the gradual opening of international route and ports as well as the re-opening of borders between mainland China and Hong Kong at the beginning of February 2023, logistics transport will tend to be stable, and the pressure on the global supply chain will be eased. The Group expects the worldwide economy and market activities will resume normal in an orderly manner. However, in view of the unstable situation in Europe and the war between Russia and Ukraine is still locked in stalemate; in addition to the uncertainty of the new coronavirus pandemic, the global economic recovery will face great variations and the market outlook is still full of hidden worries. Nevertheless, the Group will cautiously face the continuous challenges brought about by the unclear economic environment.

The Group presumes that the global economy will hardly recover in the short term. As Europe is plagued by geopolitical conflicts and energy shortages, the increasing trade frictions between China and the United States, coupled with unfavorable factors such as high inflation and interest rate hikes, countries will still maintain a cautious wait-and-see attitude towards new investment projects, consequently the aggregate demand in overseas markets continues weakening and China's export oriented business will face persistent pressure.

The Group expects that as the pandemic is brought under control and recedes, the consumption desire of Chinese residents will gradually increase and the domestic consumption market in China will further promote economic growth yet the growth rate is uncertain at this stage. As clouded by the unclear macro-economic outlook, it is difficult for the property market in China to resume booming in a short period, thus, demand for household appliances and furniture products continues to decline. Demand for medical and healthcare products will also shrink as the pandemic subsides; whereas the demand for new high-tech electronics products will improve. With the rising general public's awareness of environmental protection, the consumption of new energy vehicles has been stimulated, hoping it can promote further development of automotive mould business. The Group will keep abreast of market trends in order to secure more business opportunities and strengthen its market competitiveness, so as to achieve stable income for the Group under the challenging business operating environment.

The prices of raw materials and mould steel will continue to fluctuate in response to inflationary pressures. Apart from controlling operating costs, the Group will further enhance its management system and improve its automated production process in order to reinforce its production effectiveness and reduce its potential risks and pressures imposed by rising costs.

Looking ahead, despite the COVID-19 pandemic is under control, the business environment in the year of 2023 is still unpredictable and full of challenges. The Group will respond to market changes with a prudent and rigorous attitude, while striving to achieve sustainable business development.

The Board of Directors would like to thank all staff for their hard work and contribution rendered to the Group in the past year and sincere gratitude is expressed to our shareholders and business partners for their continuous support to the Group.

Siu Tit Lung
Chairman

Hong Kong, China, 24th March, 2023

Management Discussion and Analysis

During the year ended 31st December, 2022, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of HK$1,601,433,000 and earnings of HK$15,814,000 for the year ended 31st December, 2022.

OPERATIONAL REVIEW

As influenced by new variant of coronavirus, the COVID-19 pandemic broke out again in multiple regions of China last year. Thus, the pandemic control measures had been tightened again, seriously affecting economic activities and public consumption confidence. Besides household necessities and medical and pandemic prevention products still maintained stable growth, overall demand for consumption and retail goods in China slowed down. Due to the weak performance of the property market, demand for consumption goods such as household appliances and furniture products dropped sharply. Furthermore, as restricted by pandemic prevention and blocking measures, the flow of people, logistics transportation across provinces and regions and supply chain flow had been severely hindered, business, trade and production activities seriously suppressed. With the gradual relaxation of pandemic control restrictions in European countries and the United States as well as most of Southeast Asia regions and their promotion of production and market recovery, the export advantage of China to overseas markets as substitution had also declined, and China's export business continued to be restrained. Facing the overall market contraction of China, the aggregate order volume of the Group's customers diminished sharply, resulting in a corresponding decrease in the Group's revenue.

On the other hand, geopolitical situation remained tense, the war between Russia and Ukraine had not yet ended and global economic and financial system still exposed to high risks. Global consumption approach tended to be more conservative and some potential new projects had been postponed continuously. The slowdown of global economic development had directly reduced the Group's export orders from overseas and China customers. Moreover, international shipping operations had not yet fully recovered resulting in high freight costs; the global supply chain industry had not yet restored to normal leading to shortage supply of global goods. In consequence, raw materials prices rose and global inflationary pressures intensified. All these unfavorable external economic factors further slowed down the pace of global economic recovery, and the performance of the Group inevitably affected.

As for the price of mould steel, owing to market and inflationary pressures, short-term fluctuations enlarged. In the reviewed year, as suffered from the initial high purchase price of mould steel stock with slow turnover, raw materials and operation costs of the Group thus increased significantly. Although the Group strived to control its operating expenses, the surge of costs still could not be offset as the Group failed to adjust its product prices. As a result, the gross profit of the product relatively reduced.

FINANCIAL REVIEW

The Group's revenue for the year ended 31st December, 2022 decreased by 29.6% from previous year. The decrease of revenue is mainly due to the significant reduction of aggregate purchase orders in the market caused by the COVID-19 pandemic in China with tightened pandemic prevention measures and the unfavorable global economic factors. During the year under review, the relevant costs of raw materials and consumables used (including the changes in inventories of finished goods and work in progress) for generating the revenue decreased by 22.3% and raw materials and consumables used as percentage of revenue increased to 39.9% (2021: 36.1%). The employee benefit expenses and other expenses decreased by 23.6% and 15.2% respectively while the depreciation of property, plant and equipment increased by 3.1%.

During the year under review, the change in fair value of investment properties increased by HK$19,500,000 compared with the same period of last year. The impairment losses reversed under expected credit loss model, net increased by HK$5,258,000. Other income decreased by HK$28,088,000 mainly due to the increase of the net foreign exchange loss amounting to HK$26,605,000. Income tax expenses decreased by 93.3% and the effective tax rate decreased to 27.0% (2021: 27.8%).

As a result of the foregoing, profit for the year ended 31st December, 2022 decreased by 93.1% to HK$15,814,000 (2021: HK$227,841,000).

LIQUIDITY AND CAPITAL RESOURCES

The total equity of the Group as at 31st December, 2022 was HK$1,986,581,000 (as at 31st December, 2021: 2,271,272,000). As at 31st December, 2022, the Group had bank balances and cash of HK$536,643,000 (as at 31st December, 2021: HK$833,586,000) and did not have any borrowings (2021: Nil).

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

The Group had sufficient cash to meet its operations and capital commitments and the COVID-19 pandemic did not affect the financial position of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2022, the Group employed a total of approximately 2,900 employees. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to employees with reference to the individual's performance.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

During the financial year ended 31st December, 2022, the Company has complied with all code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE") (the "Listing Rules").

CORPORATE CULTURE

A positive and progressive corporate culture across the Group is vital for the Company to achieve its purpose towards the sustainable growth. It is the role of the Board to foster the Group's corporate culture with the core principles of integrity and accountability to guide the behaviours of its employees and ensure that the Company's purpose, values and business strategies are aligned to it.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors.

Having made specific enquiry of all directors, all directors declared that they had complied with the Model Code for the year ended 31st December, 2022.

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.

For the year ended 31st December, 2022 and up to the date of this report, the Board consists of six executive directors and four independent non-executive directors.

Executive directors
Mr. Siu Tit Lung *(Chairman)*
Mr. Siu Yuk Lung *(Managing Director)*
Mr. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan
Mr. Siu Yu Hang, Leo

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

Mr. Siu Tit Lung is the Chairman of the Company and Mr. Siu Yuk Lung is the Managing Director of the Company. They are brothers. Mr. Siu Yuk Tung, Ivan is a son of Mr. Siu Tit Lung, a nephew of Mr. Siu Yuk Lung and a cousin of Mr. Siu Yu Hang, Leo. Mr. Siu Yu Hang, Leo is a son of Mr. Siu Yuk Lung, a nephew of Mr. Siu Tit Lung and a cousin of Mr. Siu Yuk Tung, Ivan.

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

As a move to enhance the independence and gender diversity of the Board, Ms. He Lamei was appointed as an independent non-executive director of the Company on 1st March, 2022, details of which was set out in the announcement of the Company dated 28th February, 2022.

The Company has established the following mechanisms to ensure independent views and input are available to the Board:

1. Four out of the ten directors are independent non-executive directors which represents more than one-third of the Board. Chairmen of all Board committees are independent non-executive directors. All independent non-executive directors continue to devote adequate time contribution to the Company.

2. All independent non-executive directors share their views and opinions through regular quarterly Board/Committee meetings.

3. The Chairman meets with all independent non-executive directors annually without the presence of other directors which provides a platform for the Chairman to listen independent views on various issues concerning the Group.

4. External independent professional advice would be provided to independent non-executive directors upon reasonable request to assist them to perform their duties to the Company.

5. The Nomination Committee will assess the independence of a candidate for a new independent non-executive director appointment and also the continued independence of existing independent non-executive directors on an annual basis. All independent non-executive directors are required to confirm in writing annually their compliance of independence requirements pursuant to Rule 3.13 of the Listing Rules.

6. No equity-based remuneration with performance-related elements will be granted to the independent non-executive directors.

During the financial year ended 31st December, 2022, the Board reviewed the implementation and effectiveness of the abovementioned mechanisms and considered that such mechanisms remain effective.

During the financial year ended 31st December, 2022, an annual general meeting was held and the Board held four regular meetings at approximately quarterly intervals. The attendance of each director is set out as follows:

Name of Director	Attendance at annual general meeting	Attendance at board meetings
Executive directors		
Mr. Siu Tit Lung	1/1	4/4
Mr. Siu Yuk Lung	1/1	4/4
Mr. Wai Lung Shing	1/1	4/4
Mr. Ting Chung Ho	1/1	4/4
Mr. Siu Yuk Tung, Ivan	1/1	4/4
Mr. Siu Yu Hang, Leo	1/1	4/4
Independent non-executive directors		
Dr. Lee Tat Yee	1/1	4/4
Mr. Lee Joo Hai	1/1	4/4
Mr. Wong Hak Kun	1/1	4/4
Ms. He Lamei	1/1	4/4

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

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

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group while it reserves the right to decide all policy matters of the Group and material transactions.

The Board has delegated the responsibility for performing the corporate governance duties set out in the code provision A.2.1 of the Code to the Audit Committee.

The directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities. The directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board remain informed and relevant.

All directors have participated in continuous professional development and have provided to the Company the records of the training they received during the financial year ended 31st December, 2022. The individual training record of each director received for the year ended 31st December, 2022 is summarized below:

Name of Director	Briefings and updates on the business, operations and corporate governance matters	Attending seminars, workshops or exhibitions relevant to the business or directors' duties
Executive directors		
Mr. Siu Tit Lung	✓	✓
Mr. Siu Yuk Lung	✓	✓
Mr. Wai Lung Shing	✓	✓
Mr. Ting Chung Ho	✓	✓
Mr. Siu Yuk Tung, Ivan	✓	✓
Mr. Siu Yu Hang, Leo	✓	✓
Independent non-executive directors		
Dr. Lee Tat Yee	✓	✓
Mr. Lee Joo Hai	✓	✓
Mr. Wong Hak Kun	✓	✓
Ms. He Lamei	✓	✓

THE CHAIRMAN AND THE MANAGING DIRECTOR

The Company segregates the role of Chairman from the Managing Director. The Chairman provides leadership to the Board, whereas the Managing Director implements the strategies approved by the Board.

NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

NOMINATION COMMITTEE

A Nomination Committee was established by the Company in 2004. For the year ended 31st December, 2022 and up to the date of this report, the Nomination Committee comprises four independent non-executive directors of the Company, Mr. Lee Joo Hai, Dr. Lee Tat Yee, Mr. Wong Hak Kun and Ms. He Lamei. Mr. Lee Joo Hai is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The terms of reference of the Nomination Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December, 2022, the Nomination Committee held five meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Mr. Lee Joo Hai	5/5
Dr. Lee Tat Yee	5/5
Mr. Wong Hak Kun	5/5
Ms. He Lamei	4/4

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

The following is a summary of the work performed by the Nomination Committee in 2022:

1. undertook an adequate due diligence pursuant to the Nomination Policy of the Company (the "Nomination Policy") and made recommendation to the Board on the proposal of appointment of Ms. He Lamei as an independent non-executive director of the Company.

2. reviewed the Board's composition.

3. assessed the independence of all the independent non-executive directors and reviewed the independent non-executive directors' annual confirmations on their independence.

4. nominated Mr. Siu Yuk Tung, Ivan, Mr. Lee Joo Hai, Mr. Wong Hak Kun and Ms. He Lamei for the Board's recommendations to stand for election at the 2022 annual general meeting of the Company and reviewed the relevant sections in the circular to the shareholders of the Company.

5. interviewed with the Chairman and the Managing Director of the Company to realise their plans for succession.

6. reviewed the retirement policy of the Group.

7. reviewed the relevant disclosures made in the Directors' Report of the 2021 annual report of the Company (the "2021 Annual Report").

8. reviewed the Corporate Governance Report in the 2021 Annual Report.

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

10. reviewed the Nomination Policy and the revised Board Diversity Policy of the Company (the "Board Diversity Policy").

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

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

Below is the Nomination Policy:

Objective

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

Selection Criteria

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

    (a) Reputation for integrity;

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

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

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

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

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

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

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

Nomination Procedures

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

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

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

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

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

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

Review of the Nomination Policy

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

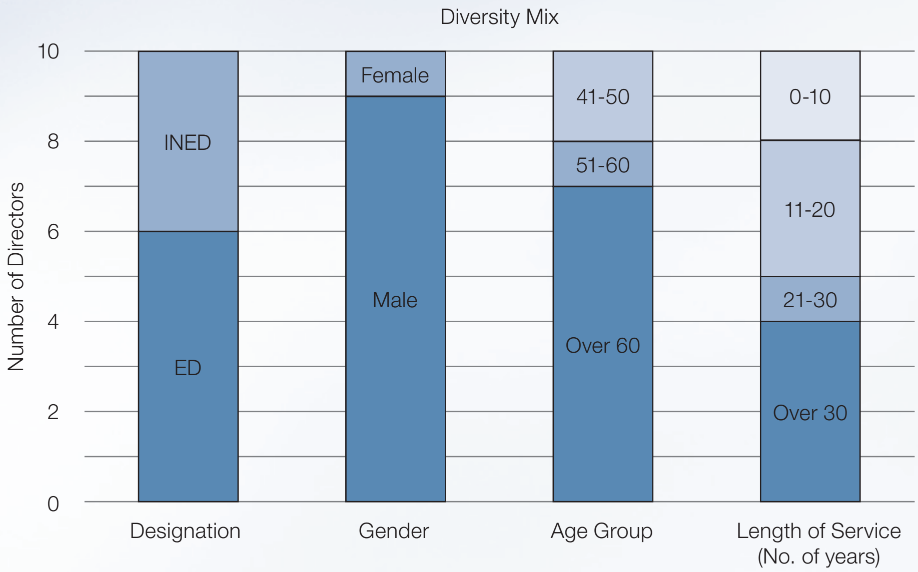
Below is a summary of the Board Diversity Policy, please refers to the Company's website for details:

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

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

During the financial year ended 31st December, 2022, one new female director joined the Board, bringing the female representation to 10% of the Board and 25% of the total number of independent non-executive directors of the Company. The Board targets to maintain at least the current level of female representation. The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitably qualified candidates for Board appointments.

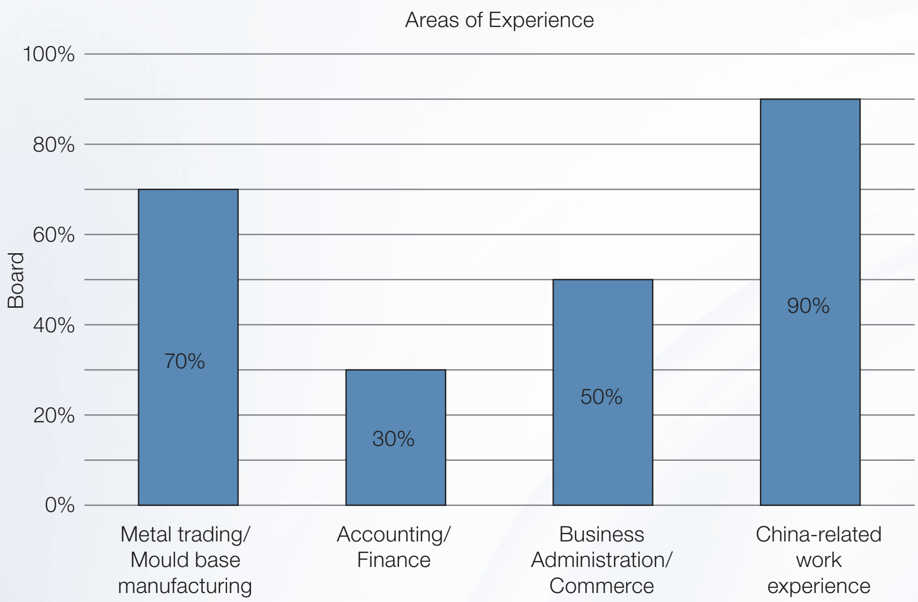
As at 31st December, 2022, the analyses of the Board's composition based on the measurable objectives are set out below:



Remarks:

ED — Executive Director

INED — Independent Non-executive Director



The Nomination Committee reviewed the Board's composition in accordance with the Listing Rules, the Board Diversity Policy and the Nomination Policy and considered that the Board consists of a diverse mix of members and has provided a good balance of skills and experience appropriate to the business needs of the Group.

The Nomination Committee also reviewed the Nomination Policy and the Board Diversity Policy and considered such policies remain effective and appropriate for the Company. The Nomination Committee will discuss any revisions to the aforesaid policies that may be required, and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee continues to monitor the implementation of the Board Diversity Policy by conducting review of the Board's composition at least annually.

The Company has taken measures to promote diversity at all levels of its workforce. Training and career development are equally opened to all eligible employees without discrimination. As at 31st December, 2022, the workforce of the Group's PRC Plants comprised 86% male and 14% female. For further information about the gender ratio in the workforce, please refers to the Environment, Social and Governance Report in this Annual Report. As the members of the Board coincide with the members of the senior management of the Group and the gender ratio of the Board has been disclosed, no disclosure about the gender ratio of the senior management could be made.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2004. For the year ended 31st December, 2022 and up to the date of this report, the Remuneration Committee comprises four independent non-executive directors of the Company, Dr. Lee Tat Yee, Mr. Lee Joo Hai, Mr. Wong Hak Kun and Ms. He Lamei. Dr. Lee Tat Yee is the chairman of the Remuneration Committee.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The terms of reference of the Remuneration Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December, 2022, the Remuneration Committee held five meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Dr. Lee Tat Yee	5/5
Mr. Lee Joo Hai	5/5
Mr. Wong Hak Kun	5/5
Ms. He Lamei	4/4

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

The following is a summary of the work performed by the Remuneration Committee in 2022:

1. reviewed and made recommendation to the Board on the remuneration package of a newly appointed independent non-executive directors of the Company.

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

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

4. reviewed the relevant disclosures made in the Directors' Report of the 2021 Annual Report.

5. reviewed the Corporate Governance Report in the 2021 Annual Report.

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

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

8. No matters relating to the share option scheme adopted by the Company in 2022 were required to be approved or reviewed by the Remuneration Committee.

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

Details of the remuneration of directors are disclosed on an individual basis and are set out in note 8 to the consolidated financial statements of the Group. As the members of the Board coincide with the members of the senior management of the Group and the remuneration of directors have been disclosed, no disclosure about the remuneration payable to members of senior management could be made.

AUDIT COMMITTEE

An Audit Committee was established by the Company in 1998. For the year ended 31st December, 2022 and up to the date of this report, the Audit Committee comprises four independent non-executive directors of the Company, Mr. Wong Hak Kun, Dr. Lee Tat Yee, Mr. Lee Joo Hai and Ms. He Lamei, two of whom possess recognised professional qualifications in accounting and have wide experience in auditing and accounting. Mr. Wong Hak Kun is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls. The Audit Committee has accepted the Board's delegation of responsibility for performing the corporate governance duties set out in the code provision A.2.1 of the Code. The terms of reference of the Audit Committee are available on the website of the HKSE and the Company's website.

During the financial year ended 31st December, 2022, the Audit Committee held four meetings at approximately quarterly intervals to review the quarterly results presented by the management and to discuss the internal audit findings prepared by the Internal Audit Department. The external auditor, Messrs. Deloitte Touche Tohmatsu, attended three regular meetings, which included the meetings in conjunction with the release of the half year and full year results announcements.

During the financial year ended 31st December, 2022, the Audit Committee held four meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Mr. Wong Hak Kun	4/4
Dr. Lee Tat Yee	4/4
Mr. Lee Joo Hai	4/4
Ms. He Lamei	4/4

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

The following is a summary of the work performed by the Audit Committee in 2022:

1. reviewed the Group's consolidated financial statements for the year ended 31st December, 2021 and the annual results announcement with a recommendation to the Board for approval.

2. reviewed the relevant disclosures made in the Directors' Report of the 2021 Annual Report.

3. reviewed the Corporate Governance Report in the 2021 Annual Report.

4. reviewed the Environmental, Social and Governance Report in the 2021 Annual Report.

5. met with the external auditor, Messrs. Deloitte Touche Tohmatsu, without the presence of the executive directors of the Board.

6. reviewed the Group's consolidated financial statements for the period from 1st January, 2022 to 30th April, 2022 with a recommendation to the Board for approval.

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

8. reviewed the Group's consolidated financial statements for the six months period ended 30th June, 2022 and the interim results announcement with a recommendation to the Board for approval.

9. reviewed the Group's consolidated financial statements for the period from 1st January, 2022 to 30th September, 2022 with a recommendation to the Board for approval.

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

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

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

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

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

15. reviewed the reports including the 2022 audit planning report and the management letters submitted by the external auditor.

16. considered the 2022 audit fees with a recommendation to the Board for approval.

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

At the Audit Committee meeting on 24th March, 2023, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December, 2022, the disclosures made in this Corporate Governance Report, the Environmental, Social and Governance Report in this Annual Report and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group for 2023 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2023 annual general meeting of the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group maintains a whistleblowing policy and the Board oversees a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Board has designated the head of Internal Audit Department to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations for consideration by the Board. All reported cases would be investigated in a fair and proper manner by the Internal Audit Department. The Internal Audit Department classifies the reported cases according to their natures and reports the cases directly to the Board or the Audit Committee. The investigation reports of the reported cases are sent to the Audit Committee on a regular basis for review.

The whistleblowing policy would be reviewed and updated periodically to align with industry best practice.

The Group's corporate culture is the key components of the Group's corporate governance framework. It provides the guiding principles for the employees to perform justifiably and behave with integrity, uprightness and honesty. It also puts all employees under stringent obligations as to the manner to which they should deal with the issues of bribery, conflicts of interest and compliance with the Group's policies and practices etc.

The Group has zero tolerance for corruption and related malpractice. The anti-corruption policy forms an integral part of the Group's corporate governance framework. Other relevant policies of the framework, including the whistleblowing policy and the code of conduct, outline the Group's aims and requirements of business ethics, as well as the investigation and reporting mechanism of suspected corruption practices.

The Group does not only require all its employees to behave with integrity but also requests its suppliers and business partners to observe the same ethical standards. The Group also prohibits all its employees from taking advantages of their powers and authorities for personal interests. The Group treats the issues on bribery, extortion, fraud and money laundering very seriously and complies with the laws of the place where the business of the Group carries on, to report the issues to the relevant Government authorities. These demonstrate the Group's commitment to the practice of ethical business conduct and the compliance of the anti-corruption laws and regulations of the place where the business of the Group carries on.

The anti-corruption policy would be reviewed and updated periodically to align with the applicable laws and regulations as well as the industry best practice.

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

During the financial year ended 31st December, 2022, the Risk Management and Internal Control Review Task Force assessed broadly any special risks faced by the Group and conducted a review on the effectiveness of the risk management and internal control systems of the Group. The Risk Management and Internal Control Review Task Force conducted individual interviews with the executive directors of the Company. The heads of major departments were required to undertake self-assessments of their key controls. The findings were assessed by the Risk Management and Internal Control Review Task Force. The Audit Committee then reviewed these findings and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

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

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

AUDITOR'S REMUNERATION

For the financial year ended 31st December, 2022, the fee paid/payable to the external auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fee paid/payable** HK$'000
Audit services	3,193
Non-audit services	
— Interim review	598
— Taxation services	138
— Audit of provident fund	7
— Review of results announcement	55

COMPANY SECRETARY

Mr. Wai Lung Shing, an executive director of the Company, is the Company Secretary of the Company. Mr. Wai has taken no less than 15 hours of relevant professional training duly complied with the training requirement pursuant to Rule 3.29 of the Listing Rules for the financial year ended 31st December, 2022.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

(ii) not less than one hundred (100) shareholders.

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

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

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

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Company's head office and principal place of business in Hong Kong at Unit A, 15th Floor, Kings Wing Plaza 2, No.1 On Kwan Street, Sha Tin, New Territories, Hong Kong.

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

COMMUNICATION WITH SHAREHOLDERS

The aim of the Shareholders Communication Policy of the Company (the "Shareholders Communication Policy") is to provide the shareholders of the Company and, in appropriate circumstances, the investment community at large with ready, equal and timely access to balanced and understandable information about the Company, in order to enable them to make informed assessments of the Company, and to allow shareholders of the Company and the investment community to engage actively with the Company.

The Shareholders Communication Policy sets out various communication channels for the shareholders of the Company to communicate their views on various matters affecting the Company, as well as steps taken to solicit and understand the views of the shareholders of the Company and the stakeholders.

Information shall be communicated to the shareholders of the Company and the investment community mainly through the Company's announcements, results announcements, annual and interim reports, annual general meetings and other general meetings that may be convened as well as all the disclosures submitted to the HKSE to be made available on the website of the HKSE and the Company's website which provides an effective communication platform to the public and the shareholders of the Company.

The annual general meeting enables the shareholders of the Company to exchange views with the Board. A notice of annual general meeting is sent to the shareholders of the Company at least 20 clear business days before the meeting. The chairman of the Board and the chairmen of Audit Committee, Nomination Committee and Remuneration Committee have attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

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

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

Having reviewed the implementation and effectiveness of the Shareholders Communication Policy, the Company considered that the Shareholders Communication Policy continues to contribute an effective communication between the Company and the shareholders of the Company.

DIVIDEND POLICY

Below is the Dividend Policy of the Company (the "Dividend Policy"):

Objective

1. The Dividend Policy aims to set out the approach to achieve the intention of the Company to create long term value for the shareholders of the Company through maintaining a balance between dividend distribution, preserving adequate liquidity and reserve to meet the working capital requirements and capturing future growth opportunities.

Policy Statement

2. The Board may propose/declare the payment of dividend(s) after taking into account the current financial performance of the Company, the future financial requirements of the Company and any other factors the Board may deem relevant.

3. The Board may also decide on the frequency of dividend payment and further declare/recommend any special distributions.

4. The dividend(s) may be in the form of cash, shares, distribution in specie or any other form as the Board may determine.

5. The dividend payment shall be subject to any restrictions under the Companies Act, the Bye-Laws of the Company and any applicable laws, rules and regulations.

6. The Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividends.

Review of the Dividend Policy

7. The Board will review the Dividend Policy from time to time to ensure the effectiveness of the Dividend Policy. The Board will update, amend and/or modify the Dividend Policy at any time in the interest of the Company and the shareholders of the Company.

CONSTITUTIONAL DOCUMENTS

Pursuant to the special resolution passed at the annual general meeting of the Company held on 30th May, 2022, the amendments to the Bye-laws of the Company were approved by the shareholders of the Company. Details of the amendments were set out in the Company's notice of annual general meeting and circular, both dated 8th April, 2022.

Saved as disclosed herein, there was no change to the Company's constitutional documents in 2022. The Company's constitutional documents are available on the website of the HKSE and the Company's website.

Environmental, Social and Governance Report

OVERVIEW

The Company is pleased to present the Environmental, Social and Governance ("ESG") Report ("this Report") for the year ended 31st December, 2022 (the "Reporting Year"). This Report summarises the policies, strategies, management approach and performance of the Group in fulfillment of the environmental and social responsibilities during the Reporting Year. This Report should be read in conjunction with the Company's 2022 Annual Report and the Corporate Governance Report contained therein.

REPORTING FRAMEWORK

This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Reporting Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with the four reporting principles of Materiality, Quantitative, Balance and Consistency.

REPORTING BOUNDARY

The Report covers the Group's business of manufacturing and marketing of mould bases and related products and its manufacturing and operating plants in Heyuan city, Guangdong Province, the People's Republic of China (the "PRC") ("Heyuan Plant") and Hangzhou city, Zhejiang Province, the PRC (together the "PRC Plants"), which represent the core operation and major source of revenue of the Group. During the Reporting Year, there was no significant change to the reporting boundary.

REPORTING PRINCIPLES

The Report adhered to the Reporting Guide and applied the four reporting principles of Materiality, Quantitative, Balance and Consistency.

Materiality

The content of this Report is determined through a systematic materiality assessment process, which include identifying ESG-related issues, assessing their materiality and relevance, preparing and validating the information reported and reviewing stakeholder feedback. Details of the key stakeholder engagement channels and materiality assessment are disclosed in the sections of "Stakeholder Engagement" and "Materiality Assessment".

Quantitative

In order to give a comprehensive understanding of the Group's ESG performance during the Reporting Year, the Group's ESG performance in current year relative to various quantitative Key Performance Indicator(s) ("KPI(s)"), with comparison to previous year, are disclosed in this Report. Information about the standards, methodologies, assumptions and/or calculation references, and sources of key conversion factors used on these KPIs are stated wherever appropriate in this Report.

Balance

This Report aims to provide a balanced representation of the Group's ESG performance. The selected content aims to reflect impartially the impacts of the identified material ESG-related issues on the Group as well as the Group's involvement in addressing these impacts.

Consistency

As far as reasonably practicable, consistent methodologies are adopted when calculating the KPIs disclosed in this Report or any changes that may affect a meaningful comparison would be stated particularly in this Report.

ESG GOVERNANCE

The Group is committed to the long-term development of its business in a sustainable manner. The Group seeks to embed sustainable practices in its everyday operations and align sustainability goals with the Group's overall strategic direction. The Group is committed to conducting business operations in an ethical and responsible manner. The Group's corporate culture urges the employees to act with integrity and accountability. Thus, the Group has established a comprehensive ESG governance structure to assist the board of directors of the Company (the "Board") in supervising the ESG-related matters. The Group believes that a sound ESG governance is critical to enhance the Group's performance in sustainability development and to ensure the effective assessment and management of the ESG-related matters.

ESG governance structure

Board

- Takes ultimate responsibility for the Group's overall ESG vision and the long-term sustainable development directions and objectives
- Approves the Group's overall ESG policies and strategies
- Reviews the performance of the Group's ESG sustainable development
- Approves the Group's ESG report

Senior Management

- Formulates the Group's ESG policies, strategies and work plans/measures for the Board's approval
- Monitors the progress of implementation of the ESG-related work plans/measures
- Supervises and reviews the Group's ESG practices and proposes improvements to the Board
- Reviews the Group's ESG report and other ESG-related disclosures

Various Departments

- Collect data required for the ESG report
- Identify and report to the senior management on significant ESG issues
- Perform ESG risk management and internal monitoring
- Ensure effective implementation of the Group's sustainable development strategy and work plans/measures within the departments

Board Statement

The Board holds the ultimate responsibility in overseeing the management of the Group's sustainability issues. The Board considers sustainability issues as part of its strategic formulation and places strong emphasis in aligning the Group's business strategies to the Group's sustainability objectives.

The Board is also responsible for the overall risk management and internal control systems of the Group and for reviewing its effectiveness, which also covers the ESG-related risks to the Group's business. Risk management framework is in place to provide a consistent approach on the risk management processes, including identification, assessment, treatment and reporting of the potential risks identified affecting the key business processes of the Group.

During the Reporting Year, the senior management has assisted the Board in the evaluation of material ESG-related risks and opportunities to the Group's business. Appropriate ESG policies and strategies in dealing with the potential risks and opportunities have been formulated. The Board with the assistance from the senior management in fulfilling its oversight role in managing the Group's ESG matters.

Regarding the materiality assessment, the Group performs the following process to evaluate the materiality in ESG aspects:

1. Identification

   Identifies ESG topics by reference to the industry benchmarking and the Reporting Guide.

2. Prioritisation

   Determines the materiality of each ESG topic based on the importance of each ESG topic to the Group through internal discussion of the senior management. The senior management who possesses a high-level view of all the aspects, is asked to score the importance of each ESG topic.

3. Validation

   Ensures that the identified ESG topics are aligned with the sustainable development direction sought by the Group. Validates the results of materiality assessment and proper disclosures are made in the ESG report.

Through the process for materiality assessment, the Board can have better understanding the degree of importance to each ESG topic and would enable the Group to plan its sustainable development direction more comprehensively.

The Board sets the strategic goals and targets in medium-term for the coming three to five years which would enable the Group to develop a realistic ESG roadmap and focus on results of achieving the ESG visions.

The Board with the assistance from the senior management monitors the progress of implementation of the ESG-related work plans/measures and reviews the progress against ESG-related goals and targets. The Board would review carefully the attainability of the targets which should be weighed against the goals. The progress of target implementation and the performance of the goals and targets are closely reviewed from time to time. Rectification would be made if the progress falls short of expectation.

Looking forward, the Board will strengthen the work of ESG risk management and will commit to the responsibility of internal control of ESG-related risks in order to protect both the business development of the Group and the long-term interests of the stakeholders of the Company.

STAKEHOLDER ENGAGEMENT

The Group communicates regularly with key stakeholders through various channels in order to understand their different expectations and identifies the most material ESG aspects to be placed comparatively higher emphasis for reporting in this Report. While higher priority is given to the most material aspects, the Group will continue to monitor and report the other aspects in this Report in order to enhance the corporate transparency.

The table below presents the communication methods between the Group and the key stakeholders.

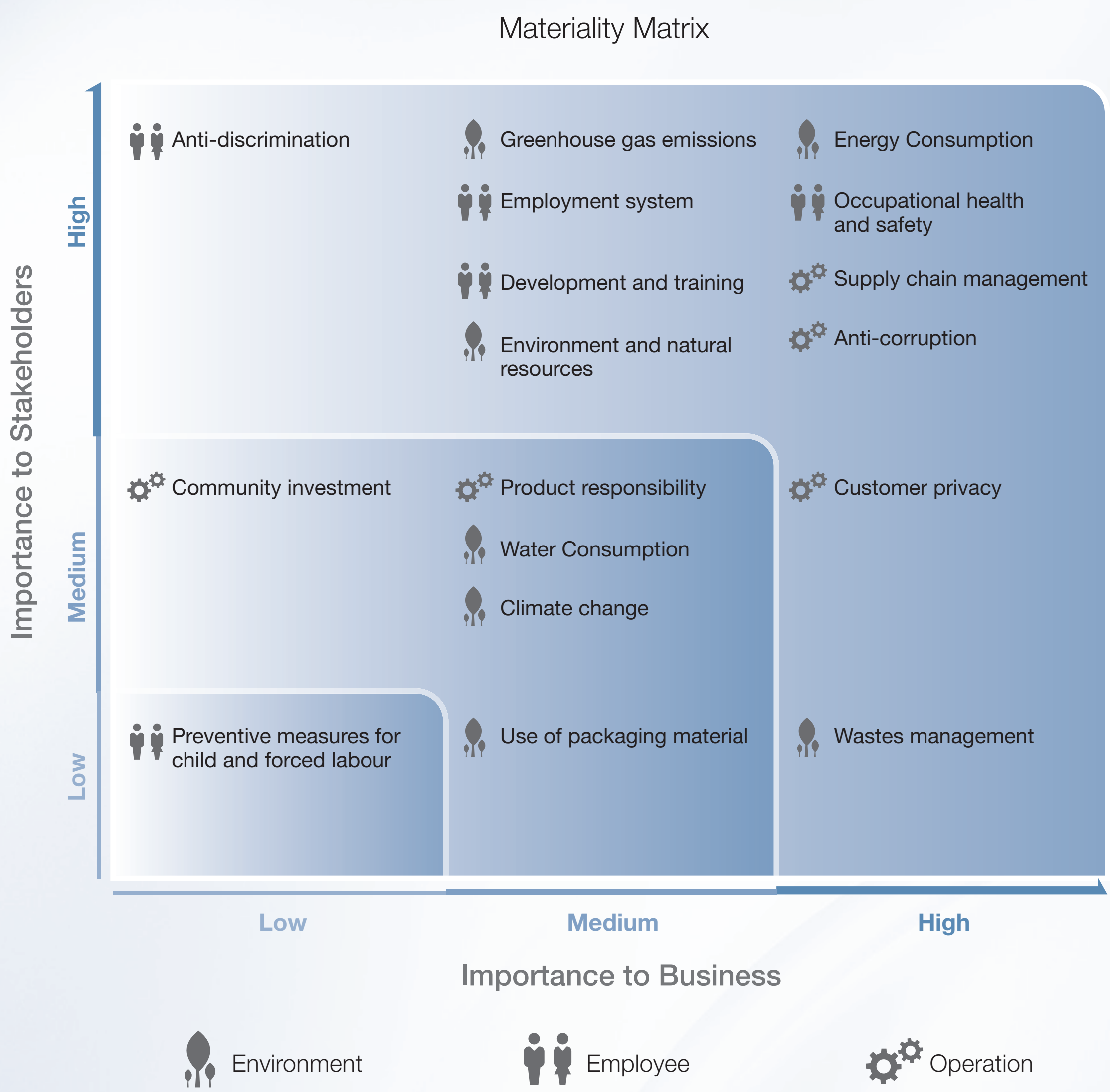
Stakeholder Groups	Major Concerns	Engagement Methods
Investors	• Timely updates on financial performance and business strategies and opportunities	• Annual and interim financial reports • Annual general meeting • Announcements and disclosures • The Group's website
Employees	• Occupational health and safety • Fair employment practices	• Training and seminars • Face-to-face meetings • Annual performance appraisals • Corporate culture activities
Government and regulators	• Compliance with regulatory requirements	• Written correspondence • Ad-hoc calls and meetings
Customers	• Quality of products and services	• Customer visits • Customer assessment • Exhibitions • Customer hotline
Suppliers	• Fair and transparent business conduct • Continued engagement	• Factory visits • Supplier assessment • Quality and delivery reviews
Community	• Environmental protection • Job opportunity	• Community activities • Job Fairs

MATERIALITY ASSESSMENT

During the Reporting Year, the Group has evaluated the materiality in ESG aspects through the process of (1) identification of ESG topics by reference to the industry benchmarking and the Reporting Guide; (2) prioritization of ESG topics through the internal discussion with the senior management; and (3) validation of ESG topics.

There was no significant change in the ESG topics as there was no significant change in the Group's business scope.

The Group's materiality matrix for the Reporting Year is as follows:



A. ENVIRONMENTAL

Aspect A1: Emissions

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

The PRC Plants abide by all the applicable environmental protection laws and regulations of the local government. The Group has established the environmental protection policies that include both emission reduction and energy-saving policies in order to minimize the impacts on the environment.

During the Reporting Year, the PRC Plants have followed the methods advised by the independent consultancy firm for conducting the measurements to the greenhouse gases ("GHG") emissions. Through the results of measurements, the PRC Plants have been able to realise the distributions of major GHG emissions. Thus, the PRC Plants could improve further the existing energy-saving and emission reducing policies and systems in managing and reducing the GHG emissions.

Due to the relative clean and simple in the manufacturing process of mould bases which involves no chemical reaction and the use of purchased electricity in the production operations and the facilities at the PRC Plants, the significant air emissions of the PRC Plants are the GHG emissions, arising from the use of purchased electricity derived from fossil fuels (i.e. the indirect emissions) while the using of diesel by lorries and forklifts, the using of natural gas at canteen kitchen, the using of gasoline by the corporate fleet and the using of methanol and propane in heat treatment process constitute the major direct emissions of the PRC Plants.

I. GHG Emissions*(Note 1)*:

Indicators	**2022**	2021
Direct emissions (Scope 1)*(Note 2)* (tonnes CO_2e)		
Diesel	**287**	384
Natural gas	**87**	82
Gasoline	**43**	52
Methanol and propane	**172**	198
Others	**18**	13
	607	729
Indirect emissions (Scope 2)*(Note 3)* (tonnes CO_2e)		
Purchased electricity	**53,207**	60,521
Total GHG emissions (tonnes CO_2e)	**53,814**	61,250
Total GHG emissions per floor area (tonnes CO_2e/m^2)	**0.17**	0.19

Notes:

1. The GHG emissions data is presented in carbon dioxide equivalent ("CO_2e") and was in conformance with ISO 14064–1:2006, "Specification with guidance at the organizational level for quantification and reporting of greenhouse gas emissions and removals". Due to the relative clean and simple in the manufacturing process of mould bases and related products which involves no chemical reaction, an emission factor quantitative method was adopted by using the relevant emission factors and global warming potential (GWP) provided by the "Intergovernmental Panel on Climate Change" (IPCC) to quantify the GHG emissions. The GHG inventory includes carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

2. During the Reporting Year, the breakdown of Scope 1 GHG emissions is as follows: carbon dioxide 585 tonnes (2021: 712 tonnes), methane 0.02 tonnes (2021: 0.03 tonnes), nitrous oxide 0.02 tonnes (2021: 0.02 tonnes), hydrofluorocarbons 0.03 tonnes (2021: 0.02 tonnes), perfluorocarbons Nil (2021: Nil) and sulphur hexafluoride Nil (2021: Nil).

3. Scope 2 GHG emissions data was quantified by using the emission factor from the "Area grid baseline emission factors in China in 2019".

During the Reporting Year, the main source of the PRC Plants' GHG emissions continued to be the indirect emissions caused by the PRC Plants' purchased electricity, and therefore, GHG emissions could be effectively reduced by saving electricity consumption. The PRC Plants have set the yearly targets in term of energy-saving and implemented various kinds of energy-saving measures to achieve the targets in term of energy-saving in order to mitigate GHG emissions. For details, please refer to the following section "Use of Resources".

II. Waste Management*(Note 1)*:

Indicators	**2022**	2021
Total hazardous wastes*(Note 2)* (tonnes)	**160**	207
Total hazardous wastes per floor area (tonnes/m^2)	**0.0005**	0.0006
Total non-hazardous wastes*(Note 3)* (tonnes)	**30,828**	39,498
Total non-hazardous wastes per floor area (tonnes/m^2)	**0.10**	0.12

Notes:

1. The PRC Plants have classified and collected wastes generated during the manufacturing process of mould bases according to the categories of recyclable and non-recyclable.

2. The PRC Plants refer to the Directory of National Hazardous Wastes, which has been formulated according to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, to identify those hazardous wastes generated in relation to the manufacturing process of mould bases. According to the classification of the Directory of National Hazardous Wastes, those hazardous wastes include spent mineral oil & waste contaminated with spent mineral oil, spent mineral oil-water emulsion and other waste etc.

3. The scrap generated in the manufacturing process of mould bases is recycled for sales.

The PRC Plants have standardized the management of hazardous wastes via standardizing the entire process of collection, transfer and disposal of hazardous wastes. The storage of hazardous wastes is strictly separated from the general industrial solid waste. The PRC Plants entrusted the qualified companies to handle the hazardous wastes and ensured that the relevant form for transferring hazardous wastes, as required according to the relevant environmental protection laws and regulations of the local government, should be prepared competently.

During the Reporting Year, the PRC Plants have no significant exhaust emission or waste water discharge during the manufacturing process of mould bases.

Aspect A2: Use of Resources

The PRC Plants have established the environmental protection, energy-saving and emission reducing policies and strived to integrate the environmental considerations into the daily operations. With the policies implemented in practice, an energy-saving taskforce has been set up at Heyuan Plant since 2010 to ensure the policy direction and effectiveness on environment protection. The taskforce was also responsible for the planning of the energy-saving and emission reducing solutions and supervising their implementations. The taskforce applied the energy-saving objectives into the workshops.

The PRC Plants continue to identify the potential and the approaches for energy-saving and reducing the amount of energy consumption. Heyuan Plant has conducted examinations on problems and insufficiencies in respect of energy usage and prepared it's first energy-saving planning report in 2011. Since then, Heyuan Plant has continued to prepare the corporate's energy-saving self-inspection reports and set target in term of energy-saving thereon. After the performing of an energy audit for assessing and improving energy efficiency in 2016, Heyuan Plant has implemented certain approaches for energy-saving and reducing the amount of energy consumption. Heyuan Plant has then set the yearly targets in term of energy-saving in order to cooperate with the local government at Heyuan city for fulfilment of it's energy conservation plan from time to time.

The PRC Plants have already formulated a series of energy management systems to raise the efficiency of energy usage. The PRC Plants continue to prepare the corporate's energy-saving self-inspection reports. Through these reports, the PRC Plants have been able to review the effectiveness of the implemented energy management systems.

I. Energy Consumption:

Indicators	**2022**	2021
Direct energy consumption*(Note)* (MWh)	**1,604**	1,969
Indirect energy consumption (MWh)		
Purchased electricity	**66,312**	75,465
Total energy consumption (MWh)	**67,916**	77,434
Total energy consumption per floor area (MWh/m^2)	**0.21**	0.24

Note:

The direct energy consumed by the PRC Plants include diesel (consumed by lorries and forklifts), natural gas (consumed by canteen kitchen) and gasoline (consumed by the corporate fleet). During the Reporting Year, the breakdown of the direct energy consumption is as follows: diesel 1,062 MWh (2021: 1,418 MWh), natural gas 385 MWh (2021: 359 MWh) and gasoline 158 MWh (2021: 193 MWh).

During the Reporting Year, the PRC Plants have adopted the following initiatives to achieve the target in term of energy-saving:

1. Use high-efficiency facilities to reduce electricity consumption;

2. Place waste separation bins to facilitate recycling incentives;

3. Promote environmental awareness among employees to save energy, water and natural resources and to reduce waste; and

4. Shut down equipment, electricity, water, gas and air-conditioning supply when they are not needed.

II. Water Consumption:

Indicators	**2022**	2021
Total water consumption (m^3)	**423,805**	490,418
Total water consumption per floor area (m^3/m^2)	**1.32**	1.52

During the Reporting Year, the PRC Plants have no issue in sourcing water that is fit for the purpose.

III. Packaging Material Used*(Notes 1 & 2)*:

Indicator	**2022**	2021
Total packaging material used (tonnes)	**1,268**	1,582

Notes:

1. The packaging materials used in the finished products by the PRC Plants include papers (corrugated paper boxes, paperboard etc.), plastic (expanded polyethylene, bubble film, stretch film etc.), wood (wooden crates etc.) and metal (nails etc.). During the Reporting Year, the breakdown of the packaging materials used is as follows: papers 6 tonnes (2021: 7 tonnes), plastic 141 tonnes (2021: 163 tonnes), wood 1,102 tonnes (2021: 1,395 tonnes) and metal 19 tonnes (2021: 17 tonnes).

2. Due to the various kind of products and the variety of the sizes of the custom-made mould bases, it is unlikely to provide the data of packaging material used per unit product for each kind of products.

The PRC Plants have placed great emphasis on the recycling of packaging materials and tried to minimise the total packaging materials used in order to reduce the generation of waste and save the cost of packaging materials.

Aspect A3: The Environment and Natural Resources

The PRC Plants continue to put environmental protection policies into practice as the Group believes that those energy-saving and emission reducing policies are not only environmentally friendly but also conducive to cost-saving. The Group also believes that those policies would eventually lead the Group to achieve sustainable development of the environment and the business of the Group.

During these years, the PRC Plants have adopted the energy-saving and emission reducing measures in relation to the cleaner production, such as the replacement of the energy-exhausting old machineries with the new machineries in order to increase the efficiency while saving the energy. Such measures have increased the efficiencies of both energy-saving and emission reduction and improved the working environment of the workshops.

In fact, the PRC Plants have already set up a cleaner production taskforce and have entrusted an independent environmental protection consultancy firm to assist the taskforce to conduct an examination about the cleaner production to the plant at Heyuan city, Guangdong Province, the PRC under the guidance of the Environmental Protection Bureau of Heyuan Municipality, the PRC. A cleaner production examination report, which concluded that the majority of the environmental protection proposals were implemented and the expected results achieved, was completed. The PRC Plants have continued to review the effectiveness of the measures implemented.

The Group is committed to minimising the environmental impact of the operations and by operating the businesses in ways that support sustainable use of the available natural resources. The Group strives to conserve energy and other valuable natural resources, to reduce waste and to participate in recycling and other environmental protection efforts. During the Reporting Year, there was no confirmed non-compliance incident or grievance in relation to the Group's business which had significant impact on the environment or natural resources.

The Group plans to further enhance the environmental performance through the following issues:

1. Use energy, water and materials more efficiently;

2. Reduce GHG emission and waste disposal;

3. Identify and manage environmental risks continuously;

4. Monitor and comply with new requirements of all applicable laws and regulations in relation to the environmental protection issues;

5. Increase recycling and reuse waste; and

6. Promote the employees' environmental awareness and education.

Aspect A4: Climate Change

The Group recognises that tackling climate change is a global consensus. The Group realises that climate change may affect the business operations and therefore, the Board has established relevant policies and procedures to identify, assess, monitor and manage the issues about climate change which are included in the ESG-related matters. Material climate-related risks would be identified and managed under the Group's risk management framework.

Increased frequency and severity of extreme weather events such as extreme cold or heat, heavy rainstorm, typhoons may disrupt operations by damaging the power grid, hampering and injuring employees on the way or during their work. The extreme weather events may interrupt business operations, damage the Group's assets and disrupt the supply chain. The Board identifies these potential risks, prioritises those with potential severe impacts and takes precautionary measures to mitigate or avoid these potential severe impacts.

In addition, there would have more stringent climate legislations and regulations to support global vision for carbon neutrality. Stricter environmental laws and regulations may expose an enterprise to higher risks of claims and lawsuits and the enterprise reputation may also decline due to failure to meet the compliance requirements for climate change. The related capital investment and compliance costs thus increase. In response to the legal risks as well as the reputation risks in respect of the climate change, the Group regularly monitors the existing and emerging trends, policies and regulations relevant to the climate change.

During the Reporting Year, the Group has not been significantly impacted by any climate-related risks.

B. SOCIAL

Employment and Labour Standards

Aspect B1: Employment

The Group respects its employees and endeavours to provide better working conditions for its employees. The Group has established various policies in relation to the labour practices including the remuneration and dismissal, recruitment and promotion, working hours, holidays, disciplinary practice, equal opportunity, diversity and other benefits and welfare so as to provide a fair, healthy and safe working environment for all employees and at the same time, to provide a system of control to the Group to reduce the exposure to any risk concerning labour issues. The Group will update the policies from time to time in order to align with the updates of the relevant rules and regulations of the PRC and the changing of the business environments.

For protecting the interests of employees, the Group executes the labour contracts with the employees according to the labour laws of the PRC. For providing better assurance to the employees, the Group pays social insurances for its employees. The holidays and the benefits and welfare entitled by the employees are not less than the rules and regulations specified by the labour laws of the PRC. The working hours for the employees are set in accordance with the rules and regulations specified by the labour laws and the labour contract laws of the PRC. The Group terminates the labour contracts with the employees in strict compliance with the labour laws and regulations of the PRC.

The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects in order to build up a sound career platform for employees. The Group bases on the principles of fairness, equality and objectivity to establish an assessment system and promotion mechanism. Talents are identified through the specific processes under the system and mechanism.

As at 31st December, 2022, the PRC Plants had a total of 2,784 (2021: 3,007) employees, including the employees stationed in the PRC Plants.

I. Workforce:

Indicators	2022	2021
Total number of employees	**2,784**	3,007
Number and rate (%) of employees:		
By gender		
Male	**2,394 (86%)**	2,601 (86%)
Female	**390 (14%)**	406 (14%)
By age group		
Under 30	**304 (11%)**	412 (14%)
30–50	**2,296 (82%)**	2,454 (82%)
Over 50	**184 (7%)**	141 (4%)

II. Employee Turnover:

Indicators	2022	2021
Total number and rate (%) of employee turnover	**436 (14%)**	564 (16%)
Number and rate (%) of employee turnover:		
By gender		
Male	**382 (14%)**	482 (16%)
Female	**54 (12%)**	82 (17%)
By age group		
Under 30	**134 (31%)**	223 (35%)
30–50	**295 (11%)**	323 (12%)
Over 50	**7 (4%)**	18 (11%)

Aspect B2: Health and Safety

The Group aims at providing a safe working environment for its employees and protecting its employees from occupational hazards. These safety objectives apply not only to the Group but also to the Group's business partners, contractors and all others working with the Group. For realizing these objectives, it relies on the cooperation of the employees from all levels within the Group including the management and the supports from the Group's business partners, contractors and all others working with the Group. In this connection, the Group has requested the contractors and all others working within the areas of the PRC Plants to execute the production safety and responsibility agreements, clarifying the responsibilities of both parties in respect of the safety production, in order to protect the health and safety of those working in the various plants of the Group.

The Group is committed to achieving a high standard of occupational health and safety and maintains the good records for these areas. The Group believes that being a conglomerate with the greatest concern for its employees would gain the supports from the employees, customers and the other stakeholders. The Group has established the occupational health and safety policies that strictly comply with the laws and regulations of the PRC.

The Group organizes occupational health and safety education and training for their employees. Employees are educated continuously to raise their occupational health and safety knowledge and awareness and their emergency response capabilities. The Group monitors regularly the workplace and the personal safety facilities provided to the employees in order to timely detect any potential safety risk and to correct all improper actions. They should ensure that all production processes and activities should be carried under the safety and health management.

I. Work-related fatalities*(Note)*:

Indicators	2022	2021	2020
Number of employee	**0**	0	0
Rate (%)	**0**	0	0

Note:

"Work-related fatalities" are commonly called "occupational deaths/fatalities" and are defined as the deaths that occur while the person are at work or performing work related tasks. In 2020, the Human Resources and Social Security Bureau at Heyuan city has concluded the death of an employee who encountered a traffic accident on his way home from work as "work-related fatality". As the death of the aforesaid employee was not under the abovementioned definition of "work-related fatalities", the case was not treated as "work-related fatalities" in this section.

II. Lost days due to work injury*(Note)*:

Indicators	2022	2021
Number of lost days	**2,309**	2,757

Note:

Lost days due to work injury is defined as the number of man-days that cannot be worked as a consequence of an employee being unable to perform their usual work because of an occupational disease or incident. A man-day refers to 8 working hours.

Aspect B3: Development and Training

The Group encourages its employees to exert their potential and to align their personal developments with the growth of the Group, so as to promote mutual development between individual employee and the Group. The Group has established various policies in relation to the employees' education and training so as to ensure that employees pursue continuous self-development in line with the Group's business needs.

The Group has established a set of training system and process including "induction training", "vocational technical training" and "management skill training" in order to improve the overall quality and professional skills of the employees. New employees must participate in the "induction training", which includes the training topics of the Group's goals and policies, corporate culture, production safety, necessary skills etc. The "vocational technical training" aims to provide and strengthen the employees' professional skills specific to their job positions, production safety awareness, personal communication skills etc. The "management skill training" aims to enhance the daily management capability of the employees at the management level. The training content is evaluated from time to time in order to maintain the effectiveness of the trainings.

During the Reporting Year, the employees at the PRC Plants received a total of 28,157 hours (2021: 22,015 hours) of training.

Indicators	**2022**	2021
Overall average hours of training per employee and percentage (%) of employees who received training	**10 hours (99%)**	7 hours (98%)
Average hours of training per employee and percentage (%) of employees who received training:		
By gender		
Male	**10 hours (99%)**	7 hours (99%)
Female	**12 hours (98%)**	10 hours (97%)
By employee category		
Senior management	**1 hour (78%)**	2 hours (68%)
Middle management	**5 hours (99%)**	9 hours (97%)
General staff	**11 hours (99%)**	7 hours (99%)

Aspect B4: Labour Standards

The Group implements its labour standards in strict compliance with the labour laws and regulations of the PRC. The Group maintains strict recruitment process to avoid cases of child labour and forced labour to be occurred. The Group implements the labour standards as well as the recruitment process in strict compliance with the rules and regulations of the PRC.

Operating Practices

Aspect B5: Supply Chain Management

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

The Board has established relevant policies and procedures to identify, assess, monitor and manage the issues about environmental and social risks of the supply chain which is included in the ESG-related matters. Material environmental and social risks along the supply chain would be identified and managed under the Group's risk management framework. In order to fulfil the Group's environmental and social responsibilities, the Group has not only implemented relevant policies regulating its practices in daily operations but also given attention to the mitigation of the environmental and social risks that may affect the supply chain.

During the Reporting Year, the PRC Plants had 71 (2021: 89) key suppliers.

Indicators	**2022**	2021
Total number of key suppliers[(Note)]	**71**	89
Number of key suppliers:		
By region		
Asia excluding Hong Kong and Mainland China	**8**	9
Europe	**2**	3
Hong Kong and Mainland China	**61**	77

Note:

Key supplier is defined as supplier of products and/or services to the PRC Plants whose purchase sum exceeded HK$1 million.

The Group has implemented a set of guidelines for the supply chain management, which is available on the Group's information portal for internal use. The purposes of the set of guidelines are not only for unifying the selection of suppliers and purchasing process but also for ensuring transparency in the selection of suppliers and purchasing process to guard against bribery and corruption. In this connection, the PRC Plants have requested all the suppliers and the out-sourcing parties to execute the anti-bribery confirmation, urging them not to provide any benefits to the employees of the Group. The selection of suppliers is subject to a series of internal assessments and approval processes and supervised by the Internal Audit Department. The Group shall review the set of guidelines from time to time in order to further strengthen the supply chain management.

The Group has adopted a system in its supply chain management to centralize the purchase of materials, tools and machineries required by the Group. The Group has monitored closely the inventories of the materials and tools and constantly analyzed the consumption of the materials and tools. The Group has maintained a supplier list, which is evaluated and updated regularly. To enhance the effectiveness and efficiency of procurement, the PRC Plants have adopted the approach to manage and evaluate the suppliers before, during and after the engagement of suppliers by performing onsite inspections regularly to assess the background and competence of the suppliers based on factors including the suppliers' reputation, service/product quality, environmental management system, quality management system, production and technical capacities and the status of fulfilment of compliance obligations etc. With these measures, the Group manages its supply chain smoothly.

The Group strives to support the environmental and social initiatives in the supply chain as the stakeholders become more concerned about the environmental issues and stress the importance of using environmental-friendly materials. The PRC Plants have priority in purchasing products with greater energy efficiency, reusable and recyclable capacity in order to minimise the impacts on the environment and society.

Aspect B6: Product Responsibility

The Group aims at providing its customers with the qualified products as the Group understands that product quality is fundamental to the brand reputation and sustainable development of the Group. The Group has formulated its internal policies and procedures in accordance with the relevant rules and regulations in relation to health and safety, advertising, labelling and privacy matters with respect to its products. Thus, the PRC Plants have implemented the effective quality management systems, which have obtained ISO 9001:2015 certification, to control strictly the manufacturing processes of its products and the product quality. All products are manufactured according to the specified procedures and are required to undergo a thorough quality inspection process in order to assure the products quality. Meanwhile, the PRC Plants have carried out sampling inspection on the products to ensure that the products have met the requirements of safety manufacturing standards.

The Group has maintained the customer service team to handle the enquiries about the products from the customers. The customer service team handles the customers' feedbacks and complaints according to the stated procedures. If any complaint is received, the Group will conduct an investigation, follow up and feedback to the customer to ensure that the complaint is being effectively handled. Meanwhile, the Group will conduct in-house reviews to prevent the occurrence of similar incidents. The PRC Plants strictly follow the formal complaint mechanism to handle all cases in a fair and systematic manner. During the Reporting Year, the number of complaints received by the PRC Plants amounted to 368 (2021: 588). They were mainly related to generic product functionality issues and were promptly handled.

During the Reporting Year, no products were subject to recalls for safety and health reasons.

Considering the intellectual property as its intangible and valuable assets, the Group believes that the protection of the intellectual property rights is pivotal to the Group's sustainable business development. The Group manages and protects its intellectual property rights through registration, maintenance and enforcement measures. The Group has made registrations for its trademarks in many countries over the world. Amongst others, the Group's famous trademark LKM® has been registered in more than 20 countries over the world. The Group would not tolerate any infringement of its intellectual property rights and would take legal action against such infringement.

As a renowned brand in the mould base industry in the PRC, the Group has established the internal policies to regulate the practice in brand promotion, marketing and planning, any misrepresentation made in marketing materials or exaggeration of offerings is strictly prohibited by the Group. For any marketing and promotional activities, the PRC Plants ensure that relevant activities observe applicable rules and regulations in the PRC. No false nor misleading contents shall be contained in any advertisement.

Data protection and security is considered to be crucial to the Group's long term business development and corporate reputation.

The data from the customers is strictly managed and protected by the Group in order to ensure the customers' privacy and confidentiality. The Group has formulated its internal policies and strictly followed the regulation in the collection, disclosure, usage, retention, and storage of data to ensure data integrity and safety.

The PRC Plants endeavours to maintain a secure environment for safeguarding all information collected. For instance, the Group's servers and computers being protected with access passwords to prevent unauthorised access and possible information leakage. Besides, employees are made aware of their responsibilities to respect the privacy of customers and to protect any customer data from external parties.

During the Reporting Year, the PRC Plants did not encounter any breached of customer privacy or loss of customer data or any private information leakage.

Aspect B7: Anti-corruption

The Group's corporate culture is the important part of the Group's operating practices and the key components of the Group's corporate governance framework. It provides the guiding principles for the employees to perform justifiably and behave with integrity, uprightness and honesty. The Group's corporate culture puts all employees under stringent obligations as to the manner to which they should deal with the issues of bribery, conflicts of interest and compliance with the Group's policies and practices etc. Details of the Group's corporate culture are included in an employee's handbook distributed to each employee joining the Group. The handbook is also available on the Group's information portal for internal reference. The Group has provided anti-corruption training for the employees in order to reinforce their awareness of the Group's ethical standards. Seminars related to anti-corruption are held regularly for the Board and the employees and enhance their awareness against corruption and bribery.

The Group does not only require all its employees to behave with integrity but also requests its suppliers and business partners to observe the same ethical standards. The Group requests the suppliers and business partners to execute the anti-bribery confirmation for urging them not to provide any benefits to the employees of the Group. The Group also prohibits all its employees from taking advantages of their powers and authorities for personal interests. The Group treats the issues on bribery, extortion, fraud and money laundering very seriously and complies with the laws of the place where the business of the Group carries on, to report the issues to the relevant Government authorities.

The Group maintains a whistle blowing policy. A set of comprehensive procedures allow whistleblowers to report any actual or suspected occurrence of misconduct, malpractice or irregularity through a confidential reporting channel. All the reported cases would be investigated in a fair and proper manner by the Internal Audit Department of the Group. The Internal Audit Department classifies the reported cases according to their natures and reports the cases directly to the Board or the Audit Committee of the Group. The investigation reports of the reported cases are sent to the Audit Committee of the Group on a regular basis for review.

During the Reporting Year, there was no legal cases regarding corrupt practices brought against the PRC Plants or its employees and the Group was not aware of any non-compliance with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

Community

Aspect B8: Community Investment

The Group is guided by its corporate culture of being a responsible business. The Group aims to achieve its business objectives within a framework of ethics and high standards, taking into account the needs of the communities in which the Group operates.

Most investments of the Group at the PRC Plants have lasted for more than a decade. The employees and the assets of the Group are firmly embedded in the communities of such places. The businesses of the Group are closely intertwined with the social well-being of such communities. Thus, the Group places priority in creating value for the communities and make the meaningful contributions to the communities. The Group considers the unemployment rates of the local communities of the PRC Plants and places priority for recruiting candidates from the local communities in order to relief the local employment pressure. The Group has actively involved in the local community greening construction in order to support the environmental protection policies of the local government.

During the Reporting Year, the PRC Plants take up the social responsibilities and donated RMB1,000,000 to support local poverty alleviation activities.

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, 2022.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. Its subsidiaries are principally engaged in the manufacturing and marketing of mould bases and related products. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57.

An interim dividend of HK6 cents per share amounting to HK$37,901,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK6 cents per share amounting to HK$37,901,000 to shareholders registered on the register of members on 7th June, 2023 and the retention of the remaining profits for the year.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 124.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2022 were revalued by an independent firm of qualified professional property valuers. The revaluation increase of HK$6,500,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income. Details of the movements in the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2022 are set out on page 125.

PROPERTY, PLANT AND EQUIPMENT

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 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, 2022 represented the retained profits of HK$379,161,000.

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 41% to the total purchases for the year while the Group's five largest suppliers accounted for 65% of the total purchases for the year.

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

DIRECTORS

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

Executive directors
Mr. Siu Tit Lung (Chairman)
Mr. Siu Yuk Lung (Managing Director)
Mr. Wai Lung Shing
Mr. Ting Chung Ho
Mr. Siu Yuk Tung, Ivan
Mr. Siu Yu Hang, Leo

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

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Siu Tit Lung, Mr. Siu Yuk Lung, Mr. Ting Chung Ho and Mr. Siu Yu Hang, Leo retire from office by rotation and, being eligible, offer themselves for re-election.

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

BRIEF DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Siu Tit Lung, aged 72, has been an executive director and the chairman of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, the substantial shareholder of the Company. Mr. Siu has many years of experience in metal trading and mould base manufacturing. He was awarded the Young Industrialist Award of Hong Kong in 1993. He is also an honorary citizen of Heyuan City, Guangdong Province in the PRC. Mr. Siu is the elder brother of Mr. Siu Yuk Lung, the father of Mr. Siu Yuk Tung, Ivan and the uncle of Mr. Siu Yu Hang, Leo.

Mr. Siu Yuk Lung, aged 69, has been an executive director and the managing director of the Company since December 1992 and is a co-founder of the Group. He is a director of certain subsidiaries of the Company. He is also a director of Pan Island Investments Limited, the substantial shareholder of the Company. Mr. Siu has many years of experience in metal trading and mould base manufacturing. He is an honorary citizen of Heyuan City, Guangdong Province in the PRC. Mr. Siu is the younger brother of Mr. Siu Tit Lung, the father of Mr. Siu Yu Hang, Leo and the uncle of Mr. Siu Yuk Tung, Ivan.

Mr. Wai Lung Shing, aged 61, has been an executive director of the Company since December 1992. He is the company secretary of the Company. He is also a director and a company secretary of certain subsidiaries of the Company. Mr. Wai graduated from the Hong Kong Polytechnic University with a Bachelor of Arts (Hons.) Degree in Accountancy and from The University of Warwick, United Kingdom with a Master of Business Administration Degree. He is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom and The Hong Kong Institute of Directors. He is also a member of the Institute of Chartered Accountants in England and Wales and the Chinese Institute of Certified Public Accountants. He has extensive experience in accounting, finance and management with both international accounting firms and commercial organisations.

Mr. Ting Chung Ho, aged 69, joined the Group in March 2000 as a general manager of a subsidiary of the Company in the PRC and has been appointed as an executive director of the Company since April 2008 and is also a director of certain subsidiaries of the Company. Mr. Ting has many years of experience in enterprise operation and management. Mr. Ting graduated from the Hong Kong Metropolitan University with a Master of Business Administration Degree and a Master of Laws in Chinese Business Law. He is a fellow of The Hong Kong Institute of Directors.

Mr. Siu Yuk Tung, Ivan, aged 43, joined the Group in October 2004 as an assistant general manager of a subsidiary of the Company and has been appointed as an executive director of the Company since January 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from The University of Warwick, United Kingdom with a Bachelor of Engineering Degree in Mechanical Engineering. He is a member of The Hong Kong Institute of Directors. He worked in a sizeable organization prior to joining the Group in October 2004 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Tit Lung, a nephew of Mr. Siu Yuk Lung and a cousin of Mr. Siu Yu Hang, Leo.

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

Executive directors *(Continued)*

Mr. Siu Yu Hang, Leo, aged 43, joined the Group in July 2008 as an assistant to director of the Company and has been appointed as an executive director of the Company since January 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from the University College London, United Kingdom with a Bachelor of Science Degree in Mathematics with Economics and from the University of Cambridge, United Kingdom with a Certificate of Advanced Studies in Mathematics. He is a member of The Hong Kong Institute of Directors. He worked in an international financial institution prior to joining the Group in July 2008 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Yuk Lung, a nephew of Mr. Siu Tit Lung and a cousin of Mr. Siu Yuk Tung, Ivan.

Independent non-executive directors

Dr. Lee Tat Yee, aged 75, has been an independent non-executive director of the Company since December 1992. He is the chairman of the Remuneration Committee of the Company. Dr. Lee obtained his doctorate degree from the University of Queensland, Australia and is a Chartered Engineer of the Engineering Council in the United Kingdom. He is a fellow of The Hong Kong Institute of Directors. Dr. Lee was a director of the Technology Support Centre of The University of Hong Kong specialising in quality assurance management systems and retired.

Mr. Lee Joo Hai, aged 67, has been appointed as an independent non-executive director of the Company since September 2004. He is the chairman of the Nomination Committee of the Company. Mr. Lee is a member of the Institute of Singapore Chartered Accountants, the Malaysian Institute of Accountants and the Singapore Institute of Directors. He is also a fellow of The Hong Kong Institute of Directors. He was a partner of a public accounting firm in Singapore before his retirement from the accounting firm. He has over 30 years of experience in accounting and auditing fields. Mr. Lee is currently an independent director of Hyflux Ltd. and IPC Corporation Limited, which are all listed on the main board of The Singapore Exchange Securities Trading Limited. He is also a director of PGG Wrightson Limited, which is listed on the main board of the New Zealand Stock Exchange. 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.

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

Independent non-executive directors *(Continued)*

Mr. Wong Hak Kun, aged 66, has been appointed as an independent non-executive director of the Company since June 2018. He is the chairman of the Audit Committee of the Company. Mr. Wong graduated from The University of Hong Kong with a Bachelor Degree in Social Sciences. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, the Chartered Institute of Management Accountants, United Kingdom and the Chartered Governance Institute, United Kingdom. He is also a fellow of The Hong Kong Institute of Directors. Mr. Wong was the Managing Partner of Deloitte China's ("Deloitte") Audit and Assurance practice before his retirement from Deloitte. He has extensive experience in audit, assurance and management. Mr. Wong is an independent non-executive director of Yue Yuen Industrial (Holdings) Limited and Hangzhou SF Intra-City Industrial Co., Ltd., which are all listed on the main board of The Stock Exchange of Hong Kong Limited ("HKSE"). He is also an independent non-executive director of Guangzhou Automobile Group Co., Ltd., which is listed both on the main board of HKSE and Shanghai Stock Exchange ("SSE"), Haier Smart Home Co., Ltd., which is listed on the main board of HKSE, SSE and Frankfurt Stock Exchange. Mr. Wong ceased to be an independent non-executive director of Zhejiang Cangnan Instrument Group Company Limited ("Zhejiang Cangnan") subsequent to the voluntary withdrawal of listing of Zhejiang Cangnan from the main board of HKSE on 5th July, 2021. Save as disclosed above, Mr. Wong did not hold other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Ms. He Lamei, aged 54, has been appointed as an independent non-executive director of the Company since March 2022. Ms. He graduated from The University of Ibaraki, Japan with a Bachelor Degree in Social Sciences and from the Hong Kong Metropolitan University with a Master of Business Administration Degree. She has many years of experience in steel manufacturing and trading. Ms. He was a non-executive director of M-Resources Group Limited, a company listed on GEM of HKSE, from 29th April, 2020 to 30th June, 2021. Save as disclosed above, Ms. He 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

As at 31st December, 2022, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Interests in the Company

		Number of shares held				
Name of director	**Capacity**	**Personal interests**	**Family interests**	**Other interests**	**Total interests**	**Percentage of Company's issued share capital**
Siu Tit Lung *(Notes 1 and 2)*	Beneficial owner, interests jointly with another person and founder of discretionary trust	41,161,444	–	366,210,937	407,372,381	64.49%
Siu Yuk Lung *(Notes 1 and 2)*	Beneficial owner, interests jointly with another person and founder of discretionary trust	41,161,444	–	366,210,937	407,372,381	64.49%
Wai Lung Shing	Beneficial owner	3,843,750	–	–	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	–	–	720,000	0.11%
Siu Yuk Tung, Ivan *(Note 2)*	Beneficial owner and beneficiary of a trust	80,000	–	366,210,937	366,290,937	57.99%
Siu Yu Hang, Leo *(Notes 2 and 3)*	Interest of child or spouse and beneficiary of a trust	–	1,096,000	366,210,937	367,306,937	58.15%
Lee Tat Yee	Beneficial owner	150,000	–	–	150,000	0.02%
Lee Joo Hai	Beneficial owner	300,000	–	–	300,000	0.05%

Notes:

1. Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 35,851,288 shares in the Company and each owned a further 5,310,156 shares in the Company registered in their own names.

2. Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which the family members of Messrs. Siu Tit Lung and Siu Yuk Lung are beneficiaries (including Messrs. Siu Yuk Tung, Ivan and Siu Yu Hang, Leo), held 366,210,937 shares in the Company.

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

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2022.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2022, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held	Percentage of Company's issued share capital
Pan Island Investments Limited	Beneficial owner	366,210,937 *(Note)*	57.97%
HSBC International Trustee Limited	Trustee	366,514,990 *(Note)*	58.02%
David Michael Webb	Beneficial owner and interest of a controlled corporation	37,938,498	6.00%

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

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

Save as disclosed herein, the Company has not been notified of any other person (other than a director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31st December, 2022.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN ANY TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreement during the year.

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

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

SUFFICIENCY OF PUBLIC FLOAT

Throughout the year ended 31st December, 2022 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 the new share option scheme in 2022, the 2012 share option scheme expired on 6th May, 2022. Details of the scheme are set out in note 26 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the year.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 7 to 25.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company received, from each of the independent non-executive directors, Dr. Lee Tat Yee, Mr. Lee Joo Hai, Mr. Wong Hak Kun and Ms. He Lamei, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee assessed the independence of the independent non-executive directors and affirmed that all independent non-executive directors remained independent.

AUDITOR

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

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, China, 24th March, 2023

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 123, which comprise the consolidated statement of financial position as at 31st December, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Allowance for raw materials	
We identified the allowance for raw materials as a key audit matter due to the significance of the carrying amount of raw materials to the consolidated statement of financial position as a whole and the management judgment involved in the determination of the allowance based on their industry knowledge and experiences. Management identifies slow-moving raw materials and estimates the amount of allowance for raw materials with reference to the aging information, subsequent sales and usage, the latest market prices of raw materials and the actual or estimated selling price and profitability of the produced products. As at 31st December, 2022, the Group has raw materials with an aggregate carrying amount of HK$514,061,000 (net of allowance of HK$25,786,000). Details of the Group's inventories are set out in notes 4 and 18 to the consolidated financial statements.	Our procedures in relation to assessing the appropriateness of the allowance for raw materials included: • Obtaining an understanding of how allowance for raw materials is estimated by management and the major assumptions and estimation made in assessing the net realisable values; • Evaluating the reasonableness of the allowance of slow-moving raw materials identified by the management with reference to the aging information, subsequent sales and usage of raw materials; • Tracing the amounts of subsequent usage of raw materials, on a sample basis, to underlying supporting documents; and • Checking the subsequent selling prices and profitability of the produced products, on a sample basis, to the relevant supporting information.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th March, 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2022

	NOTES	2022 HK$'000	2021 HK$'000
Revenue	5	**1,601,433**	2,273,399
Other income, gains and losses	7	**11,660**	39,748
Increase (decrease) in fair value of investment properties	14	**6,500**	(13,000)
Impairment losses reversed under expected credit loss model, net		**5,437**	179
Changes in inventories of finished goods and work in progress		**19,116**	(1,874)
Raw materials and consumables used		**(657,603)**	(819,753)
Employee benefits expenses		**(436,242)**	(571,062)
Depreciation of property, plant and equipment		**(152,796)**	(148,189)
Depreciation of right-of-use assets		**(5,909)**	(7,919)
Other expenses	9	**(369,563)**	(435,585)
Interest expense on lease liabilities		**(363)**	(455)
Profit before taxation		**21,670**	315,489
Income tax expense	10	**(5,856)**	(87,648)
Profit for the year	11	**15,814**	227,841
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**(136,269)**	40,659
Other comprehensive (expense) income for the year		**(136,269)**	40,659
Total comprehensive (expense) income for the year		**(120,455)**	268,500
		HK cents	HK cents
Basic earnings per share	13	**2.50**	36.07

Consolidated Statement of Financial Position

At 31st December, 2022

	NOTES	2022 HK$'000	2021 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**175,000**	168,500
Property, plant and equipment	15	**667,715**	668,494
Right-of-use assets	16	**73,603**	80,510
Deposits paid for acquisition of property, plant and equipment		**78,583**	95,283
Deferred tax assets	17	**12,508**	14,576
		1,007,409	1,027,363
Current assets			
Inventories	18	**606,924**	604,275
Trade, bills and other receivables	19	**150,501**	280,508
Bank balances and cash	20	**536,643**	833,586
		1,294,068	1,718,369
Current liabilities			
Trade, bills and other payables	21	**135,808**	249,700
Contract liabilities	22	**21,765**	32,143
Lease liabilities	23	**3,574**	3,379
Taxation payable		**36,264**	55,486
Dividend payable		**295**	270
		197,706	340,978
Net current assets		**1,096,362**	1,377,391
Total assets less current liabilities		**2,103,771**	2,404,754
Non-current liabilities			
Deferred tax liabilities	17	**17,903**	28,270
Lease liabilities	23	**5,986**	5,643
Other payables	21	**93,301**	99,569
		117,190	133,482
Net assets		**1,986,581**	2,271,272

Consolidated Statement of Financial Position

At 31st December, 2022

	NOTES	**2022** **HK$'000**	2021 HK$'000
CAPITAL AND RESERVES			
Share capital	25	**63,168**	63,168
Reserves		**1,923,413**	2,208,104
Total equity		**1,986,581**	2,271,272

The consolidated financial statements on pages 57 to 123 were approved and authorised for issue by the Board of Directors on 24th March, 2023 and are signed on its behalf by:

Siu Tit Lung
Executive Director and Chairman

Siu Yuk Lung
Executive Director and Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2022

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (Note)	Translation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1st January, 2021	63,168	156,213	329,434	312,388	1,413,191	2,274,394
Profit for the year	–	–	–	–	227,841	227,841
Other comprehensive income for the year						
Exchange difference arising on translation of foreign operations	–	–	–	40,659	–	40,659
Total comprehensive income for the year	–	–	–	40,659	227,841	268,500
Final dividend for the year ended 31st December, 2020 (note 12)	–	–	–	–	(113,702)	(113,702)
Final special dividend for the year ended 31st December, 2020 (note 12)	–	–	–	–	(63,168)	(63,168)
Interim dividend for the year ended 31st December, 2021 (note 12)	–	–	–	–	(94,752)	(94,752)
Transfer (Note)	–	–	10,395	–	(10,395)	–
At 31st December, 2021	63,168	156,213	339,829	353,047	1,359,015	2,271,272
Profit for the year	**–**	**–**	**–**	**–**	**15,814**	**15,814**
Other comprehensive expense for the year						
Exchange difference arising on translation of foreign operations	**–**	**–**	**–**	**(136,269)**	**–**	**(136,269)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(136,269)**	**15,814**	**(120,455)**
Final dividend for the year ended 31st December, 2021 (note 12)	**–**	**–**	**–**	**–**	**(126,335)**	**(126,335)**
Interim dividend for the year ended 31st December, 2022 (note 12)	**–**	**–**	**–**	**–**	**(37,901)**	**(37,901)**
Transfer (Note)	**–**	**–**	**8**	**–**	**(8)**	**–**
At 31st December, 2022	**63,168**	**156,213**	**339,837**	**216,778**	**1,210,585**	**1,986,581**

Note: At 31st December, 2022, included in the Group's statutory reserve of HK$339,837,000 is the statutory reserve fund of the subsidiaries of the Company established in the People's Republic of China (the "PRC") amounting to HK$334,835,000 (2021: HK$334,835,000). In accordance with the Company Law of the PRC, domestic enterprises in Mainland China are required to transfer 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2022

	2022 HK$'000	2021 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**21,670**	315,489
Adjustments for:		
Depreciation of property, plant and equipment	**152,796**	148,189
Depreciation of right-of-use assets	**5,909**	7,919
(Increase) decrease in fair value of investment properties	**(6,500)**	13,000
Interest income	**(12,300)**	(16,193)
Interest expense on lease liabilities	**363**	455
Gain on disposal of property, plant and equipment	**(9,822)**	(8,108)
Impairment losses reversed under expected credit loss model, net	**(5,437)**	(179)
Operating cash flows before movements in working capital	**146,679**	460,572
Increase in inventories	**(52,692)**	(12,539)
Decrease (increase) in trade, bills and other receivables	**117,576**	(5,055)
Decrease in trade, bills and other payables	**(96,362)**	(9,940)
Decrease in contract liabilities	**(10,378)**	(1,696)
Cash generated from operations	**104,823**	431,342
Income taxes paid	**(27,958)**	(77,597)
NET CASH FROM OPERATING ACTIVITIES	**76,865**	353,745
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(182,340)**	(201,329)
Interest received	**12,300**	16,193
Proceeds on disposal of property, plant and equipment	**12,288**	8,304
NET CASH USED IN INVESTING ACTIVITIES	**(157,752)**	(176,832)
FINANCING ACTIVITIES		
Dividends paid	**(164,211)**	(271,593)
Repayment of lease liabilities	**(4,325)**	(5,716)
Interest paid on lease liabilities	**(363)**	(455)
CASH USED IN FINANCING ACTIVITIES	**(168,899)**	(277,764)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(249,786)**	(100,851)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**833,586**	918,623
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(47,157)**	15,814
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**536,643**	833,586

1. GENERAL INFORMATION

Lung Kee (Bermuda) Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are primarily listed on The Stock Exchange of Hong Kong Limited and secondarily listed on the Singapore Exchange Securities Trading Limited. In the opinion of the directors of the Company, the parent and ultimate parent is Pan Island Investments Limited, a company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and the principal place of business of the Company are disclosed in the section "Corporate Information" in the annual report.

The Company acts as an investment holding company and provides corporate management services. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and marketing of mould bases and related products.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1st January, 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30th June, 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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

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

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 Inventories.

The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1st January, 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1st January, 2024.

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

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

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

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

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

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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 fair values, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

Property, plant and equipment

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

Freehold lands are not depreciated and are measured at cost less accumulated impairment losses.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than freehold land) 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

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

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment and right-of-use assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases those have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessor *(Continued)*

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Cash and cash equivalents

Bank balances and cash presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Settlements of monetary items which formed part of net investment in foreign operations without changes in the Group's ownership interests is not considered as partial disposals.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

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 related to income 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. Such grants are presented under "other income, gains and losses" line-item.

Taxation

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

Employee benefits

Retirement benefit costs

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

Short-term and other long-term employee benefits

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

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

Impairment of financial assets subject to impairment assessment under HKFRS 9

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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

(i) Significant increase in credit risk

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(iv) Write off policy

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

(v) Measurement and recognition of ECL

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

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

Lifetime ECL for Grade A to E trade receivables as mentioned in note 29b are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Provisions

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are the key assumptions concerning the future and other 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.

Allowance for raw materials

Management of the Group reviews its allowance for raw materials at the end of the reporting period. Management identifies slow-moving raw materials and estimates the amount of allowance for raw materials with reference to the aging information, subsequent sales and usage, the latest market prices of raw materials and the actual or estimated selling price and profitability of produced products. As at 31st December, 2022, the carrying amount of raw materials is HK$514,061,000 (net of allowance of HK$25,786,000) (2021: HK$530,528,000 (net of allowance of HK$40,385,000)).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Provision of ECL for trade receivables

The Group uses collective assessment to calculate ECL for the trade receivables based on the grouping of various debtors that have similar loss patterns. The collective assessment is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with specific provision are assessed for ECL individually. At 31st December, 2022, the carrying amount of trade receivables is HK$82,781,000 (2021: HK$137,235,000) (net of allowance for credit losses of HK$8,921,000 (2021: HK$15,407,000)).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 29 and 19 respectively.

5. REVENUE

The Group is principally engaged in the manufacturing and marketing of mould bases and related products. Revenue represents the invoiced value of goods sold to external customers during the year, after allowances for returns and trade discounts. The Group recognised revenue at a point in time.

Revenue from manufacturing and marketing of mould bases and related products

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

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

6. SEGMENT INFORMATION

The Group only has one operating segment, based on information reported to the chief operating decision maker (i.e. the Company's executive directors) for the purposes of resources allocation and performance assessment, which is the aggregated results of the Group, including all income, expenses and tax charges. As a result, there is only one reportable segment for the Group. For information regarding this segment, reference can be made to the consolidated financial statements as a whole. No other discrete financial information is provided. Accordingly, only entity-wide disclosures and geographic information are presented.

The segment revenue and segment result of the Group represents revenue and profit after taxation set out in the consolidated statement of profit or loss and other comprehensive income respectively.

Entity-wide disclosures

As at 31st December, 2022, substantially all of the Group's non-current assets are located in the places of domicile of the relevant group entities, namely the PRC.

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

	2022	2021
	HK$'000	HK$'000
The PRC	**1,390,997**	1,981,499
Others	**210,436**	291,900
	1,601,433	2,273,399

The Group has a very wide customer base covering Europe, America and Asia. No single customer contributed more than 10% of the Group's revenue for the year ended 31st December, 2022 and 2021.

7. OTHER INCOME, GAINS AND LOSSES

	2022 HK$'000	2021 HK$'000
Other income:		
Interest income	**12,300**	16,193
Rental income, net of direct outgoings of HK$526,000 (2021: HK$521,000)	**5,524**	4,602
Government grants		
— Covid-19-related subsidies (Note i)	**3,188**	—
— Others (Note ii)	**352**	2,670
Sundry income	**1,840**	2,936
	23,204	26,401
Other gains and losses:		
Gain on disposal of property, plant and equipment	**9,822**	8,108
Net foreign exchange (loss) gain	**(21,366)**	5,239
	(11,544)	13,347
	11,660	39,748

Notes:

i) During the current year, the Group recognised government grants of HK$3,188,000 (2021: nil) in respect of Covid-19-related subsidies for support of employment.

ii) The government grants without any unfulfilled condition attached amounting to HK$352,000 (2021: HK$2,670,000) is the awards for the advancement of production facilities and technology of a subsidiary in the PRC.

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2021: nine) directors were as follows:

	Executive directors						Independent non-executive directors				
	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Wai Lung Shing HK$'000	Ting Chung Ho HK$'000	Siu Yuk Tung, Ivan HK$'000	Siu Yu Hang, Leo HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Wong Hak Kun HK$'000	He Lamei HK$'000 (Note 4)	Total HK$'000
2022											
Fees (Note 1)	–	–	–	–	–	–	422	422	436	317	1,597
Other emoluments (Note 2)											
Salaries and other benefits	7,910	7,910	2,486	2,478	1,808	1,808	–	–	–	–	24,400
Contributions to retirement benefit schemes	870	870	273	273	199	18	–	–	–	–	2,503
Bonus (Note 3)	–	–	1,000	500	–	–	–	–	–	–	1,500
Total emoluments	8,780	8,780	3,759	3,251	2,007	1,826	422	422	436	317	30,000

	Executive directors						Independent non-executive directors			
	Siu Tit Lung HK$'000	Siu Yuk Lung HK$'000	Wai Lung Shing HK$'000	Ting Chung Ho HK$'000	Siu Yuk Tung, Ivan HK$'000	Siu Yu Hang, Leo HK$'000	Lee Tat Yee HK$'000	Lee Joo Hai HK$'000	Wong Hak Kun HK$'000	Total HK$'000
2021										
Fees (Note 1)	–	–	–	–	–	–	422	422	436	1,280
Other emoluments (Note 2)										
Salaries and other benefits	8,400	8,400	2,640	2,551	1,920	1,920	–	–	–	25,831
Contributions to retirement benefit schemes	924	924	290	286	211	18	–	–	–	2,653
Bonus (Note 3)	1,000	1,000	8,100	5,600	3,500	3,500	–	–	–	22,700
Total emoluments	10,324	10,324	11,030	8,437	5,631	5,438	422	422	436	52,464

Notes:

1. Their fees include those for services rendered by them as chairman/members of the Risk Management and Internal Control Review Task Force and for their services as directors of the Company.
2. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
3. The bonus is determined based on performance of the Group and the current market environment.
4. Ms. He Lamei was appointed as an independent non-executive director of the Company on 1st March, 2022.

No directors waived any emoluments in the years ended 31st December, 2022 and 2021.

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

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

9. OTHER EXPENSES

	2022 HK$'000	2021 HK$'000
Tooling costs	**70,828**	88,983
Transportation expenses	**64,140**	77,207
Electricity and water	**51,288**	53,019
Repair and maintenance expenses	**63,408**	81,962
Factory supplies	**32,097**	32,011
Other taxes and government charges	**17,985**	23,155
Fuels and lubricant oil	**12,938**	15,585
Sub-contracting charges	**7,897**	7,812
Travelling and motor car expenses	**6,591**	7,122
Promotion and packing expenses	**6,806**	8,018
Software and system expenses	**7,456**	8,701
Auditors' remuneration (including remuneration for non-audit services)	**4,510**	4,260
Short-term lease expenses	**2,896**	1,611
Others	**20,723**	26,139
	369,563	435,585

10. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	**676**	1,747
— overprovision in prior years	**(16)**	(36)
	660	1,711
Taxation in jurisdictions outside Hong Kong		
— current year	**6,908**	76,050
— PRC withholding tax	**5,761**	12,001
	12,669	88,051
Deferred taxation (note 17)		
— Credit for the year	**(7,473)**	(2,114)
	5,856	87,648

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Dividend distribution out of the retained profits of foreign-invested enterprises in the PRC earned after 1st January, 2008 is subject to withholding income tax at a tax rate of 10% unless reduced by treaty. Under the tax treaty between Hong Kong and the Mainland China, the withholding income tax rate applicable to the Group is 5%.

10. INCOME TAX EXPENSE *(Continued)*

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

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

	2022 **HK$'000**	2021 HK$'000
Profit before taxation	**21,670**	315,489
Tax at PRC income tax rate of 25% (2021: 25%) (Note)	**5,418**	78,872
Tax effect of non-deductible expenses	**5,508**	8,094
Tax effect of non-taxable income	**(2,613)**	(6,470)
Utilisation of tax losses previously not recognised	**(48)**	(504)
Tax effect of unused tax losses not recognised	**2,413**	1,169
Overprovision in prior years	**(16)**	(36)
Utilisation of deductible temporary difference previously not recognised	**(3,111)**	(2,173)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,012**	(556)
Deferred tax (credit) charge arising on undistributed profits of PRC subsidiaries	**(2,707)**	9,252
Income tax expense for the year	**5,856**	87,648

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

Details of deferred taxation are set out in note 17.

11. PROFIT FOR THE YEAR

	2022 HK$'000	2021 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 8)	**30,000**	52,464
Other staff costs	**374,352**	486,777
Retirement benefit scheme contributions (excluding contributions in respect of directors of the Company)	**31,890**	31,821
Total staff costs	**436,242**	571,062
Auditors' remuneration (including remuneration for non-audit services)	**4,510**	4,260
Utilisation of inventories provision	**(11,879)**	(17,739)

12. DIVIDENDS

	2022 HK$'000	2021 HK$'000
Dividends recognised as distribution during the year:		
2022 Interim — HK6 cents (2021: 2021 interim dividend of HK15 cents) per share	**37,901**	94,752
2021 Final — HK20 cents (2021: 2020 final dividend of HK18 cents) per share	**126,335**	113,702
2021 Final special — NIL cents (2021: 2020 final special dividend of HK10 cents) per share	**—**	63,168
	164,236	271,622

The board of directors have determined that a final dividend of HK6 cents (2021: final dividend of HK20 cents) per share amounting to HK$37,901,000 (2021: final dividend of HK$126,335,000) should be paid to the shareholders of the Company whose names appear in the register of members on 7th June, 2023.

13. BASIC EARNINGS PER SHARE

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

	2022 **HK$'000**	2021 HK$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	**15,814**	227,841

Number of shares:

	2022	2021
Number of ordinary shares for the purpose of basic earnings per share	**631,677,303**	631,677,303

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

14. INVESTMENT PROPERTIES

The Group leases out various offices, factories and carpark under operating leases with rentals receivable monthly. The leases typically run for an initial period of 1 to 3 years. The rentals are fixed over the lease terms.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	HK$'000
FAIR VALUE	
At 1st January, 2021	181,500
Decrease in fair value on property revaluation included in profit or loss	(13,000)
At 31st December, 2021	168,500
Increase in fair value on property revaluation included in profit or loss	6,500
At 31st December, 2022	175,000

14. INVESTMENT PROPERTIES *(Continued)*

All of the Group's property interests are situated in Hong Kong and held under operating leases to earn rentals and for capital appreciation purposes. These properties are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31st December, 2022 and 2021 has been arrived at on the basis of a valuation carried out on the respective dates by C S Surveyors Limited, independent qualified professional valuers not connected to the Group.

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

One of the key inputs used in valuing the investment properties was the price per square feet, which ranged from HK$6,432 to HK$12,181 (2021: HK$6,218 to HK$11,761). A slight increase in the price per square feet used would result in an increase in fair value measurement of the respective investment properties, and vice versa.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year in which they arise.

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

As at 31st December, 2022 and 2021, no investment properties of the Group have been pledged to secure bank facilities granted to the Group.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Furniture, fixtures, fittings and other equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1st January, 2021	21,317	775,884	148,883	2,409,480	29,510	3,385,074
Currency realignment	–	20,437	2,983	60,889	233	84,542
Additions	–	943	865	142,858	2,328	146,994
Disposals	–	–	(850)	(98,097)	(1,883)	(100,830)
At 31st December, 2021	21,317	797,264	151,881	2,515,130	30,188	3,515,780
Currency realignment	–	(61,610)	(11,791)	(198,050)	(1,243)	(272,694)
Additions	–	–	4,654	186,315	8,071	199,040
Disposals	–	(5,584)	(7,809)	(106,901)	(2,741)	(123,035)
At 31st December, 2022	**21,317**	**730,070**	**136,935**	**2,396,494**	**34,275**	**3,319,091**
ACCUMULATED DEPRECIATION						
At 1st January, 2021	–	405,943	145,453	2,153,178	24,414	2,728,988
Currency realignment	–	11,313	2,957	56,241	232	70,743
Provided for the year	–	38,925	1,357	104,772	3,135	148,189
Eliminated on disposals	–	–	(808)	(98,054)	(1,772)	(100,634)
At 31st December, 2021	–	456,181	148,959	2,216,137	26,009	2,847,286
Currency realignment	–	(36,453)	(11,629)	(178,949)	(1,106)	(228,137)
Provided for the year	–	36,017	1,564	112,070	3,145	152,796
Eliminated on disposals	–	(4,837)	(7,699)	(105,292)	(2,741)	(120,569)
At 31st December, 2022	**–**	**450,908**	**131,195**	**2,043,966**	**25,307**	**2,651,376**
CARRYING AMOUNTS						
At 31st December, 2022	**21,317**	**279,162**	**5,740**	**352,528**	**8,968**	**667,715**
At 31st December, 2021	21,317	341,083	2,922	298,993	4,179	668,494

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

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

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

Freehold land is not depreciated and is measured at cost less subsequent accumulated impairment losses.

16. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	**Leased properties** HK$'000	**Total** HK$'000
At 31st December, 2022			
Carrying amount	64,448	9,155	73,603
At 31st December, 2021			
Carrying amount	71,861	8,649	80,510
For the year ended 31st December, 2022			
Additions to right-of-use assets	**–**	**4,882**	**4,882**
Currency realignment	**(5,518)**	**(362)**	**(5,880)**
Depreciation charge	**(1,895)**	**(4,014)**	**(5,909)**
For the year ended 31st December, 2021			
Additions to right-of-use assets	–	736	736
Currency realignment	1,873	(274)	1,599
Depreciation charge	(1,942)	(5,977)	(7,919)

	2022 **HK$'000**	2021 HK$'000
Expenses relating to short-term lease	**2,896**	1,611
Total cash outflow for leases	**7,584**	7,782

16. RIGHT-OF-USE ASSETS *(Continued)*

For both years, the Group leases various office and factory premises, staff quarters and carparks for its operations. Lease contracts are entered into for fixed term of 1 year to 8 years (2021: 1 year to 8 years), with no extension and termination option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for office and factory premises, staff quarters and carparks. As at 31st December, 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in the above.

17. DEFERRED TAXATION

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

	2022 **HK$'000**	2021 HK$'000
Deferred tax assets	**(12,508)**	(14,576)
Deferred tax liabilities	**17,903**	28,270
	5,395	13,694

17. DEFERRED TAXATION *(Continued)*

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

	Accelerated tax depreciation HK$'000	Withholding tax HK$'000	Provisions HK$'000	Total HK$'000
At 1st January, 2021	(1,608)	30,845	(13,285)	15,952
(Credit) charge for the year	(701)	(2,749)	1,336	(2,114)
Currency realignment	11	174	(329)	(144)
At 31st December, 2021	(2,298)	28,270	(12,278)	13,694
Charge (credit) for the year	1,455	(8,468)	(460)	(7,473)
Currency realignment	100	(1,899)	973	(826)
At 31st December, 2022	**(743)**	**17,903**	**(11,765)**	**5,395**

At the end of the reporting period, the Group has unused tax losses of HK$16,416,000 (2021: HK$7,033,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these unused tax losses generated by the PRC, overseas and Hong Kong subsidiaries due to the unpredictability of future profit streams. Except unused tax losses of HK$9,623,000 that will expire in 2027 (2021: nil), these unused tax losses may be carried forward indefinitely.

The Group has temporary differences of HK$86,123,000 (2021: HK$126,770,000) in respect of provision of employee benefits that are not recognised as deferred tax assets due to it is not probable and unpredictable of future profit stream, that such temporary difference would be deductible.

Under the EIT Law of PRC, starting from 1st January, 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned by the companies established in the PRC from the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such undistributed profits amounting to HK$358,060,000 (2021: HK$565,426,000). The Group has applied the preferential rate of 5% on such profits as all the Group's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong.

18. INVENTORIES

	2022 HK$'000	2021 HK$'000
Raw materials	**514,061**	530,528
Work in progress	**81,284**	67,213
Finished goods	**11,579**	6,534
	606,924	604,275

The cost of inventories recognised as an expense by the Group during the year amounted to HK$1,346,819,000 (2021: HK$1,656,164,000).

19. TRADE, BILLS AND OTHER RECEIVABLES

	2022 HK$'000	2021 HK$'000
Trade receivables	**91,702**	152,642
Bills receivables	**13,241**	22,421
Less: allowance for credit losses	**(8,921)**	(15,407)
	96,022	159,656
Other receivables	**3,110**	2,931
Prepayments for materials	**46,858**	110,780
Deposits and other prepayments	**4,511**	7,141
Total trade, bills and other receivables	**150,501**	280,508

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

In general, the Group allows a credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade and bills receivables presented based on the invoice dates at the end of the reporting year.

	2022 HK$'000	2021 HK$'000
0 to 60 days	**86,508**	136,833
61 to 90 days	**12,187**	26,443
Over 90 days	**6,248**	11,787
	104,943	175,063

As at 31st December, 2022, total bills received amounting to HK$13,241,000 (2021: HK$22,421,000) are held by the Group to collect cash upon maturity. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period within six months.

As at 31st December, 2022, included in the Group's trade receivables balance are debtors with aggregate gross amount of HK$9,050,000 (2021: HK$17,545,000) which are past due as at the reporting date. Out of the past due balances, HK$1,214,000 (2021: HK$1,942,000) has been past due 90 days or more and is not considered as in default due to a number of independent customers have a good repayment history.

Details of impairment assessment of trade, bills and other receivables are set out in note 29.

20. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise bank balances and short-term bank deposits that are interest-bearing at prevailing market saving rates and are with maturity of three months or less. The bank balances and short-term bank deposits carry interest at market rates ranged from 0.01% to 4.81% (2021: 0.01% to 4.26%) per annum at 31st December, 2022.

21. TRADE, BILLS AND OTHER PAYABLES

	2022 HK$'000	2021 HK$'000
Trade payables	**30,535**	43,792
Bills payables	**847**	13,757
VAT payables	**11,035**	28,862
Provision of employee benefits	**102,847**	129,194
Payables for salaries and bonuses	**36,031**	78,886
Deposits and accruals	**24,742**	27,028
Other payables	**23,072**	27,750
Total	**229,109**	349,269
Less: Amount due within one year shown under current liabilities	**(135,808)**	(249,700)
Amount due after one year	**93,301**	99,569

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

	2022 HK$'000	2021 HK$'000
0 to 60 days	**23,494**	46,009
61 to 90 days	**4,334**	7,166
Over 90 days	**3,554**	4,374
	31,382	57,549

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

22. CONTRACT LIABILITIES

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

As at 1st January, 2021, contract liabilities amounted to HK$33,839,000.

During the year ended 31st December, 2022, revenue recognised in the current year relating to carried-forward contract liabilities is HK$32,143,000 (for the year ended 31st December, 2021: HK$33,839,000).

23. LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	**3,574**	3,379
Within a period of more than one year but not more than two years	**2,968**	1,330
Within a period of more than two years but not more than five years	**3,018**	3,561
With a period with more than five years	**–**	752
	9,560	9,022
Less: Amount due for settlement within 12 months shown under current liabilities	**(3,574)**	(3,379)
Amount due for settlement after 12 months shown under non-current liabilities	**5,986**	5,643

The weighted average incremental borrowing rates applied to lease liabilities range from 3.09% to 5.60% (2021: from 2.41% to 5.22%) per annum.

No lease obligations are denominated in currencies other than functional currencies of the relevant group entities.

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities HK$'000	**Dividend payable** HK$'000
At 1st January, 2021	14,289	241
Financing cash flows	(6,171)	(271,593)
Dividend declared	—	271,622
New lease entered	736	—
Interest expenses on lease liabilities	455	—
Currency realignment	(287)	—
At 31st December, 2021	9,022	270
Financing cash flows	(4,688)	(164,211)
Dividend declared	—	164,236
New lease entered	4,882	—
Interest expenses on lease liabilities	363	—
Currency realignment	(19)	—
At 31st December, 2022	**9,560**	**295**

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, 2021 and 31st December, 2021 and 2022	1,000,000,000	100,000	631,677,303	63,168

26. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 7th May, 2012, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the "2012 Scheme"). Under the 2012 Scheme, the board of directors of the Company or a duly authorised committee (the "Board") may grant options to (i) any executive or non-executive directors of the Group (or any persons proposed to be appointed as such) or any employees of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group; (iii) any consultants and professional advisers to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company, as absolutely determined by the Board (the "Participants"), to subscribe for shares in the Company. The 2012 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants, The 2012 Scheme has expired on 6th May, 2022. No option was granted since the adoption of the 2012 Scheme.

At the annual general meeting of the Company held on 30th May, 2022, the shareholders of the Company (the "Shareholders") approved the adoption of a new share option scheme of the Company (the "2022 Scheme"). Below is a summary of the 2022 Scheme:

(a) Purpose

The purpose of the 2022 Scheme is for the Company to attract, retain and motivate talented Participants (as defined below) 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 for such other purposes as the board of directors of the Company or a duly authorised committee (the "Board") may approve from time to time.

(b) Participants

The Board may, at its discretion, invite any executive or non-executive directors (other than the independent non-executive directors) of the Company or any of its subsidiaries (or any persons proposed to be appointed as such) or any employees of the Company or any of its subsidiaries, as absolutely determined by the Board (the "Participant(s)") to take up the options.

26. SHARE OPTION SCHEME *(Continued)*

(c) Total number of shares available for issue

The total number of shares of the Company (the "Share(s)") which may be issued upon exercise of all options to be granted under the 2022 Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of approval of the 2022 Scheme, unless the Company obtains a fresh approval from the Shareholders.

During the year and up to the date of this report, the total number of Shares available for issue under the 2022 Scheme is 63,167,730 Shares, representing 10% of the total number of issued Shares. No option was granted since the adoption of the 2022 Scheme.

(d) The maximum entitlement of share of each Participant

The maximum entitlement for any one Participant is that the total number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options to a Participant in excess of the 1% limit shall be subject to the Shareholders' approval in general meeting with such Participant and his associates abstaining from voting. The number of Shares subject to the options to be granted and the terms of the options to be granted to such Participant shall be fixed before Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price.

(e) Period within which the option may be exercised

An option may be exercised in accordance with the terms of the 2022 Scheme at any time during a period to be determined by the Board at its absolute discretion and such period to expire not later than 10 years after the date of grant of the option subject to the provisions of early termination thereof.

(f) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within 28 days from the date of the offer. The amount payable by the grantee of an option to the Company on acceptance of the offer for grant of an option is HK$1.00.

26. SHARE OPTION SCHEME *(Continued)*

(g) Exercise Price

The exercise price in respect of each Share issued pursuant to the exercise of options granted under the 2022 Scheme shall be a price determined by the Board and notified to a Participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant of the option, which date must be a business day; (ii) a price being the average of the closing prices of the Shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant of the option; and (iii) the nominal or par value of a Share on the date of grant of the option.

(h) Duration of the 2022 Scheme

The 2022 Scheme will remain in force for a period of 10 years commencing on the date of adoption subject to the provisions of early termination thereof.

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

27. OPERATING LEASING ARRANGEMENTS

The Group as lessor

Property rental income earned during the year was HK$6,050,000 (2021: HK$5,123,000).

The investment properties held have committed tenants for an average term ranged from one to five (2021: ranged from one to five) years.

Undiscounted lease payments receivable on leases are as follows:

	2022 **HK$'000**	2021 HK$'000
Within one year	**5,818**	4,089
In the second year	**4,144**	3,199
In the third year	**2,334**	2,663
In the fourth year	**360**	2,160
In the fifth year	**–**	360
	12,656	12,471

28. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, share premium, retained profits and other reserves.

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

29. FINANCIAL INSTRUMENTS

29a. Categories of financial instruments

	2022	2021
	HK$'000	HK$'000
Financial assets		
At amortised cost	**635,775**	996,173
Financial liabilities		
At amortised cost	**70,137**	109,300

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies

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

Market risk

(a) Interest rate risk

The Group's bank balances carry interest at variable rates and have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates. The Group is also exposed to fair value interest rate risk in relation to lease liabilities (note 23). The directors of the Company consider the Group's exposure is not significant as those interest-bearing bank balances are within a short maturity period.

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

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

(b) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases and bank balances which expose the Group to foreign currency risk. The directors of the Company consider the intra-group balances with several subsidiaries denominated in foreign currency do not expose the Group to significant foreign currency risk. Management will consider using foreign exchange forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(b) Currency risk (Continued)

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

	Liabilities		Assets	
	2022	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi ("RMB")	**–**	–	**103,011**	302,876
United States dollars ("USD")	**459**	10,942	**33,395**	57,879
Euro dollars ("EUR")	**–**	–	**1,296**	1,813
Japanese yen ("JPY")	**37**	45	**28**	7,911

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currency monetary assets and liabilities. No sensitivity analysis is presented for HKD against USD as HKD is pegged to USD. 5% (2021: 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% (2021: 5%) change in foreign currency rates. In the opinion of the directors of the Company, no sensitivity analysis is prepared for the currency risk for intra-group balances since the impact on profit or loss from changes in intra-group balances for both years is insignificant. A negative number below indicates a decrease in post-tax profit for the year where the functional currency of the relevant group entity strengthen 5% (2021: 5%) against the relevant foreign currency. For a 5% (2021: 5%) weakening of the functional currency of the relevant group entity against the relevant foreign currency, there would be an equal and opposite impact on post-tax profit for the year.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(b) Currency risk (Continued)

Sensitivity analysis *(Continued)*

	RMB Impact (i)		EUR Impact (i)		JPY Impact (i)	
	2022	2021	**2022**	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Post-tax profit for the year	**(3,863)**	(11,358)	**(49)**	(68)	**–**	(295)

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

Credit risk and impairment assessment

At 31st December, 2022, the Group's maximum exposure to credit risk, which could cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on a regular basis. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on trade balances with specific provision are assessed individually; and for Grade A to E trade balances under ECL model are based on a collective assessment with appropriate grouping for impairment allowance.

Bank balances

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, range from A+ to BBB+ assigned by international credit-rating agencies.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Trade receivables with specific provision are assessed individually, and those for Grade A to E under ECL model are assessed collectively using a collective assessment with appropriate grouping for impairment allowance. The impairment allowance based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including the time value of money where appropriate.

Bills and other receivables

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

The Group's concentration of credit risk by geographical location is mainly in the PRC. The Group has no other significant concentration of credit risk. Trade receivables consist of a large number of customers that are spread over a number of counterparties.

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bills and other receivables (Continued)

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

Trade receivables

Category	Description	Trade receivables
Grade A	The counterparty has a low risk of default and has no past due amounts	Lifetime ECL — not credit-impaired
Grade B	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL — not credit-impaired
Grade C	Debtor frequently repays after due dates but usually settle in full with a longer period	Lifetime ECL — not credit-impaired
Grade D	There has been a significant increase in credit risk since initial recognition	Lifetime ECL — not credit-impaired
Grade E	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired
Specific provision	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Lifetime ECL — credit-impaired
Write-off	There is certain evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery e.g. when the trade receivables are over three years past due, and the counterparty of the trade receivables has been placed under liquidation or has entered into bankruptcy proceedings	Amount is written off

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bills and other receivables (Continued)

Other financial assets

Category	Description	Other financial assets
Low risk	The counterparty has a low risk of default and has no past due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Collective assessment — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on a collective assessment as at 31st December, 2022.

	2022			2021		
Internal credit rating	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
Grade A: Totally secure	6.0%	14,524	872	6.0%	16,713	1,002
Grade B: Above average secure	7.0%	16,500	1,155	7.0%	25,921	1,814
Grade C: Average secure	8.0%	10,963	877	8.0%	31,819	2,546
Grade D: Below average secure	9.0%	22,025	1,982	9.0%	26,715	2,404
Grade E: With moderate risk	14.0%	27,506	3,851	14.0%	50,969	7,136
		91,518	8,737		152,137	14,902
Specific provision (credit-impaired)	100%	184	184	100%	505	505
		91,702	8,921		152,642	15,407

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bills and other receivables (Continued)

Collective assessment — internal credit rating (Continued)

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

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

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
Balance at 1st January, 2021	15,523	4,823	20,346
Impairment losses recognised	11,704	424	12,128
Impairment losses reversed	(12,305)	(2)	(12,307)
Transfer to credit-impaired	(250)	250	—
Amounts written off as uncollectible	—	(5,109)	(5,109)
Currency realignment	230	119	349
Balance at 31st December, 2021	14,902	505	15,407
Impairment losses recognised	8,350	27	8,377
Impairment losses reversed	(13,542)	(272)	(13,814)
Amounts written off as uncollectible	—	(40)	(40)
Currency realignment	(973)	(36)	(1,009)
Balance at 31st December, 2022	**8,737**	**184**	**8,921**

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

29. FINANCIAL INSTRUMENTS *(Continued)*

29b. Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivatives financial liabilities and lease 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.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
2022								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	16,195	20,087	32,156	1,404	–	69,842	69,842
Dividend payable	N/A	295	–	–	–	–	295	295
		16,490	20,087	32,156	1,404	–	70,137	70,137
Lease liabilities	4.91	347	692	2,927	6,388	–	10,354	9,560

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
2021								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	29,256	34,219	45,555	–	–	109,030	109,030
Dividend payable	N/A	270	–	–	–	–	270	270
		29,526	34,219	45,555	–	–	109,300	109,300
Lease liabilities	3.59	361	723	2,604	5,487	764	9,939	9,022

29. FINANCIAL INSTRUMENTS *(Continued)*

29c. Fair value measurements of financial instruments

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

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

30. CAPITAL COMMITMENTS

	2022 **HK$'000**	2021 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**68,344**	66,881

31. RETIREMENT BENEFITS SCHEMES

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

For members of the MPF Scheme, the Group contributes at the lower of HK$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

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

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

The total cost charged to profit or loss of HK$34,393,000 (2021: HK$34,474,000) represents contributions paid and payable to these schemes by the Group in respect of the current financial year.

32. RELATED PARTY TRANSACTIONS

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

	2022 **HK$'000**	2021 HK$'000
Repayments of lease liabilities:		
— Silver Aim Limited and Triplefull Company Limited, in total	**2,486**	2,454
Interest expense on lease liabilities:		
— Silver Aim Limited and Triplefull Company Limited, in total	**82**	74
Rental deposit paid:		
— Silver Aim Limited and Triplefull Company Limited, in total	**646**	614

Note: Two directors of the Company are the directors of Silver Aim Limited and Triplefull Company Limited and one of them is also the beneficial shareholder of Silver Aim Limited and Triplefull Company Limited.

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

	2022 **HK$'000**	2021 HK$'000
Short-term benefits	**25,997**	27,111
Bonus	**1,500**	22,700
Post-employment benefits	**2,503**	2,653
	30,000	52,464

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2022 is as follows:

	2022	2021
	HK$'000	HK$'000
ASSETS AND LIABILITIES		
Non-current assets		
Investment in a subsidiary	**55,856**	55,856
Amounts due from subsidiaries	**418,533**	379,344
	474,389	435,200
Current assets		
Amounts due from subsidiaries	**124,075**	227,200
Prepayments	**284**	282
Bank balances	**585**	643
	124,944	228,125
Current liabilities		
Accrued charges	**496**	180
Amount due to a subsidiary	**—**	369
Dividend payable	**295**	270
	791	819
Net current assets	**124,153**	227,306
Net assets	**598,542**	662,506
CAPITAL AND RESERVES		
Share capital	**63,168**	63,168
Reserves (Note)	**535,374**	599,338
Total equity	**598,542**	662,506

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

Note:

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2021	156,213	414,929	571,142
Profit for the year	—	299,818	299,818
Final dividend for the year ended 31st December, 2020	—	(113,702)	(113,702)
Final special dividend for the year ended 31st December, 2020	—	(63,168)	(63,168)
Interim dividend for the year ended 31st December, 2021	—	(94,752)	(94,752)
At 31st December, 2021	156,213	443,125	599,338
Profit for the year	—	100,272	100,272
Final dividend for the year ended 31st December, 2021	—	(126,335)	(126,335)
Interim dividend for the year ended 31st December, 2022	—	(37,901)	(37,901)
At 31st December, 2022	**156,213**	**379,161**	**535,374**

34. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Details of the Group's material subsidiaries as at 31st December, 2022 and 2021 which, in the opinion of the directors, principally affected the results or net assets of the Group are set out below. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ paid up capital	Proportion of nominal value of issued capital/paid up capital indirectly held by the Company		Principal activities
			2022	2021	
			%	%	
Fantop Industries Limited	Hong Kong	HK$2	**100**	100	Property investment
河源龍記金屬製品有限公司 Heyuan Lung Kee Metal Products Co., Ltd.*	The PRC (Note)	HK$550,870,000	**100**	100	Manufacturing and marketing of mould bases
杭州龍記金屬製品有限公司 Hangzhou Lung Kee Metal Products Co., Ltd.*	The PRC (Note)	US$75,000,000	**100**	100	Manufacturing and marketing of mould bases
Lung Kee International Limited	Hong Kong	HK$2	**100**	100	Investment holding
Lung Kee Metal Limited	Hong Kong	HK$2	**100**	100	Trading and marketing of mould bases and related products

* For translation purpose only.

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

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

Five-Year Financial Summary

RESULTS

	Year ended 31st December,				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
REVENUE	2,580,453	2,277,883	2,064,882	2,273,399	**1,601,433**
PROFIT BEFORE TAXATION	236,777	191,521	220,866	315,489	**21,670**
INCOME TAX EXPENSE	(66,256)	(42,182)	(39,785)	(87,648)	**(5,856)**
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	170,521	149,339	181,081	227,841	**15,814**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
BASIC EARNING PER SHARE	26.99	23.64	28.67	36.07	**2.50**
DIVIDEND PER SHARE (Note)	24.00	22.00	38.00	35.00	**12.00**

ASSETS AND LIABILITIES

	At 31st December,				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
TOTAL ASSETS	2,630,087	2,570,494	2,745,644	2,745,732	**2,301,477**
TOTAL LIABILITIES	(463,256)	(455,424)	(471,250)	(474,460)	**(314,896)**
NET ASSETS	2,166,831	2,115,070	2,274,394	2,271,272	**1,986,581**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,166,831	2,115,070	2,274,394	2,271,272	**1,986,581**
	HK$	HK$	HK$	HK$	**HK$**
SHAREHOLDERS' FUND AT BOOK VALUE PER SHARE	3.43	3.35	3.60	3.60	**3.14**

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

Properties held for Investment

INVESTMENT PROPERTIES

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

機械臂應用於生產線上
Robotic arms are applied at the production line

一件大型非標模架正進行加工
A large size custom-made mould base is undergone machining

大型鋼塊倉庫一角
A view of the large steel blocks warehouse

真空熱處理爐提供穩定的熱處理加工服務
Vacuum furnaces provide stable heat treatment services

廣泛使用自動化設備以減省大量人力
Extensive use of automatic equipment to save a lot of manpower

帶鋸正在把大型鋼塊切成粗形
A band saw is cutting a large steel block into rough shape

精密模架生產線
A high precision mould bases production line

正在組裝的標準模架
Standard mould bases are being assembled