LKM®

Lung Kee (Bermuda) Holdings Limited

Stock Code: 255

2019 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

COMPANY SECRETARY
Mr. Wai Lung Shing

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

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

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

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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, 2019.

BUSINESS REVIEW

The Group's revenue in the year ended 31st December, 2019 was approximately HK$2,278 million (2018: approximately HK$2,580 million). Profit attributable to owners of the Company in the year ended 31st December, 2019 was approximately HK$149 million (2018: approximately HK$171 million). Basic earnings per share in the year ended 31st December, 2019 was HK23.64 cents (2018: HK26.99 cents).

During the year under review, as clouded by the tense trade relations between China and the United States, the aggregate business operating environment was perplexed, economic growth was hindered, and the Group's performance was inevitably negatively affected. In consequence, the Group's earning in the first half year was declined significantly, so a profit warning was issued on 12th July, 2019. Although the Group's sales performance was improved in the second half year, it was ultimately implicated by the weak global economy. Compared with the overall performance of the same period of last year, even including the exchange gains obtained by the deregistration of Shanghai Lung Kee Metal Products Co., Ltd., the Group's sales turnover and profit still recorded a fall.

PROSPECTS

With the signing of phase one economic and trade agreement between China and the United States, the trade disputes between two sides can be temporarily relieved. However, entering the year of 2020, China and worldwide have to face a more severe challenge. As the Coronavirus Disease 2019 ("COVID-19") has been confirmed to be transmitted through person-to-person contact before the Chinese New Year of 2020, the Chinese Government has adopted a series of epidemic prevention measures including transportation and people flow control as well as extension of the Chinese New Year holiday in order to restrain the outspread of the epidemic. Although epidemic prevention measures began to take effect on mid-February, the domestic industrial activities generally took apparently longer time to recover than the Chinese New Year last year. Moreover, in early March, other countries in the world also began to face the proliferation of COVID-19. As different countries adopt diverse epidemic prevention measures, it is difficult to assess the adverse effect of epidemic imposed on the global economy at this moment.

The Group's production plants in China have gradually resumed its production capacity since mid-February and made effort to recover the loss of production progress due to the production suspension period. At the same time, the Group actively communicate and follow up with customers so as to minimize the epidemic impact on the supply chain.

Despite the unpredictable market outlook, the Group will continue to enhance its internal production efficiency and control its cost aimed at sustaining its strength and competitive edge in order to provide cost-effective products and services to its customers and seize the business opportunities arising from the market change. Moreover, the Group will endeavor to explore potential markets so as to enlarge its market coverage and fortify its leading position in the market.

Apart from this, the Group expects a downward pressure on mould steel price. The Group will keep close track on the global economic trend and market change, further control on its operation cost and strengthen its credit risk assessment on customers with an aim to achieve a stable development and reduce overall operation risk amid an unclear business operating environment.

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

Siu Tit Lung
Chairman

Hong Kong, 31st March, 2020

Management Discussion and Analysis

During the year ended 31st December, 2019, the Group continued to focus on the manufacturing and marketing of mould bases and related products.

The Group recorded revenue of approximately HK$2,278 million and earnings of approximately HK$149 million for the year ended 31st December, 2019.

OPERATIONAL REVIEW

Under the reviewed year, the tug of trade war between China and the United States caused damage to the bilateral trade. As dimmed by the unclear future situation, many investment projects were suspended or cancelled, which greatly affected the export business of the domestic mould manufacturers and the market atmosphere was quiet. Following the trade negotiation between China and the United States began to progress in the fourth quarter and the Brexit situation became a foregone conclusion, the tense situation slightly eased. Coupled with the economic measures launched by the Central Government of China produced a desired result, thus, the overall development of manufacturing industry had been stabilized slightly in the second half year.

The Group continued to consolidate and enhance its internal business operations and production effectiveness during the reviewed year. On the other hand, the Group strived to improve its marketing strategy by actively participating exhibitions held in different territories to explore the business opportunities in China and other overseas markets and successfully expanded its market coverage and uplifted its reputation in overseas markets. Eventually it helped to diversify the market risk.

Both the price of local mould steel and imported mould steel remained quite stable in the reviewed year.

As a whole, subject to the weak global economy and the slow down of China economy, the Group's business performance was still not satisfactory as compared with the year of 2018.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2019, the Group had bank balances of approximately HK$754 million and did not have any borrowings.

The bank balances were placed in short term deposits with major banks in Hong Kong and the People's Republic of China (the "PRC").

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2019, the Group employed a total of approximately 4,000 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, 2019, the Company has complied with all code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Having made specific enquiry of all directors, all directors declared that they had complied with the Model Code for the year ended 31st December, 2019.

THE BOARD

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

As at the date of this report, the Board consists of six executive directors and three independent non-executive directors.

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

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

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

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

During the financial year ended 31st December, 2019, 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	3/4
Mr. Wong Hak Kun	1/1	4/4

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

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

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

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

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, 2019. The individual training record of each director received for the year ended 31st December, 2019 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 Ha	✓	✓
Mr. Wong Hak Kun	✓	✓

THE CHAIRMAN AND THE MANAGING DIRECTOR

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

NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

NOMINATION COMMITTEE

A Nomination Committee was established by the Company in 2004. As at the date of this report, the Nomination Committee comprises three independent non-executive directors of the Company, Mr. Lee Joo Hai, Dr. Lee Tat Yee and Mr. Wong Hak Kun. Mr. Lee Joo Hai is the chairman of the Nomination Committee.

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

During the financial year ended 31st December, 2019, the Nomination Committee held four meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Mr. Lee Joo Hai	3/4
Dr. Lee Tat Yee	4/4
Mr. Wong Hak Kun	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 2019:

1. reviewed the structure, size and diversity of the Board. The Nomination Committee endorsed that the Board possessed a diversity of skills, expertise, experience and qualifications and believed that the Board performed its duties competently.

2. endorsed a Nomination Policy of the Company (the "Nomination Policy") which was adopted by the Company.

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 Lung, Mr. Siu Yuk Tung, Ivan, Mr. Lee Joo Hai and Mr. Wong Hak Kun for the Board's recommendations to stand for election at the 2019 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 realize their plans for succession.

6. reviewed the retirement policy of the Group.

7. reviewed the relevant disclosures made in the Directors' Report of the 2018 annual report of the Company (the "Annual Report").

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

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

10. reviewed the Board Diversity Policy of the Company.

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 of the Company (the "Board Diversity Policy"):

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

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

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

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 2004. As at the date of this report, the Remuneration Committee comprises three independent non-executive directors of the Company, Dr. Lee Tat Yee, Mr. Lee Joo Hai and Mr. Wong Hak Kun. Dr. Lee Tat Yee is the chairman of the Remuneration Committee.

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

During the financial year ended 31st December, 2019, the Remuneration Committee held four meetings. The attendance of each member is set out as follows:

Name of Member	Number of attendance
Dr. Lee Tat Yee	4/4
Mr. Lee Joo Hai	3/4
Mr. Wong Hak Kun	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 2019:

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

An Audit Committee was established by the Company in 1998. As at the date of this report, the Audit Committee comprises three independent non-executive directors of the Company, Mr. Wong Hak Kun, Dr. Lee Tat Yee and Mr. Lee Joo Hai, two of whom possess recognised professional qualifications in accounting and have wide experience in auditing and accounting. Mr. Wong Hak Kun is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls. The Audit Committee has accepted the Board's delegation of responsibility for performing the corporate governance duties set out in the code provision D.3.1 of the Code. The terms of reference of the Audit Committee are available on the website of the Stock Exchange and the Company's website.

During the financial year ended 31st December, 2019, 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, 2019, 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	3/4

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 2019:

1. reviewed the Group's consolidated financial statements for the year ended 31st December, 2018 and the annual results announcement with a recommendation to the Board for approval.

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

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

4. reviewed the Environmental, Social and Governance Report, which was published on the websites of the Stock Exchange and the Singapore Exchange Securities Trading Limited as well as the Company's website.

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

6. reviewed the Group's consolidated financial statements for the period from 1st January, 2019 to 30th April, 2019 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, 2019 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, 2019 to 30th September, 2019 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 2019 audit planning report and the management letters submitted by the external auditor.

16. considered the 2019 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 31st March, 2020, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31st December, 2019, the disclosure in this corporate governance report and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommended the re-appointment of Messrs. Deloitte Touche Tohmatsu as the external auditor of the Group for 2020 and that the relevant resolution shall be put forth for the consideration of the shareholders of the Company and their approval at the 2020 annual general meeting of the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During 2019, the Risk Management and Internal Control Review Task Force assessed broadly any special risks faced by the Group and conducted a review on the effectiveness of the risk management and internal control systems of the Group. The Risk Management and Internal Control Review Task Force conducted interviews with the executive directors of the Company. The heads of major departments were required to undertake self-assessments of their key controls. The findings were assessed by the Risk Management and Internal Control Review Task Force. The Audit Committee then reviewed these findings and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

During 2019, 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, 2019, 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	3,276
Non-audit services	
— Interim review	500
— Taxation services	116
— Audit of provident fund	6
— Review of results announcement	50

COMPANY SECRETARY

Mr. Wai Lung Shing, an executive director of the Company, is the Company Secretary of the Company. Mr. Wai has taken no less than 15 hours of relevant professional training duly complied with the training requirement pursuant to Rule 3.29 of the Listing Rules for the year ended 31st December, 2019.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

There is no change in the Company's constitutional documents during the financial year ended 31st December, 2019.

Hong Kong, 31st March, 2020

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, 2019.

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 35 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, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 37.

An interim dividend of HK11 cents per share amounting to approximately HK$69,485,000 was paid to shareholders during the year.

The directors now recommend the payment of a final dividend of HK11 cents per share amounting to approximately HK$69,485,000 to shareholders registered on the register of members on 10th June, 2020 and the retention of the remaining profits for the year.

BUSINESS REVIEW

A business review of the Group for the year ended 31st December, 2019 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are shown in "Chairman's Statement" section and "Management Discussion and Analysis" section of this annual report. The capital risk management and the financial risk management objectives and policies of the Group are set out in notes 29 and 30 respectively to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in "Five-Year Financial Summary" section of this annual report.

Environmental policies and performance

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

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

BUSINESS REVIEW *(Continued)*

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

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

Key relationships with stakeholders

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

Employees

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

Customers

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

Suppliers

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

BUSINESS REVIEW *(Continued)*

Key relationships with stakeholders (Continued)

Shareholders

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 98.

INVESTMENT PROPERTIES

The Group's investment properties at 31st December, 2019 were revalued by an independent firm of qualified professional property valuers. The revaluation decrease of HK$10,000,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income. Details of the movements in the investment properties of the Group during the year are set out in note 13 to the consolidated financial statements. Details of the major investment properties held by the Group at 31st December, 2019 are set out on page 99.

PROPERTY, PLANT AND EQUIPMENT

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 26 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, 2019 represented the retained profits of approximately HK$547,290,000.

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 39% to the total purchases for the year while the Group's five largest suppliers accounted for 53% of the total purchases for the year.

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

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

DIRECTORS

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

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

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

In accordance with Bye-laws 87(1) and 169(2) of the Company's Bye-Laws, Mr. Siu Tit 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 69, 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.

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

Executive Directors *(Continued)*

Mr. Siu Yuk Lung, aged 66, 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 58, 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 66, joined the Group in March 2000 as a general manager of a subsidiary of the Company in the PRC and has been appointed as an executive director of the Company since April 2008 and is also a director of certain subsidiaries of the Company. Mr. Ting has many years of experience in enterprise operation and management. Mr. Ting graduated from the Open University of Hong Kong with a Master of Business Administration Degree and a Master of Laws in Chinese Business Law. He is a fellow of The Hong Kong Institute of Directors.

Mr. Siu Yuk Tung, Ivan, aged 40, joined the Group in October 2004 as an assistant general manager of a subsidiary of the Company and has been appointed as an executive director of the Company since January 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from The University of Warwick, United Kingdom with a Bachelor of Engineering Degree in Mechanical Engineering. He worked in a sizeable organization prior to joining the Group in October 2004 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Tit Lung, a nephew of Mr. Siu Yuk Lung and a cousin of Mr. Siu Yu Hang, Leo.

Mr. Siu Yu Hang, Leo, aged 40, joined the Group in July 2008 as an assistant to director of the Company and has been appointed as an executive director of the Company since January 2017 and is also a director of certain subsidiaries of the Company. Mr. Siu graduated from the University College London, United Kingdom with a Bachelor of Science Degree in Mathematics with Economics and from the University of Cambridge, United Kingdom with a Certificate of Advanced Studies in Mathematics. He worked in an international financial institution prior to joining the Group in July 2008 and has substantial experience in business management and operation. Mr. Siu is a son of Mr. Siu Yuk Lung, a nephew of Mr. Siu Tit Lung and a cousin of Mr. Siu Yuk Tung, Ivan.

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

Independent non-executive directors

Dr. Lee Tat Yee, aged 72, 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 64, has been appointed as an independent non-executive director of the Company since September 2004. He is the chairman of the Nomination Committee of the Company. Mr. Lee is a member of the Institute of Singapore Chartered Accountants, the Malaysian Institute of Accountants and the Singapore Institute of Directors. He is also a fellow of The Hong Kong Institute of Directors. He was a partner of a public accounting firm in Singapore before his retirement from the accounting firm. He has extensive experience in accounting and auditing. Mr. Lee is currently an independent director of Hyflux Ltd. and IPC Corporation Limited, which are all listed on the main board of The Singapore Exchange Securities Trading Limited ("SGX-ST"). He is also a director of PGG Wrightson Limited, which is listed on the main board of the New Zealand Stock Exchange. Mr. Lee resigned as an independent director of SinoCloud Group Limited, which is listed on the Catalist of the SGX-ST, on 31st March, 2019. He also resigned as an independent director of Raffles United Holdings Limited, which was delisted from the main board of the SGX-ST, on 24th December, 2019. Save as disclosed above, Mr. Lee did not hold other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Wong Hak Kun, aged 63, has been appointed as an independent non-executive director of the Company since June 2018. He is the chairman of the Audit Committee of the Company. Mr. Wong graduated from The University of Hong Kong with a Bachelor Degree in Social Sciences. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, United Kingdom, the Chartered Institute of Management Accountants, United Kingdom and the Institute of Chartered Secretaries and Administrators, United Kingdom. He is also a fellow of The Hong Kong Institute of Directors. Mr. Wong was the Managing Partner of Deloitte China's ("Deloitte") Audit and Assurance practice before his retirement from Deloitte in May 2017. He was a partner of Deloitte since 1992 and served as a member of Deloitte's Governance Board from years 2000 to 2008. He has extensive experience in audit, assurance and management. Mr. Wong is an independent non-executive director of Yue Yuen Industrial (Holdings) Limited and Zhejiang Cangnan Instrument Group Company Limited, which are listed on the main board of The Stock Exchange of Hong Kong Limited. Save as disclosed above, Mr. Wong did not hold other directorships in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2019, the directors and their associates had the following interests or short positions in shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Interests in the Company

Name of director	Capacity	Number of shares held: Personal interests	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	40,411,444	–	366,210,937	406,622,381	64.37%
Siu Yuk Lung *(Notes 1 and 2)*	Beneficial owner, interests jointly with another person and founder of discretionary trust	40,411,444	–	366,210,937	406,622,381	64.37%
Wai Lung Shing	Beneficial owner	3,843,750	–	–	3,843,750	0.61%
Ting Chung Ho	Beneficial owner	720,000	–	–	720,000	0.11%
Siu Yuk Tung, Ivan *(Note 2)*	Beneficial owner and beneficiary of a trust	80,000	–	366,210,937	366,290,937	57.99%
Siu Yu Hang, Leo *(Notes 2 and 3)*	Interest of child or spouse and beneficiary of a trust	–	1,096,000	366,210,937	367,306,937	58.15%
Lee Tat Yee	Beneficial owner	150,000	–	–	150,000	0.02%
Lee Joo Hai	Beneficial owner	300,000	–	–	300,000	0.05%

Notes:

1. Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 35,101,288 shares in the Company and each owned a further 5,310,156 shares in the Company registered in their own names.

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

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

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Interests in the Company *(Continued)*

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

Save as disclosed herein and other than certain shares in subsidiaries held as nominees by certain directors of the Company, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2019.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2019, 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	37,888,498	5.99%

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, 2019.

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, 2019 until the date of this report, based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital is held by the public.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

The Company has adopted a share option scheme in 2012. Details of the scheme are set out in note 27 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" from pages 6 to 21.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

AUDITOR

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

On behalf of the Board
Siu Yuk Lung
Managing Director

Hong Kong, 31st March, 2020

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Lung Kee (Bermuda) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 97, which comprise the consolidated statement of financial position as at 31st December, 2019, 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, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTER

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

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for raw materials	
We identified 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. Allowance for raw materials was determined based on assessment of the management, by considering subsequent usage of raw materials, and the actual or estimated selling price and profitability of the produced products. As at 31st December, 2019, the Group has raw materials with an aggregate carrying amount of approximately HK$471,168,000 (net of allowance of approximately HK$49,037,000). Details of the Group's inventories are set out in notes 4 and 19 to the consolidated financial statements.	Our procedures in relation to assessing the appropriateness of the estimated allowance for raw materials included: • Obtaining an understanding of how allowance for raw materials is estimated by management and the major assumptions and estimation made in assessing the net realisable values; • Discussing with management on the process on how to identify obsolete inventories and to determine the net realisable values; • Understanding the key controls relating to the identification of obsolete inventories; • Performing physical observation of the raw materials as the end of the reporting period to identify inventories which may be required to be included in the assessment of the allowance; • 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.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mr. Ip Chiu Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31st March, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5	**2,277,883**	2,580,453
Other income, gains and losses	7	**49,030**	9,566
(Decrease) increase in fair value of investment properties	13	**(10,000)**	18,000
Impairment losses (recognised) reversed under expected credit loss model, net		**(4,511)**	3,946
Changes in inventories of finished goods and work in progress		**6,288**	(13,206)
Raw materials and consumables used		**(895,955)**	(1,070,487)
Employee benefits expenses		**(567,817)**	(592,353)
Depreciation of property, plant and equipment		**(165,929)**	(179,780)
Depreciation of right-of-use assets		**(8,227)**	—
Other expenses		**(488,818)**	(519,362)
Interest expense on lease liabilities		**(423)**	—
Profit before taxation		**191,521**	236,777
Income tax expense	9	**(42,182)**	(66,256)
Profit for the year	10	**149,339**	170,521
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**(37,100)**	(93,176)
Reclassification of exchange differences upon deregistration of a subsidiary	16	**(18,714)**	—
Other comprehensive expense for the year		**(55,814)**	(93,176)
Total comprehensive income for the year		**93,525**	77,345
		HK cents	HK cents
Basic earnings per share	12	**23.64**	26.99

Consolidated Statement of Financial Position

At 31st December, 2019

	NOTES	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	13	**198,000**	208,000
Property, plant and equipment	14	**671,694**	760,066
Right-of-use assets	15	**83,713**	—
Prepaid lease payments — non-current portion	17	**—**	70,574
Deposits paid for acquisition of property, plant and equipment		**16,211**	25,583
Deferred tax assets	18	**5,557**	12,675
		975,175	1,076,898
Current assets			
Inventories	19	**537,481**	555,795
Trade, bills and other receivables	20	**304,097**	349,777
Prepaid lease payments — current portion	17	**—**	1,840
Bank balances and cash	21	**753,741**	645,777
		1,595,319	1,553,189
Current liabilities			
Trade, bills and other payables	22	**269,224**	291,156
Contract liabilities	23	**23,391**	22,853
Lease liabilities	24	**5,354**	—
Taxation payable		**32,591**	21,743
Dividend payable		**228**	212
		330,788	335,964
Net current assets		**1,264,531**	1,217,225
Total assets less current liabilities		**2,239,706**	2,294,123
Non-current liabilities			
Deferred tax liabilities	18	**22,949**	30,378
Lease liabilities	24	**9,362**	—
Other payables	22	**92,325**	96,914
		124,636	127,292
Net assets		**2,115,070**	2,166,831

Consolidated Statement of Financial Position

At 31st December, 2019

	NOTE	2019 HK$'000	2018 HK$'000
CAPITAL AND RESERVES			
Share capital	26	**63,168**	63,168
Reserves		**2,051,902**	2,103,663
Total equity		**2,115,070**	2,166,831

The consolidated financial statements on pages 37 to 97 were approved and authorised for issue by the Board of Directors on 31st March, 2020 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, 2019

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (Note i)	Translation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1st January, 2018	63,168	156,213	317,761	350,482	1,454,533	2,342,157
Profit for the year	–	–	–	–	170,521	170,521
Other comprehensive expense for the year						
Exchange difference arising on translation of foreign operations	–	–	–	(93,176)	–	(93,176)
Total comprehensive (expense) income for the year	–	–	–	(93,176)	170,521	77,345
Final dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(101,069)	(101,069)
Final special dividend for the year ended 31st December, 2017 (note 11)	–	–	–	–	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2018 (note 11)	–	–	–	–	(75,801)	(75,801)
Transfer	–	–	25,060	–	(25,060)	–
At 31st December, 2018	63,168	156,213	342,821	257,306	1,347,323	2,166,831
Profit for the year	–	–	–	–	149,339	149,339
Other comprehensive expense for the year						
Exchange difference arising on translation of foreign operations	–	–	–	(37,100)	–	(37,100)
Reclassification of exchange differences upon deregistration of a subsidiary	–	–	–	(18,714)	–	(18,714)
Total comprehensive (expense) income for the year	–	–	–	(55,814)	149,339	93,525
Final dividend for the year ended 31st December, 2018 (note 11)	–	–	–	–	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2019 (note 11)	–	–	–	–	(69,485)	(69,485)
Transfer (Note ii)	–	–	(17,370)	–	17,370	–
At 31st December, 2019	63,168	156,213	325,451	201,492	1,368,746	2,115,070

Notes:

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

(ii) The transfer includes the release of HK$14,259,000 upon the deregistration of a subsidiary in PRC. Details are set out in note 16.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**191,521**	236,777
Adjustments for:		
Depreciation of property, plant and equipment	**165,929**	179,780
Depreciation of right-of-use assets	**8,227**	—
Decrease (increase) in fair value of investment properties	**10,000**	(18,000)
Exchange gain on deregistration of a subsidiary	**(18,714)**	—
Interest income	**(14,412)**	(10,670)
Interest expense on lease liabilities	**423**	—
Gain on disposal of property, plant and equipment	**(8,241)**	(2,857)
Release of prepaid lease payments	**—**	1,921
Impairment losses recognised (reversed) under expected credit loss model, net	**4,511**	(3,946)
Operating cash flows before movements in working capital	**339,244**	383,005
Decrease in trade, bills and other receivables	**35,389**	73,780
Increase (decrease) in contract liabilities	**538**	(16,370)
Decrease (increase) in inventories	**7,245**	(53,026)
Decrease in trade, bills and other payables	**(19,828)**	(19,414)
Cash generated from operations	**362,588**	367,975
Income taxes paid	**(30,229)**	(44,814)
NET CASH FROM OPERATING ACTIVITIES	**332,359**	323,161
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(82,695)**	(86,335)
Interest received	**14,412**	10,670
Proceeds on disposal of property, plant and equipment	**11,077**	5,562
NET CASH USED IN INVESTING ACTIVITIES	**(57,206)**	(70,103)
FINANCING ACTIVITIES		
Dividends paid	**(145,270)**	(252,651)
Repayment of lease liabilities	**(6,125)**	—
Interest paid on lease liabilities	**(423)**	—
CASH USED IN FINANCING ACTIVITIES	**(151,818)**	(252,651)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**123,335**	407
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**645,777**	673,912
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(15,371)**	(28,542)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**753,741**	645,777

1. GENERAL

Lung Kee (Bermuda) Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are primarily listed on The Stock Exchange of Hong Kong Limited and secondarily listed on the Singapore Exchange Securities Trading Limited. In the opinion of the directors of the Company, the parent and ultimate parent is Pan Island Investments Limited, a company incorporated in the British Virgin Islands. The 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. Its subsidiaries 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 NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

2.1 HKFRS 16 *Leases* ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

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

2.1 HKFRS 16 *Leases* ("HKFRS 16") *(Continued)*

Definition of a lease *(Continued)*

For contracts entered into or modified on or after 1st January, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019. As at 1st January, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied by the relevant group entities at 3.05%.

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

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

2.1 HKFRS 16 *Leases* ("HKFRS 16") *(Continued)*

As a lessee *(Continued)*

	At 1st January, 2019 HK$'000
Operating lease commitments disclosed as at 31st December, 2018	13,267
Lease liabilities discounted at relevant incremental borrowing rates	12,715
Less: Recognition exemption — short-term leases	(1,153)
Lease liabilities as at 1st January, 2019	11,562
Analysed as	
Current	5,830
Non-current	5,732
	11,562

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

	Notes	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		11,562
Reclassified from prepaid lease payments	(a)	72,414
Adjustments on rental deposits at 1st January, 2019	(b)	120
		84,096
By class:		
Leasehold lands		72,414
Leased properties		11,682
		84,096

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

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

2.1 HKFRS 16 *Leases* ("HKFRS 16") *(Continued)*

As a lessee *(Continued)*

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$1,840,000 and HK$70,574,000, respectively, were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$120,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1st January, 2019. The application has had no impact on the Group's consolidated statement of financial position at 1st January, 2019. However, effective 1st January, 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The management considers the impact of the discounting effect as insignificant to the consolidated financial statements.

(c) Effective on 1st January, 2019, the Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

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

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

2.1 HKFRS 16 *Leases* ("HKFRS 16") *(Continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st January, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31st December, 2018	Adjustments	Carrying amounts under HKFRS 16 at 1st January, 2019
	HK$'000	HK$'000	HK$'000
Non-current Assets			
Prepaid lease payments	70,574	(70,574)	—
Right-of-use assets	—	84,096	84,096
Current Assets			
Prepaid lease payments	1,840	(1,840)	—
Trade, bills and other receivables	349,777	(120)	349,657
Current Liabilities			
Lease liabilities	—	(5,830)	(5,830)
Non-current Liabilities			
Lease liabilities	—	(5,732)	(5,732)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31st December, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1st January, 2019 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1st January, 2021.

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020.

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

[4] Effective for annual periods beginning on or after 1st January, 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1st January, 2020.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materially judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1st January, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1st January, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1st January, 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

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

The principal accounting policies are set out below.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

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. 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.

Ownership interests in leasehold land and building

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” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, 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 addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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 or arising from business combinations on or after the date of initial application, 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.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

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 asset 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 in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(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 paid 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(Continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1st January, 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies 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.

Refundable rental deposits

Refundable rental deposits received are accounted 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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Taxation

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

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

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. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Retirement benefit costs

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

Short-term 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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").

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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 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. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

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

(i) Significant increase in credit risk

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

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

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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (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 of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

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

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

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

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 instrument

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

Financial liabilities at amortised cost

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

Interest expense is recognised on an effective interest basis.

Derecognition of financial liabilities

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

3. 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.

Key sources of estimation uncertainty

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.

Estimated allowance for raw materials

Management of the Group reviews its allowance for raw materials at the end of the reporting period. Management estimates the amount of allowance for raw materials based on subsequent usage of raw materials and the actual or estimated selling price and profitability of produced products. As at 31st December, 2019, the carrying amount of raw materials is approximately HK$471,168,000 (net of allowance of approximately HK$49,037,000) (2018: HK$495,770,000 (net of allowance of approximately HK$79,561,000)).

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

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables based on the grouping of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit-impaired are assessed for ECL individually. At 31st December, 2019, the carrying amount of trade and bills receivables are approximately HK$213,908,000 (2018: HK$266,535,000) (net of allowance for doubtful debts of HK$20,102,000 (2018: HK$16,257,000)).

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 30 and 20 respectively.

5. REVENUE

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

Revenue from manufacturing and marketing of mould bases and related products

The Group manufactures and sells mould bases and related products directly to the customer, revenue is recognised when control of the goods has transferred 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. 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, 2019, 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:

	2019 **HK$'000**	2018 HK$'000
The PRC	**1,947,791**	2,198,286
Others	**330,092**	382,167
	2,277,883	2,580,453

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, 2019 (2018: Nil).

7. OTHER INCOME, GAINS AND LOSSES

	2019 **HK$'000**	2018 HK$'000
Interest income	**14,412**	10,670
Rental income, net of direct outgoings of approximately HK$566,000 (2018: HK$546,000)	**3,144**	3,005
Sundry income	**5,816**	3,787
Exchange gain realised upon deregistration of a subsidiary (note 16)	**18,714**	—
Gain on disposal of property, plant and equipment	**8,241**	2,857
Net foreign exchange loss	**(1,297)**	(10,753)
	49,030	9,566

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2018: ten) 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$'000	Total HK$'000
2019										
Fees (Note 1)	–	–	–	–	–	–	422	399	436	1,257
Other emoluments (Note 2)										
Salaries and other benefits	8,400	8,400	2,640	2,587	1,920	1,998	–	–	–	25,945
Contributions to retirement benefit schemes	924	924	290	285	211	18	–	–	–	2,652
Bonus (Note 3)	1,000	1,000	5,800	3,500	1,800	1,800	–	–	–	14,900
Total emoluments	10,324	10,324	8,730	6,372	3,931	3,816	422	399	436	44,754

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

Notes:

1. Their fees include those for services rendered by them as chairman/members of the Risk Management and Internal Control Review Task Force and for their services as directors of the Company.
2. The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
3. The bonus is determined based on performance of the Group and the current market environment.
4. Mr. Liu Wing Ting, Stephen resigned as an independent non-executive director with effect from 31st May, 2018.

No directors waived any emoluments in the years ended 31st December, 2019 and 2018.

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

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

9. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	**3,103**	1,098
— overprovision in prior years	**(30)**	(14)
	3,073	1,084
Taxation in jurisdictions outside Hong Kong		
— current year	**25,799**	51,122
— PRC withholding tax	**13,055**	—
— overprovision in prior years	**—**	(22)
	38,854	51,100
Deferred taxation (note 18)		
— charge for the year	**255**	14,072
	42,182	66,256

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

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.

9. INCOME TAX EXPENSE *(Continued)*

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

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

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

	2019 **HK$'000**	2018 HK$'000
Profit before taxation	**191,521**	236,777
Tax at PRC income tax rate of 25% (2018: 25%) (Note)	**47,880**	59,194
Tax effect of non-deductible expenses	**15,909**	18,936
Tax effect of non-taxable income	**(25,362)**	(5,936)
Utilisation of tax losses previously not recognised	**(1,043)**	(4,476)
Tax effect of unused tax losses not recognised	**589**	3
Overprovision in prior years	**(30)**	(36)
Utilisation of deductible temporary difference previously not recognised	**(200)**	(2,594)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,869)**	(4,705)
Deferred tax charge arising on undistributed profits of PRC subsidiaries	**6,308**	5,870
Income tax expense for the year	**42,182**	66,256

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 18.

10. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 8)	**44,754**	46,857
Other staff costs	**491,520**	513,703
Retirement benefit scheme contributions (excluding contributions in respect of directors of the Company)	**31,543**	31,793
Total staff costs	**567,817**	592,353
Auditors' remuneration (including remuneration for non-audit services)	**4,200**	3,888
Release of prepaid lease payments	**—**	1,921
(Reversed) recognised for allowance of inventories	**(44,268)**	6,791
Tooling costs and repair and maintenance expenses for production (included as other expenses)	**187,409**	194,117
Finance costs		
— Interest expense on lease liabilities	**423**	—

11. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Dividends recognised as distribution during the year:		
2019 Interim — HK11 cents (2018: 2018 interim dividend of HK12 cents) per share	**69,485**	75,801
2018 Final — HK12 cents (2018: 2017 final dividend of HK16 cents) per share	**75,801**	101,069
2018 Final special — nil (2018: 2017 final special dividend of HK12 cents) per share	**—**	75,801
	145,286	252,671

The board of directors have determined that a final dividend of HK11 cents (2018: HK12 cents) per share amounting to approximately HK$69,485,000 (2018: HK$75,801,000) should be paid to the shareholders of the Company whose names appear in the register of members on 10th June, 2020.

12. BASIC EARNINGS PER SHARE

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

	2019 **HK$'000**	2018 HK$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	**149,339**	170,521

Number of shares:

	2019	2018
Number of ordinary shares for the purpose of basic earnings per share	**631,677,303**	631,677,303

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

13. INVESTMENT PROPERTIES

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 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, 2018	190,000
Increase in fair value on property revaluation included in profit or loss	18,000
At 31st December, 2018	208,000
Decrease in fair value on property revaluation included in profit or loss	(10,000)
At 31st December, 2019	198,000

13. 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, 2019 and 31st December, 2018 has been arrived at on the basis of a valuation carried out on the respective dates by C S Surveyors Limited, independent qualified professional valuers not connected to the Group.

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

One of the key inputs used in valuing the investment properties was the price per square feet, which ranged from HK$7,290 to HK$14,422 (2018: HK$7,719 to HK$15,122). A slight decrease in the price per square feet used would result in a decrease 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, 2019, no investment properties of the Group have been pledged to secure bank facilities granted to the Group.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Furniture, fixtures, fittings and other equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1st January, 2018	21,317	786,866	148,273	2,337,632	24,576	3,318,664
Currency realignment	—	(39,712)	(6,726)	(116,670)	(615)	(163,723)
Additions	—	347	922	107,858	6,582	115,709
Disposals	—	(5,861)	(1,060)	(53,250)	(2,737)	(62,908)
At 31st December, 2018	21,317	741,640	141,409	2,275,570	27,806	3,207,742
Currency realignment	—	(14,972)	(2,301)	(43,742)	(191)	(61,206)
Additions	—	—	2,231	86,886	2,950	92,067
Disposals	—	—	(414)	(91,289)	(2,838)	(94,541)
At 31st December, 2019	21,317	726,668	140,925	2,227,425	27,727	3,144,062
ACCUMULATED DEPRECIATION						
At 1st January, 2018	—	295,937	139,115	2,005,085	17,120	2,457,257
Currency realignment	—	(16,418)	(6,494)	(105,715)	(531)	(129,158)
Provided for the year	—	38,885	4,422	132,074	4,399	179,780
Eliminated on disposals	—	(4,126)	(943)	(52,689)	(2,445)	(60,203)
At 31st December, 2018	—	314,278	136,100	1,978,755	18,543	2,447,676
Currency realignment	—	(6,949)	(2,247)	(40,165)	(169)	(49,530)
Provided for the year	—	36,903	2,202	122,246	4,578	165,929
Eliminated on disposals	—	—	(384)	(88,610)	(2,713)	(91,707)
At 31st December, 2019	—	344,232	135,671	1,972,226	20,239	2,472,368
CARRYING AMOUNTS						
At 31st December, 2019	21,317	382,436	5,254	255,199	7,488	671,694
At 31st December, 2018	21,317	427,362	5,309	296,815	9,263	760,066

14. 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.

15. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	Leased properties HK$'000	Total HK$'000
At 1st January, 2019			
Carrying amount	72,414	11,682	84,096
At 31st December, 2019			
Carrying amount	69,139	14,574	83,713
For the year ended 31st December, 2019			
Additions to right-of-use assets	—	9,247	9,247
Currency realignment	(1,435)	32	(1,403)
Depreciation charge	(1,840)	(6,387)	(8,227)
Expenses relating to short-term lease and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			(2,652)
Total cash outflow for leases			(6,548)

For both years, the Group leases various office premises, factories, staff quarters and carparks for its operations. Lease contracts are entered into for fixed term of 6 months 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.

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

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 premises, factories, staff quarters and carparks. As at 31st December, 2019, 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.

16. EXCHANGE GAIN REALISED UPON DEREGISTRATION OF A SUBSIDIARY

During the year ended 31st December, 2017, the disposal of certain land use rights by 上海龍記金屬製品有限公司 Shanghai Lung Kee Metal Products Co., Ltd. ("SHLKM"), an indirect wholly owned subsidiary of the Company, to an independent third party was completed and a gain on disposal attributable to the owners of the Company of approximately HK$56,035,000 was recognised in profit or loss for that year.

During the year ended 31st December, 2019, SHLKM completed its deregistration. The accumulated exchange gain arising from translation of this foreign operation of HK$18,714,000 has therefore been recognised in profit or loss for this year.

17. PREPAID LEASE PAYMENTS

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

	2018 HK$'000
Analysed for reporting purposes as:	
Non-current asset	70,574
Current asset	1,840
	72,414

18. DEFERRED TAXATION

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

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets	**(5,557)**	(12,675)
Deferred tax liabilities	**22,949**	30,378
	17,392	17,703

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

	Accelerated tax depreciation HK$'000	**Withholding tax** HK$'000	**Tax losses** HK$'000	**Provisions** HK$'000	**Total** HK$'000
At 1st January, 2018	(77)	26,102	(17,063)	(4,488)	4,474
Charge (credit) for the year	(439)	5,870	8,295	346	14,072
Currency realignment	21	(1,594)	517	213	(843)
At 31st December, 2018	(495)	30,378	(8,251)	(3,929)	17,703
Charge (credit) for the year	119	(6,747)	7,533	(650)	255
Currency realignment	(7)	(682)	31	92	(566)
At 31st December, 2019	(383)	22,949	(687)	(4,487)	17,392

At the end of the reporting period, the Group has unused tax losses of approximately HK$20,600,000 (2018: HK$51,656,000) available for offset against future profits. A deferred tax asset of approximately RMB2,462,000 (equivalent to HK$2,748,000) (2018: RMB28,988,000 (equivalent to HK$33,004,000)) has been recognised in respect of such losses generated by a PRC subsidiary. The remaining tax losses of approximately HK$17,852,000 (2018: HK$18,652,000) are not recognised as deferred tax assets due to the unpredictability of future profit streams. Except for unused tax losses of approximately RMB2,462,000 (equivalent to HK$2,748,000) that will expire in 2020 (2018: 2019 to 2020), other unused tax losses may be carried forward indefinitely.

In addition, the Group has temporary differences of approximately HK$139,605,000 (2018: HK$146,544,000) in respect of economic compensation provision are not recognised as deferred tax assets due to it is not probable and unpredictable that the temporary difference can be deductible according to the relevant tax law.

18. DEFERRED TAXATION *(Continued)*

Under the EIT Law of PRC, starting from 1st January, 2008, 10% withholding income tax is imposed on dividends declared in respect of profits earned by the companies established in the PRC from the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such undistributed profits amounting to approximately HK$458,989,000. 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.

19. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**471,168**	495,770
Work in progress	**61,567**	42,462
Finished goods	**4,746**	17,563
	537,481	555,795

The cost of inventories recognised as an expense by the Group during the year amounted to approximately HK$1,771,815,000 (2018: HK$1,998,189,000).

20. TRADE, BILLS AND OTHER RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Trade receivables	**210,310**	263,697
Bills receivables	**23,700**	19,095
Less: allowance for credit losses	**(20,102)**	(16,257)
	213,908	266,535
Other receivables	**1,573**	1,234
Deposits and prepayments	**88,616**	82,008
Total trade, bills and other receivables	**304,097**	349,777

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

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

	2019	2018
	HK$'000	HK$'000
0 to 60 days	**175,026**	201,896
61 to 90 days	**34,678**	46,652
Over 90 days	**4,204**	17,987
	213,908	266,535

As at 31st December, 2019, total bills received amounting to HK$23,700,000 (2018: HK$19,095,000) are held by the Group for future settlement of trade receivables. 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 of less than one year.

As at 31st December, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$20,414,000 (2018: HK$33,006,000) which are past due as at the reporting date. Out of the past due balances, HK$2,195,000 (2018: HK$16,750,000) has been past due 90 days or more and is not considered as in default due to a number of independent customers with subsequent settlement and no change of their credit position as at the year end.

Details of impairment assessment of trade, bills and other receivables are set out in note 30.

21. 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 0.3% to 2.75% (2018: 0.01% to 4%) per annum at 31st December, 2019.

22. TRADE, BILLS AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**61,467**	93,580
Bills payables	**22,097**	15,712
Value added tax payables	**27,475**	21,650
Provision of employee economic compensation	**142,898**	150,940
Payables for salaries and bonuses	**59,168**	62,598
Deposits and accruals	**30,799**	28,555
Other payables	**17,645**	15,035
Total	**361,549**	388,070
Less: Amount due within one year shown under current liabilities	**(269,224)**	(291,156)
Amount due after one year	**92,325**	96,914

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

	2019 HK$'000	2018 HK$'000
0 to 60 days	**52,938**	84,519
61 to 90 days	**24,089**	15,519
Over 90 days	**6,537**	9,254
	83,564	109,292

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

23. 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.

During the year ended 31st December, 2019, revenue recognised in the current year relating to carried-forward contract liabilities is HK$22,853,000.

24. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities payable:	
Within one year	**5,354**
Within a period of more than one year but not more than two years	**2,832**
Within a period of more than two years but not more than five years	**6,530**
	14,716
Less: Amount due for settlement with 12 months shown under current liabilities	**5,354**
Amount due for settlement after 12 months shown under non-current liabilities	**9,362**

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

25. 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, 2018	—	192
Financing cash flows	—	(252,651)
Dividend declared	—	252,671
At 31st December, 2018	—	212
Adjustment upon application of HKFRS 16	11,562	—
As at 1st January, 2019 (restated)	11,562	212
Financing cash flows	(6,548)	(145,270)
Dividend declared	—	145,286
New lease entered	9,247	—
Exchange adjustments	32	—
Interest expenses on lease liabilities	423	—
At 31st December, 2019	14,716	228

26. 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, 2018 and 31st December, 2018 and 2019	1,000,000,000	100,000	631,677,303	63,168

27. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 7th May, 2012, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the "2012 Scheme"). Under the 2012 Scheme, the board of directors of the Company or a duly authorised committee (the "Board") may grant options to (i) any executive or non-executive directors of the Group (or any persons proposed to be appointed as such) or any employees of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group; (iii) any consultants and professional advisers to the Group (or persons, firms or companies proposed to be appointed for providing such services); (iv) any chief executives or substantial shareholders of the Company; (v) any associates of director, chief executive or substantial shareholder of the Company; and (vi) any employees of substantial shareholder of the Company, as absolutely determined by the Board (the "Participants"), to subscribe for shares in the Company. The 2012 Scheme was set up for the primary purpose to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Participants, and will expire on 6th May, 2022.

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

28. OPERATING LEASES

The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	7,333
In the second to fifth year inclusive	5,934
	13,267

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

Included above are the commitments with related parties for future minimum lease payments to Silver Aim Limited and Triplefull Company Limited within one year of HK$1,750,000.

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

The Group as lessor

Property rental income earned during the year was approximately HK$3,710,000 (2018: HK$3,551,000).

As at 31st December, 2019, minimum lease payments receivable on leases are as follows:

	2019 **HK$'000**
Minimum lease payments receivable on leases are as follows:	
Within one year	**3,956**
In the second year	**3,007**
In the third year	**462**
	7,425

28. OPERATING LEASES *(Continued)*

The Group as lessor *(Continued)*

As at 31st December, 2018, the Group had contracted with tenants for the future minimum lease payments as follows:

	2018 HK$'000
Within one year	2,763
In the second year to fifth year inclusive	3,391
	6,154

The investment properties held have committed tenants for an average term ranged from one to three (2018: ranged from one to three) years.

29. CAPITAL RISK MANAGEMENT

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

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

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

30. FINANCIAL INSTRUMENTS

30a. Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
At amortised cost	**972,351**	916,586
Financial liabilities		
At amortised cost	**134,797**	159,958

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. Financial risk management objectives and policies

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

Market risk

(a) Interest rate risk

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

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

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

Sensitivity analysis

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

(b) Currency risk

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

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. 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	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
RMB	**–**	–	**57,407**	56,964
USD	**20,217**	12,332	**104,151**	30,640
EUR	**1,027**	–	**2,598**	10,117
JPY	**–**	44	**12,215**	100

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2018: 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% (2018: 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% (2018: 5%) change in foreign currency rates. A negative number below indicates a decrease in post-tax profit for the year where the functional currency of the relevant group entity strengthen 5% (2018: 5%) against the relevant foreign currency. For a 5% (2018: 5%) weakening of the functional currency of the relevant group entity against the relevant foreign currency, there would be an equal and opposite impact on post-tax profit for the year.

	RMB Impact (i)		EUR Impact (i)		JPY Impact (i)	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Post-tax profit for the year	**(2,153)**	(2,136)	**(59)**	(379)	**(458)**	(2)

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

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

At 31st December, 2019, the Group's maximum exposure to credit risk, which could cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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

Bank balances

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

Trade receivables

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

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bills and other receivables

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

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

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

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

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 31st December, 2019.

	2019			2018		
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	**4.0%**	**34,307**	**1,372**	0.0%	22,928	–
Grade B: Above average secure	**5.0%**	**36,767**	**1,838**	1.0%	53,142	531
Grade C: Average secure	**6.0%**	**73,591**	**4,416**	2.0%	82,715	1,654
Grade D: Below average secure	**7.0%**	**12,819**	**897**	3.5%	34,524	1,209
Grade E: With moderate risk	**12.0%**	**46,872**	**5,625**	12.0%	65,370	7,845
		204,356	**14,148**		258,679	11,239
Specific provision (credit-impaired)	**100%**	**5,954**	**5,954**	100%	5,018	5,018
		210,310	**20,102**		263,697	16,257

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

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

	Lifetime ECL (provision matrix) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
Balance at 1st January, 2018	12,276	10,051	22,327
Impairment losses recognised	3,790	1,693	5,483
Impairment losses reversed	(3,608)	(5,821)	(9,429)
Transfer to credit-impaired	(1,230)	1,230	—
Amounts written off as uncollectible	—	(1,230)	(1,230)
Currency realignment	11	(905)	(894)
Balance at 31st December 2018 and 1st January, 2019	11,239	5,018	16,257
Impairment losses recognised	3,456	1,083	4,539
Impairment losses reversed	—	(28)	(28)
Transfer to credit-impaired	(299)	299	—
Amounts written off as uncollectible	—	(299)	(299)
Currency realignment	(248)	(119)	(367)
Balance at 31st December, 2019	14,148	5,954	20,102

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.

30. FINANCIAL INSTRUMENTS *(Continued)*

30b. 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
2019								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	46,424	64,885	21,186	2,074	–	134,569	134,569
Lease liabilities	3.59%	–	1,707	4,151	7,147	3,437	16,442	14,716
Dividend payable	N/A	228	–	–	–	–	228	228
		46,652	66,592	25,337	9,221	3,437	151,239	149,513

	Weighted average effective interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
2018								
Non-derivative financial liabilities								
Trade, bills and other payables	N/A	61,409	76,437	21,900	–	–	159,746	159,746
Dividend payable	N/A	212	–	–	–	–	212	212
		61,621	76,437	21,900	–	–	159,958	159,958

30. FINANCIAL INSTRUMENTS *(Continued)*

30c. 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.

31. CAPITAL COMMITMENTS

	2019 **HK$'000**	2018 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,937**	27,432

32. 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.

33. RELATED PARTY TRANSACTIONS

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

	2019 HK$'000	2018 HK$'000
Rental expenses:		
— Silver Aim Limited and Triplefull Company Limited collectively	**2,325**	2,055
Rental deposit paid:		
— Silver Aim Limited and Triplefull Company Limited collectively	**583**	583

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

	2019 HK$'000	2018 HK$'000
Short-term benefits	**27,202**	27,207
Bonus	**14,900**	17,000
Post-employment benefits	**2,652**	2,650
	44,754	46,857

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company as at 31st December, 2019 is as follows:

ASSETS AND LIABILITIES

	2019 HK$'000	2018 HK$'000
Non-current assets		
Investment in a subsidiary	**55,856**	55,856
Amount due from a subsidiary	**44,529**	47,995
	100,385	103,851
Current assets		
Amount due from a subsidiary	**665,867**	577,338
Prepayments	**341**	236
Bank balances	**770**	823
	666,978	578,397
Current liabilities		
Accrued charges	**464**	980
Dividend payable	**228**	212
	692	1,192
Net current assets	**666,286**	577,205
Net assets	**766,671**	681,056
CAPITAL AND RESERVES		
Share capital	**63,168**	63,168
Reserves (Note)	**703,503**	617,888
Total equity	**766,671**	681,056

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors of the Company on 31st March, 2020 and are signed on its behalf by:

Siu Tit Lung
Executive Director and Chairman

Siu Yuk Lung
Executive Director and Managing Director

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

Note:

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2018	156,213	313,358	469,571
Profit for the year	–	400,988	400,988
Final dividend for the year ended 31st December, 2017	–	(101,069)	(101,069)
Final special dividend for the year ended 31st December, 2017	–	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2018	–	(75,801)	(75,801)
At 31st December, 2018	156,213	461,675	617,888
Profit for the year	–	230,901	230,901
Final dividend for the year ended 31st December, 2018	–	(75,801)	(75,801)
Interim dividend for the year ended 31st December, 2019	–	(69,485)	(69,485)
At 31st December, 2019	156,213	547,290	703,503

35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Details of the Group's material subsidiaries as at 31st December, 2019 and 2018 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
			2019 %	2018 %	
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.

36. EVENT AFTER THE REPORTING PERIOD

The outbreak of the Coronavirus Disease 2019 ("COVID-19") and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had an impact on the operations of the Group.

The Group had to suspend its manufacturing activities in the PRC after Chinese New Year holiday due to the PRC government quarantine mandatory measures in an effort to contain the spread of the epidemic. The Group's production plants in the PRC have already resumed the manufacturing activities since mid-February 2020. At the beginning, the operating capacities of these plants have not met the normal levels as a lot of the workers were still under the health monitoring and quarantine. Following the resumption of works of the affected workers, the manufacturing activities of these plants have returned to normal since mid-March 2020.

The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impact on the financial position and operating results of the Group. Up to the date of the approval of these financial statements, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

Five-Year Financial Summary

RESULTS

	Year ended 31st December,				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
REVENUE	2,279,124	2,213,126	2,510,389	2,580,453	**2,277,883**
PROFIT BEFORE TAXATION	169,626	279,869	384,649	236,777	**191,521**
INCOME TAX EXPENSE	(42,605)	(87,314)	(107,732)	(66,256)	**(42,182)**
PROFIT FOR THE YEAR	127,021	192,555	276,917	170,521	**149,339**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	125,632	191,731	278,276	170,521	**149,339**
NON-CONTROLLING INTERESTS	1,389	824	(1,359)	—	**—**
	127,021	192,555	276,917	170,521	**149,339**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
BASIC EARNING PER SHARE	19.89	30.35	44.05	26.99	**23.64**
DIVIDEND PER SHARE (Note)	20.00	36.00	48.00	24.00	**22.00**

ASSETS AND LIABILITIES

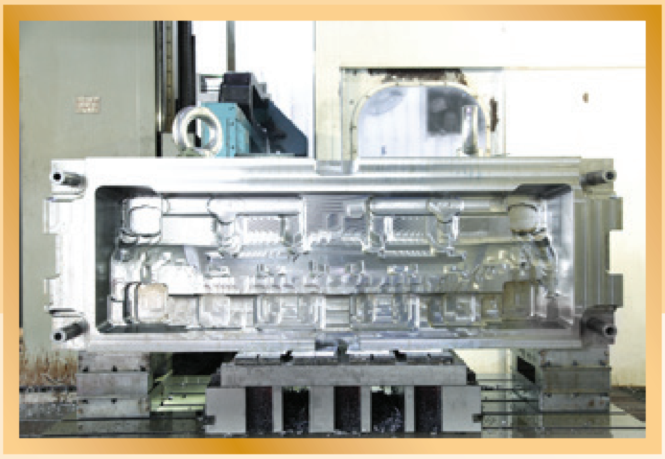
	At 31st December,				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
TOTAL ASSETS	2,779,313	2,733,392	2,851,808	2,630,087	**2,570,494**
TOTAL LIABILITIES	(482,844)	(511,271)	(509,651)	(463,256)	**(455,424)**
NET ASSETS	2,296,469	2,222,121	2,342,157	2,166,831	**2,115,070**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,282,235	2,206,758	2,342,157	2,166,831	**2,115,070**
NON-CONTROLLING INTERESTS	14,234	15,363	—	—	**—**
TOTAL EQUITY	2,296,469	2,222,121	2,342,157	2,166,831	**2,115,070**
	HK$	HK$	HK$	HK$	**HK$**
SHAREHOLDERS' FUND AT BOOK VALUE PER SHARE	3.61	3.49	3.71	3.43	**3.35**

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

INVESTMENT PROPERTIES

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

使用自動化設備以減省人手操作，從而增強生產調度的靈活性
Using automatic equipments to save manual operations in order to enhance the flexibility of production deployment

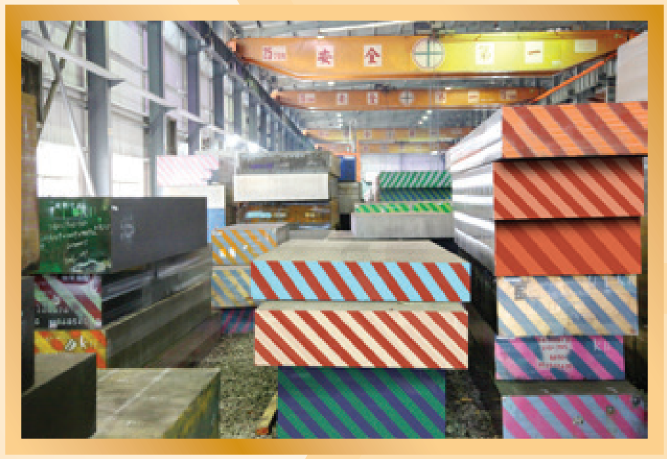


根據客戶的要求而生產的一件非標模架
A custom-made mould base is produced according to the customer’s requirements

精密加工中心設備
Precision CNC machining facilities

高速加工中心正為一件大型非標模架進行切削形框及精孔
A high speed CNC machining centre is processing the pocketing and precision holes for a large size custom-made mould base

加工中心正為一件大型模架進行加工
A CNC machining centre is processing the machining process for a large size mould base



中國廣東省河源廠的大型鋼塊倉庫一角
A view of the large steel blocks warehouse at Heyuan factory, Guangdong Province, China

中國浙江省杭州廠之模架生產線
Mould base production lines at Hangzhou factory, Zhejiang Province, China

多用途熱處理爐可提供各種不同的熱處理加工服務
Multi-purpose heat treatment furnances can provide various kinds of heat treatment services