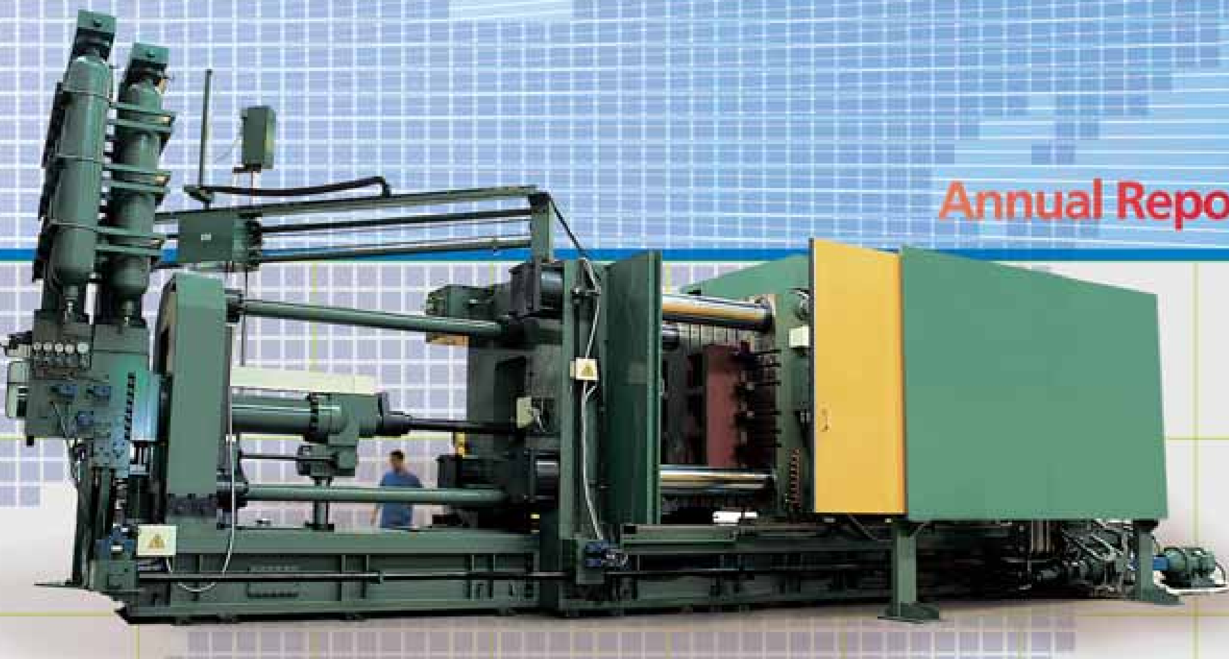
# L.K. TECHNOLOGY HOLDINGS LIMITED
# 力勁科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 558)

## Annual Report 2008 / 09



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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Ms. Chong Siw Yin *(Chairperson)*
Mr. Cao Yang *(Chief executive officer)*
Mr. Chung Yuk Ming
Ms. Wong Pui Chun

### Independent non-executive Directors

Dr. Low Seow Chay
Dr. Hon. Lui Ming Wah, SBS, JP
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael

## Company Secretary

Mr. Wong Kin Ming

## Authorised Representatives

Ms. Chong Siw Yin
Mr. Chung Yuk Ming

## Audit Committee

Mr. Tsang Yiu Keung, Paul
Dr. Hon. Lui Ming Wah, SBS, JP
Mr. Chan Wah Tip, Michael

## Nomination Committee

Mr. Chan Wah Tip, Michael
Dr. Low Seow Chay
Dr. Hon. Lui Ming Wah, SBS, JP

## Remuneration Committee

Dr. Hon. Lui Ming Wah, SBS, JP
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael

## Auditor

BDO Limited

## Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Principal Place of Business in Hong Kong

Unit A, 8th Floor
Mai Wah Industrial Building
1 – 7 Wah Sing Street
Kwai Chung
New Territories
Hong Kong

## 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
Wanchai
Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Hang Seng Bank Limited
Shenzhen Development Bank Ltd
Fubon Bank (Hong Kong) Limited
Intesa Sanpaolo Spa

## Stock Code

558

## Website

http://www.lktechnology.com

# CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors of L.K. Technology Holdings Limited, I hereby present to you the results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2009.

The macro economic environment had been severely turbulent during the year. In the first half of the year, our customers were still combating issues such as inflation, surging prices of raw materials like crude oil and steel, continuous appreciation of the Renminbi, increased labour cost resulting from the implementation of the new Labour Law and the pressure on the capital supply due to banks' tightened credit policy in the PRC. Then, in the second half of the year, the global financial crisis hit and caused abrupt and serious economic downturn. Our customers were seriously affected and also did our Group. Due to significant reduction in customers' orders which affected the Group's turnover, plus the increase in finance cost, the Group's results suffered severely.

Turnover for the year amounted to HK$1,192,487,000, representing a decrease of approximately 5.5% as compared to HK$1,261,972,000 last year. Excluding the contribution of Idra, turnover for the year only amounted to HK$890,731,000, representing a substantial decrease of 29.4% when compared to HK$1,261,972,000 last year. Loss attributable to the equity holders of the Company was HK$43,671,000, which was the toughest year since the Group entered the China market.

In order to achieve stable and sustainable development for the Group, our Group took a series of actions in the first half of the year including raising product prices, acquiring overseas peer to expand sales networks and to diversify market risk, establishing joint venture with tertiary institute to develop new products, extending into upstream businesses to stabilise material prices and supply, and securing syndicated financing for business development and contingency use. However, in the second half year after the financial crisis erupted, we promptly adjusted our business strategies and implemented decisive measures including suspending all the projects involving major capital expenditure, streamlining human resources, adopting "Toyota Production System" to boost operational efficiency and lower other costs, tightening customer credit control, and putting more effort into product research and development. We believe these measures have placed the Group in a relatively favourable position in the crisis and for it to quickly recapture business opportunities when market conditions improve.

During the year under review, three major subsidiaries of the Group namely Shenzhen Leadwell, Shanghai Atech and Zhongshan L.K. were recognized as "Advanced Technology Enterprises" by the relevant state authority. The Group's three large size die-casting machine models: "DCC2500" cold chamber die-casting machine, "DCC3000" cold chamber die-casting machine and "DCC3000M" magnesium alloy cold chamber die-casting machine were all accredited as "Shenzhen Self-developed Innovative Products". The Group was also awarded the "Hong Kong Top Brand" title by The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council. These accolades speak volume to the Group's capability in research and development and the public recognition towards the brand.

Although the macro economic environment is still volatile and full of challenges, various policies adopted by the PRC government to tackle the crisis are expected to boost the business environment. For instance, the central government has implemented the "Home Appliances for Rural Residents" and "Automobiles for Rural Residents" policies giving subsidies to rural residents to buy home appliances and small automobiles. It has also implemented "the plan for readjustment and revitalization of equipment manufacturing industry"(裝備製造業調整和振興規劃) to encourage industries such as automobile, marine vessel and national defense and military means to equip themselves. All these will translate into opportunities for the Group.

On behalf of the management team, I would like to take this opportunity to express my appreciation to our customers, suppliers, bankers, business partners and shareholders for their great support and encouragement to the Group during the tough operating environment. My heartfelt gratitude also goes to our dedicated Board members and committed staff for their diligence in the past year. I believe, with your support, encouragement and assistance, the Group will be able to rise above the current economic difficulties and march forward in strides.

**Chong Siw Yin**
*Chairperson*

22 July 2009

## Financial Review

The worst global financial crisis since the Second World War erupted during the year under review. Although the Group made corresponding adjustments and arrangements, its results for the year still suffered severely. For the year ended 31 March 2009, the Group recorded a turnover of HK$1,192,487,000, representing a 5.5% decrease as compared to HK$1,261,972,000 last year. Loss attributable to the equity holders for the year was HK$43,671,000, which was the most difficult year for the Group since it entered the PRC market.

### Liquidity and Financial Resources

The working capital of the Group was generally financed by internal cash flows generated from its operation and existing banking facilities. As at 31 March 2009, the Group's cash and bank balances amounted to approximately HK$330.3 million (2008: HK$170.8 million).

The gearing ratio (a ratio of total interest bearing liabilities to total equity) was approximately 97% (2008: 44%).

As at 31 March 2009, the capital structure of the Company was constituted exclusively of 1,012,835,000 ordinary shares of HK$0.1 each. The total amount of outstanding borrowings was approximately HK$844.1 million (2008: 399.6 million), approximately 99% of which being short-term loans. Approximately 9% of the total borrowing was subject to interest payable at fixed rates. During the year, the Group used interest rate swap to mitigate its exposure to cash flow interest rate risk and used foreign exchange forward contracts to mitigate its foreign currency exposure.

### Financial Guarantees

The Group provided guarantees to banks in respect of banking facilities granted to certain customers of the Group to purchase its products. As at 31 March 2009, the amount of the outstanding loans granted by banks to customers for which guarantees have been given by the Group amounted to approximately HK$71,278,000 (2008: HK$77,446,000).

### Pledge of Assets

(i) The Group's banking facilities were secured by the assets of the Group, including restricted bank balances, leasehold land and building, land use rights, investment properties, plant and machinery, with aggregate carrying amounts of HK$100,700,000 (2008: 195,982,000).

(ii) As at 31 March 2009, the Group also has restricted bank balances to the extent of HK$21,638,000 (2008: HK$24,471,000) pledged to banks for credit facilities granted to customers to purchase the Group's products.

### Capital Commitments

As at 31 March 2009, the Group had made capital expenditure commitments of approximately HK$73,120,000 (2008: HK$150,203,000) in respect of acquisition of land use rights and property, plant and equipment and capital contribution in a jointly controlled entity.

## Business Review

The impact of the looming global financial crisis has been widespread and heavy at an unprecedented magnitude. Our customers were hard hit. With consumer confidence plunging, economies in recession and the future uncertain, our customers drastically cut back investment in machines and equipment especially in the fourth quarter of 2008 and the first quarter of 2009 affecting our turnover adversely and notably. During the year, the Group's turnover (excluding Idra's turnover) amounted to only HK$890,731,000, representing a significant decrease of 29.4% as compared to HK$1,261,972,000 last year.

To continuously develop its business and cope with the market environment in the future, the Group implemented an array of measures in the first half of the year:


Idra's plant in Italy

1. In April 2008, the Group completed the acquisition of Idra S.r.l. ("Idra"), an Italian company and one of the top die-casting machine manufacturers in the world, with the aim of expanding its overseas markets, diversifying market risk and enhancing the exposure and coverage of its products in the global market. With a history of over 60 years, Idra is the leader in die-casting machine industry with high-end customers including Benz, BMW, Audi, Ford, Chrysler, etc. The acquisition has not only made the Group one of the world's largest die-casting machine manufacturers, but has also tripled its overseas turnover to HK$465,050,000, meeting its objective of diversifying market risk and enhancing presence and its global market share.

2. To stabilise iron and steel costs and supply, the Group established a wholly-owned enterprise in Fuxin City of Liaoning Province to produce cast components. The plant has been in trial production and most of its products will be used to meet internal demand hence help to reduce production cost of the Group. It will also be able to provide quality cast components to customers in the machinery, power electricity (such as wind power generation) and marine vessel, etc. Furthermore, the Group has invested with 35% interest in an iron ore mining and smelting enterprise in the same city. This enterprise has acquired certain iron ore resources and obtained a license for exploration rights from the local state-owned land resources authority. Part of the pig iron ore will be provided to the cast components plant.

3. To support business development and prepare for changes in the business environment, the Group secured a syndicated bank loan of HK$500 million with a term of three years arranged by HSBC in July 2008.

During the second half of the year, affected by the global financial crisis, economic activities contracted and confidence plunged, making the operating environment very tough. The Group promptly adjusted its strategies, including suspending all plans related to major capital expenditure, restructuring human resources, tightening customer credit control, implementing the "Toyota Production System" which simplified management structure and optimising work procedures to improve operational efficiency, raising inventory turnover and reducing operating costs. Moreover, efforts were made in R&D and widening product range to facilitate expansion of the Group's customer base.

### Die-casting machine business

Affected by the adverse environment, global demand for die-casting machines slowed down notably during the year. Customers were cautious in capital assets investment. Especially due to the shrink in the global automobile market, demand for large die-casting machines dropped sharply. Moreover, certain customers including General Motors requested that delivery of orders be delayed as a means to cope with the crisis, which led to a significant drop in turnover from large die-casting machines of the Group. Fortunately, the price of zinc-alloy has come down and with the introduction of "Home Appliances for Rural Residents" policy by the PRC government, the turnover of the small die-casting machine business of the Group only declined slightly, which helped mitigate the overall turnover drop. During the year of review, the turnover of die-casting machine business (excluding Idra's turnover) decreased by 32.7% as compared with the previous year.

Cimos DCC 850 Die-casting Machine

As the target customers of Idra are large automobile makers in Europe and the USA, who are among the hardest hit in the financial crisis, its order book was also severely affected. However, the management was prepared and started to extend its business in emerging markets with BRIC (Brazil, Russia, India and China) as the key focus. Efforts are expected to bear fruits gradually after 2010. At the same time, Idra will strengthen its R&D, optimise product design and widen its product range.

Although the global die-casting machine market has slowed down, our die-casting machines still hold a favorable position in the market, especially in the PRC market where we enjoy approximately 50% share.

### Plastic injection moulding machine business

During the year under review, our customers were unwilling to invest in equipment in the face of the global financial crisis, fluctuating oil price, weak consumption and the turbulent market. As a result, the Group's plastic injection moulding machine business was affected with turnover down by 29.7% against last year.

### Computerised numerical controlled (CNC) machine business

The Group's CNC machine business was also affected by the adverse market environment. It recorded moderate growth in turnover for the first half of the year, but suffered a heavy blow when market conditions deteriorated drastically in the second half year. As a result, its full year turnover decreased by approximately 9.9% when compared with the previous year.

### Research and development (R&D)

Three major subsidiaries were recognised as "Advanced Technology Enterprises"

The Group's strong R&D capabilities is the key factor for it to maintain its high market share in the long term and its competitiveness. The management is convinced that strengthening R&D amid the market downturn will ensure the Group is ready to seize the best opportunities when the market recovers. By the end of March 2009, the Group had streamlined its workforce, but still maintaining a R&D team of around 180 staff. At the end of 2008, three main subsidiaries of the Group, namely Shenzhen Leadwell, Shanghai Atech and Zhongshan L.K., were recognized as "Advanced Technology Enterprises" by state authorities, which indicating that R&D capabilities of the Group have been well recognised by the government and the society.

*Die-casting machines*

The Group made progress with the proprietary technology for developing the U-Series large tonnage die-casting machine. Its R&D team was successful in developing a new quick die change system that allows customers to substantially enhance efficiency of the related procedure. Furthermore, the Group optimised the speed mould clamping and injection system, which can significantly shorten the production cycle, hence boost production efficiency for customers using the large tonnage die-casting machines when compared with conventional die-casting machines. The U-Series machines have been well-received in the domestic and overseas markets and are already sold to the United States of America.

In January 2009, three large die-casting machines developed by the Group, namely the "DCC2500" cold chamber die-casting machine, "DCC3000" cold chamber die-casting machine and "DCC3000M" magnesium alloy cold chamber die-casting machine, were named "Shenzhen Self-developed Innovative Products". Furthermore, the R&D department of the Group is currently working on developing a super large cold chamber die-casting machine and new application technologies including the L.K. network system (which will enable connection of all die-casting machines and injection moulding machines and hence provide customers with integrated production management information), real-time control system (which will enable the machines to perform self- diagnosis and control) and high-end techniques such as semi-solid metal die-casting.

*Plastic injection moulding machines*

Employing a servo-driven mechanism, "Effort", the proprietary series of direct-clamp plastic injection moulding machines of the Group, boosts higher injection speed, higher energy efficiency and higher product yield, thus has been well-received by the market. At the same time, the Group has also developed a new series of large tonnage two-platen, energy-saving plastic injection moulding machines. Apart from being energy efficient and environmentally friendly, it can operate with higher precision and shorten the production cycle. It also has a very compatible and expandable control system to meet the requirements of different industries. The series is of top notch in the domestic market and is expected to become one of the major growth drivers of the Group.

Upward injection high precision plastic micro-injection moulding machine

In addition to stepping up R&D and promotion of "Effort" series, the Group entered into an agreement with The Hong Kong Polytechnic University ("PolyU") in October 2008 to establish a company "L.K. Precision Machinery Company Limited" to produce high-precision micro-injection moulding machines of 2 tons, 5 tons, 20 tons and 50 tons. Under the arrangement, the Group is responsible for the production and sale, and providing market information on product design and development, whereas PolyU is to provide R&D service and exclusive patented micro-injection moulding technology. With the new technology, the Group will be able to produce the first-in-the-world upward injection high precision plastic micro-injection moulding machine for producing nano-standard micro components and miniaturised precision parts. This type of plastic injection moulding machines is ideal for production of such as micro medical components, mini pumps, medical equipment parts, mini lenses, and optic connectors. The company is currently working on producing a prototype. It intends to commence pilot production in the second half of 2009. The management believes the new product will enhance the product offerings and help to expand the customer base of the Group.


TC-510 CNC Machine

*CNC machines*

The Group made an overall upgrade and improvement of the CNC machines, enabling customisation according to the specific customer requirements, offering the customer greater convenience, more flexibility and higher production efficiency. The Group's R&D centre in Taiwan also completed development of the new "TC510" and "TC710" models of CNC machine. With higher performance, these new models of CNC machines help customers to save notable cost, thus are very competitive in the market. The management is confident that CNC machines will become another major growth driver of the Group in the foreseeable future.

*Product line expansion to broaden customer base*

Although die-casting machines and plastic injection moulding machines remain the core business of the Group, the management recognises the need to diversify the Group's customer base. With this objective, the Group's casting plant in Fuxin City will also produce a wide range of new products for different customers of different industries such as wind power generator parts and mould base, in addition to satisfying internal needs. The Group will make use of its capacity in diecasting and machining to produce cast components for generators and wind power generator pedestals for Japanese and European corporations. It expects to commence trial production gradually in the future.

### Prospects

Although there have been signs of the global financial market stabilising, consumption sentiment around the world has yet to return and the adjustments to the financial and economic system necessary to resume growth are also far from completed. Thus, we expect the road to recovery to be rugged and the Group will still face severe challenge in the coming year.

Despite that the future is unclear, measures implemented by the PRC government to tackle the economic slowdown have begun to take effect. The 4 trillion yuan stimulation package has been launched late last year targetting at “sustaining growth momentum, expanding domestic demand and rationalising economic structure”. In particular, the launch of “the plan for readjustment and revitalization of equipment manufacturing industry”(裝備製造業調整和振興規劃), “the plan for readjustment and revitalization of the automotive industry”(汽車產業調整振興規劃) and the plans to construct buffer housing units, raise export tax rebate repeatedly, together with the implementation of the “Home Appliances for Rural Residents”(家電下鄉) and the “Automobiles for Rural Residents”(汽車下鄉) incentive policies, etc., all these moves will directly or indirectly bring new opportunities to the business of the Group in the future.

The management believes the Group enjoys an obvious edge in the competitive market riding on its market leadership, prestigious brands, advanced technologies, solid R&D strengths, comprehensive sales and service networks, sophisticated production facilities and highly effective production scale. The Group will meet the challenges ahead with a positive attitude and approach, and is prepared to recapture first opportunities when the market starts to recover.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## Directors

**Ms. Chong Siw Yin**, aged 53, is the chairperson of the Board and an executive Director of the Company. Ms. Chong joined the Group in March 1988, and was appointed as an executive Director in August 2004. She is also a director of certain subsidiaries of the Company. Ms. Chong is responsible for the strategic planning, administration and human resources management of the Group and has over 21 years of management experience. Ms. Chong has attended secondary education.

**Mr. Cao Yang**, aged 42, is an executive Director and chief executive officer of the Company. Prior to joining the Group, he worked for the Ganzhou education bureau in Jiangxi Province. He joined the Group in December 1991 as supervisor of human resources and administration department and plant manager of L.K. Machinery (Shenzhen) Co. Ltd. and became the general manager of both L.K. Machinery (Shenzhen) Co. Ltd. in 2000 and Shenzhen Leadwell Technology Co. Ltd. since its establishment. He was appointed as an executive Director in September 2004. Mr. Cao is also a director of certain subsidiaries of the Company. He is responsible for the strategic planning as well as the overall manufacturing planning and sales activities of all manufacturing subsidiaries of the Group in the PRC. He has more than 17 years of experience in the manufacturing business. Mr. Cao graduated from the Mathematics faculty of Gannan Institute of Education and obtained an Executive MBA Degree from Huazhong University of Science and Technology. He currently serves as Vice President of Shenzhen Youth Federation, President of Shenzhen Hi-Tech Talents Association, Vice Director General of Guangdong Die-Casting Association, Vice President of Shenzhen Machinery Association. In addition, Mr. Cao is also the Vice President of Shenzhen Hi-Tech Industry Association and the Youth Entrepreneur Association.

**Mr. Chung Yuk Ming**, aged 61, is an executive Director of the Company. Mr. Chung joined the Group in February 2001 as a director of L.K. Machinery Company Limited. He was appointed as an executive Director in September 2004. Mr. Chung is also a director of certain subsidiaries of the Company. He is responsible for the strategic planning, the finance and investment of the Group. Mr. Chung has over 27 years of working experience in various sectors, including automobile, toys, electronics and telecommunication. Before joining the Group, he was an executive director of Kader Holdings Company Limited and Kader Investment Company Ltd. (now known as Shougang Concord Grand (Group) Limited), both of which are publicly listed companies in Hong Kong. Mr. Chung holds a master degree in Business Administration from the University of East Asia of Macau. He is a fellow member of the Hong Kong Institute of Directors and currently serves as vice president of The Hong Kong Association for the Advancement of Science and Technology Ltd., a director of Hong Kong & Kowloon Plastic Products Merchants United Association Limited and The Hong Kong Electronic Industries Association Limited.

**Ms. Wong Pui Chun**, aged 50, was appointed as an executive Director in November 2008. She joined the Group in April 2006 and is currently the general manager of L.K. Machinery International Limited and a director of certain subsidiaries of the Company. She has over 21 years of experience in management, finance and accounting. Ms. Wong is a Certified Public Accountant and she is also a member of American Institute of Certified Public Accountants. She graduated from University of Hawaii at Manoa with a bachelor degree in Business Administration. Prior to joining the Group, she was the administrative director of Foshan Nanhai Tai Ping Carpets Company Limited.

**Dr. Low Seow Chay**, aged 59, was appointed as an independent non-executive Director of the Company in September 2004. He is the associate professor of the Nanyang Technological University of Singapore and has more than 27 years of teaching (and research) experience in mechanical engineering. He is a former member of the Parliament of Singapore serving the term from 1988 to 2006, and is the board member of three publicly listed companies in Singapore, namely CASA Holdings Limited, Hor Kew Corporation Limited and Hai Leck Holdings Limited. Dr. Low received a Doctor of Philosophy Degree from The Victoria University of Manchester, U.K.

**Dr. Hon. Lui Ming Wah**, SBS, JP, aged 71, was appointed as an independent non-executive Director of the Company in September 2004. Dr. Lui is an established industrialist serving as the Honorary Chairman of The Hong Kong Electronic Industries Association Ltd. and the representative of The Chinese Manufacturers' Association of Hong Kong, the founder chairman of Hong Kong Shandong Business Association, member of The Hong Kong International Arbitration Center Advisory Council and a council member of The Hong Kong Polytechnic University. In the PRC, he is a member of the National Committee of The Chinese People's Political Consultative Conference and a member of China Overseas Friendship Association. He was elected to the First, Second and Third Legislative Council of the HKSAR in 1998, 2000 and 2004 respectively. He is currently the managing director of Keystone Electronics Co., Limited. Dr. Lui obtained a master of applied science degree from the University New South Wales in Australia and a PhD from the University of Saskatchewan in Canada.

**Mr. Tsang Yiu Keung, Paul**, aged 55, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Tsang holds a higher diploma in Accountancy from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). He is a professional accountant and a fellow member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Secretaries and Administrators. Mr. Tsang was with KPMG for more than 27 years, where he was a senior banking partner until he retired from the firm on 31 March 2003.

**Mr. Chan Wah Tip, Michael**, aged 56, was appointed as an independent non-executive Director of the Company in September 2004. He has practiced as a solicitor in Hong Kong for over 31 years. Mr. Chan graduated with Bachelor of Laws (LL.B) from the University of Hong Kong in 1975 and received a Postgraduate Certificate of Laws (P.C.LL) from the University of Hong Kong in 1976. Mr. Chan is a partner of Wilkinson & Grist.

## Senior Management

**Mr. Chan Kwok Keung**, aged 43, is the engineering manager of the Group. He joined the Group in December 1998 and is responsible for the technical support, customer services and product development. He has 20 years of experience in mechanical engineering and customer service. He is an associate member of the Hong Kong Institution of Engineers. Prior to joining the Group, he was the customer service executive of Fong's National Engineering Co. Ltd.. Mr. Chan graduated from Newcastle Upon Tyne Polytechnic with a bachelor degree in Mechanical Engineering and obtained a degree of master of Science in Management from The Hong Kong Polytechnic University.

**Mr. Fung Chi Yuen**, aged 43, joined the Group in 2007 as general manager and chief engineer of Injection Molding Machine Business Unit. Mr. Fung holds a master degree and a bachelor degree of science in Engineering from the University of Hong Kong. He has 20 years' solid experience in product design, production and research and development of plastic injection molding machines both locally and overseas. Before joining the Group, Mr. Fung was the acting operation manager and engineering manager of Husky Injection Molding Systems Ltd., Machine Business Unit, Shanghai, Asia Pacific, a Canadian base company.

**Mr. Li Pin Zhang**, aged 47, is the general manager of Shanghai Atech Machinery Co., Ltd. and is responsible for the production and sales, marketing and operation of the company. He has over 17 years of experience in production, quality control, engineering, customer service and sales. He joined the Group in February 1991 and served various positions, including customer services officer of L.K. Machinery (Shenzhen) Co. Ltd., manager of Fujian sales office, plant manager of Zhongshan L.K. Machinery Co. Ltd. and deputy general manager of Shanghai Atech Machinery Co., Ltd. Prior to joining the Group, he worked as an engineer at Fujian Nam Ping Electric Machinery Factory, a state-owned enterprise in the PRC. Mr. Li received a Diploma in Industrial Electrical Automation from Fujian Mechanical & Electrical Institute. Mr. Li was appointed the president of the 9th Executive Committee of the Shanghai Die-Casting Association and the deputy officer of the 4th Executive Committee of the Die-Casting Technical Committee, Foundry Institution of the Chinese Mechanical Engineering Society.

**Mr. Te Yi Ming**, aged 46, is the sales controller of L.K. Machinery International Limited and is responsible for the sales and marketing in South China. After graduation from the Liuzhou Heavy Industrial Technical School, he worked in Liuzhou Compressor Factory in Guangxi Province until he joined the Group in March 1989 where he once served as customer services supervisor, sales officer and sales manager. He has 20 years of experience in customer services, sales and marketing. Mr. Te is a fellow of The Professional Validation Council of Hong Kong Industries and currently serves as vice president of Hong Kong (SME) Economic and Trade Promotional Association, vice president of Hong Kong Diecasting and Foundry Association and vice president of Shenzhen Plastics & Rubber Association.

**Mr. Tse Siu Sze**, aged 41, is the general manager of Zhongshan L.K. Machinery Co. Ltd. and is responsible for the production and sales, marketing and operation of this company. He joined the Group in July 1990 and served several positions in L.K. Machinery Company Limited, including maintenance supervisor, customer services manager, marketing manager and sales manager. He has over 14 years experience in sales and marketing. Mr. Tse currently services as vice president of the Executive Committee of the Hong Kong Plastic Machinery Association, member of the Executive Committee of the Foreign Invested Enterprises Association of Zhongshan, vice president of the Executive Committee of the Association of Commerce of Dongshen County, Zhongshan. He is also a fellow of The Professional Validation Council of Hong Kong Industries. Mr. Tse was awarded fellow of Business Administration by Asian Knowledge Management Association in 2005 and received his MBA Degree from the Lincoln University, U.S..

**Mr. Wang Xin Liang**, aged 41, is the general manager of both Ningbo L.K. Machinery Co. Ltd. and Ningbo L.K. Technology Co. Ltd. and is responsible for the production and sales, marketing and operation of these companies. He joined the Group in July 1993 and served a number of positions in L.K. Machinery (Shenzhen) Co. Ltd., including customer services supervisor, customer services manager and marketing manager. He has over 14 years of experience in customer support services and sales. Prior to joining the Group, he was an assistant engineer of Tao Jiang Machinery Factory. He graduated from Changsha Ferrous Metal Technical School.

**Mr. Yang Yi Zhong**, aged 66, is the Group's chief internal auditor and is responsible for the internal audit of the subsidiaries in the PRC. Prior to joining the Group, he was a senior accountant of Jiaozuo Electrochemistry Group. He joined the Group as the financial controller of all the PRC subsidiaries of the Group in November 1999. Mr. Yang graduated from Henan Radio & Television University with a diploma in Accounting and has over 40 years of experience in finance and accounting. Mr. Yang is a member of The Chinese Institute of Certified Public Accountants.

**Mr. Yuen Chee Wing**, aged 43, is the group financial controller of the Group. He joined the Group in February 2008 and is responsible for the strategic planning, the finance and accounting functions of the Group. He has over 14 years of experience in audit and accounting. Mr. Yuen is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He graduated from City University of Hong Kong with a bachelor degree in Business, Chinese University of Hong Kong with a master degree in Business Administration, and Manchester Metropolitan University with a bachelor degree in Laws. Prior to joining the Group, Mr. Yuen was the finance director of a footwear manufacturer in Hong Kong.

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance practices and procedures. The Company has applied the principles and complied with code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2009.

## Board of Directors

The Board currently comprises four Executive Directors and four Independent Non-executive Directors. The Independent Non-executive Directors are appointed for a fixed term of three years and are subject to retirement by rotation in accordance with the Company's Articles of Association. There is a strong independent element on the Board as the number of Independent Non-executive Directors represents more than one-third of the Board. They bring independent judgment and provide invaluable guidance and advice on the Group's development. They also review the financial information and operational performance of the Company on a regular basis. The present structure of the Board ensures the independence and objectivity of the Board and provides a system of checks and balances to safeguard the interests of the shareholders as a whole.

All the Independent Non-executive Directors meet the requirements of independence under the Listing Rules. The Company has received from each of the Independent Non-executive Directors the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of them to be independent. Biographical details of each board member are set out in pages 11 to 13 of this report. There is no relationship (including financial, business, family or other material relationship) among members of the Board.

The Board of Directors meets at least four times a year at approximately quarterly intervals to review operational and financial performance and approves matters specially reserved to the Board of Directors for its decision. The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. Dates of the regular board meeting are scheduled earlier. Notice of at least 14 days is given for regular board meetings. For ad hoc board meetings, reasonable notice will be given. All the Directors actively participated in the board meetings during the year.

The Company Secretary is responsible for ensuring compliance of Board procedures and advising the Board on matters concerning corporate governance and regulatory compliance. All Directors have access to the advice and services of the Company Secretary. Directors are consulted as to matters to be included in the agenda for regular board meetings. Other than exceptional circumstances, related board meeting materials are sent to all Directors in a timely manner and at least three days before the date of the scheduled board meeting. Directors are provided with complete and adequate information to enable them to make an informed decision. Draft and final versions of minutes of Board meetings are sent to all Directors for comment and records within a reasonable time after the Board meeting is held. The minutes of the Board meetings record in sufficient details the matters considered by the board, including concerns raised by the Directors. All minutes of Board meetings are kept by the Company Secretary and are open for inspection by any Director. The Directors may seek independent professional advice at the expense of the Company.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board meeting and the interested shareholder or Director shall not vote nor be counted in the quorum present at the relevant meeting. Independent Non-executive Directors who, and whose associates, have no material interest in the transaction shall be present at such Board meeting.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Company reviews the insurance coverage from time to time to ensure adequate coverage.

The roles of the Chairperson and Chief Executive Officer of the Company are segregated and are not exercised by the same individual. Ms. Chong Siw Yin is the Chairperson and Mr. Cao Yang is the Chief Executive Officer. The segregation of duties of the Chairperson and the Chief Executive Officer ensures a clear distinction in the Chairperson's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The division of responsibilities between the Chairperson and the Chief Executive Officer are set out in writing.

## Attendance at meetings

The attendance records of the Directors at Board meetings, Audit Committee meetings, Nomination Committee meetings and Remuneration Committee meetings during the year are as follows:

| | Number of meetings attended/held | | | |
|---|---|---|---|---|
| | Board meeting | Audit Committee meeting | Nomination Committee meeting | Remuneration Committee meeting |
| **Executive Directors** | | | | |
| Ms. Chong Siw Yin | 5/5 | N/A | N/A | N/A |
| Mr. Cao Yang | 5/5 | N/A | N/A | N/A |
| Mr. Liu Zhao Ming (resigned on 1 November 2008) | 1/3 | N/A | N/A | N/A |
| Mr. Chung Yuk Ming | 5/5 | N/A | N/A | N/A |
| Ms. Wong Pui Chun (appointed on 7 November 2008) | 2/2 | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | |
| Dr. Low Seow Chay | 5/5 | N/A | 3/3 | N/A |
| Dr. Hon. Lui Ming Wah, SBS, JP | 4/5 | 3/4 | 3/3 | 3/3 |
| Mr. Tsang Yiu Keung, Paul | 5/5 | 4/4 | N/A | 3/3 |
| Mr. Chan Wah Tip, Michael | 4/5 | 4/4 | 3/3 | 3/3 |

## Board Committees

### Remuneration Committee

The Remuneration Committee comprises three Independent Non-executive Directors, namely Dr. Hon. Lui Ming Wah, SBS, JP, Mr. Chan Wah Tip, Michael and Mr. Tsang Yiu Keung, Paul. Dr. Hon. Lui Ming Wah, SBS, JP is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages of Directors and senior management, determining the award of bonuses and considering the grant of options under the share option scheme of the Company. Under its terms of reference, the Remuneration Committee shall meet at least twice a year.

The Remuneration Committee held three meetings during the year. The members of the Remuneration Committee had considered and reviewed the remuneration packages of a newly appointed executive director and the compensation of a resigned director during the year. They also discussed and reviewed the salary, bonus and benefit of the executive directors.

### Nomination Committee

The Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Chan Wah Tip, Michael, Dr. Low Seow Chay and Dr. Hon. Lui Ming Wah, SBS, JP. Mr. Chan Wah Tip, Michael is the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors and the management of the board succession. The Nomination Committee can reasonably ensure that only candidates with capability and relevant experience will be appointed as future directors. Such monitoring by the Nomination Committee will lower the possibility for appointment of someone that may affect the independence of the Board. Under its terms of reference, the Nomination Committee shall meet at least twice a year.

During the year, the Nomination Committee held three meetings. They made recommendation to the Board and reviewed the terms of employment on the appointment of a new executive director during the year. Members also reviewed the structure, size and composition of the Board and made recommendations to the Board.

### Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Tsang Yiu Keung, Paul, Dr. Hon. Lui Ming Wah, SBS, JP and Mr. Chan Wah Tip, Michael. Mr. Tsang Yiu Keung, Paul is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. Under its terms of reference, the Audit Committee shall meet at least four times a year. The Internal Audit Department reports directly to the Audit Committee.

During the year ended 31 March 2009, the Audit Committee held four meetings with the representatives of the management, the internal auditors and the external auditors of the Company to discuss the auditing, financial reporting and internal control matters. The Audit Committee also met with external auditors in the absence of management to discuss and make enquiries on various financial and operational matters.

The following is a summary of works performed by the Audit Committee during the year:

(i) review of the Group’s interim and annual results before submission to the Board for approval;

(ii) review of external auditor’s audit plan, the external auditor’s reports and other matters raised by the external auditor;

(iii) review of the independence of the external auditor and approval of its engagement letter and audit fee;

(iv) review of the quarterly reports by the Internal Audit Department and make recommendations;

(v) review of internal control and working procedures;

(vi) review the internal control review report and findings from the external consultant.

### Auditor's Remuneration

During the year ended 31 March 2009, the remuneration paid and payable to the Group's external auditor, BDO Limited and its member firms, is set out as follows:

| | Fee paid/payable<br>HK$'000 |
|---|---|
| Audit services | 2,084 |
| Non-audit services | 601 |
| | 2,685 |

The non-audit services are mainly for interim results review and tax compliance.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. During the year, a revised Model Code has been adopted by the Company to comply with the new requirements set out in Appendix 10 to the Listing Rules effective from 1 April 2009. The Directors have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the year.

The Company has also established written guidelines on no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or the Company's securities.

## Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2009.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 30 and 31.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## Internal Control

The Board has overall responsibility for the maintenance of sound and effective internal control systems within the Group.

The internal audit department (the "IAD") of the Company reports directly to the Audit Committee. The functions and responsibilities of the IAD include, among others, formulating audit plan, reviewing monthly management accounts, preparing and performing audit field work, preparing quarterly audit summary reports. Quarterly reports are prepared and submitted to the Audit Committee for review. The head of the IAD attends all the Audit Committee meetings and report to the Audit Committee regarding the work done and findings made by the IAD. The IAD is required to incorporate recommendations from the Audit Committee into the workflow or procedures of the IAD. When the IAD identifies any irregularities, it will report them to the Audit Committee and depending on the nature of the irregularities, recommend corresponding precautionary measures. All recommendations from the IAD will be properly followed up to ensure that they are implemented within a reasonable timeframe.

During the year, the Company engaged Grant Thornton, an independent CPA firm, to assist in reviewing the Group's internal control system and procedures. Grant Thornton had previously assisted the Company with the development of a risk assessment and 3-year internal audit plan. Grant Thornton has performed an independent review of the internal controls for particular key risk areas of the Group's operations including liquidity risk, credit risk and capital availability risk. The report from Grant Thornton was presented to the Audit Committee and the Board for review. The engagement of professional consultant has helped to improve the internal control procedures of the Group. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system and considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## Shareholder Rights and Investor Relations

The Company maintains various communication channels with its shareholders. The Company's annual general meeting provides a good opportunity for shareholders to exchange views with the Board. The chairperson of the Board and the chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee will attend the annual general meeting ready to answer shareholders' questions. Separate resolutions were proposed at the 2008 Annual General Meeting on each substantial issue. Pursuant to the revised Listing Rules effective from 1 January 2009, the votes for the resolutions at all shareholders' meetings of the Company shall be taken by poll. The poll results will be posted on the websites of the Company and of The Stock Exchange of Hong Kong Limited after the shareholders' meeting.

In order to promote effective communication, the Company maintains a website www.lktechnology.com which includes past and present information relating to the Group and its businesses.

The Company regards communications with its investors as being vital. The Company continues to enhance investor relations. During the year, plant visits and meetings were held with financial analysts, fund managers and potential investors to help them better understand the Group's operations and developments. Press releases were issued to provide with the most updated business development of the Group to the public.

# DIRECTORS' REPORT

The Directors submit their annual report together with the audited consolidated financial statements for the year ended 31 March 2009.

## Principal Activities

The Company acts as an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines and related accessories. The activities of the Company's principal subsidiaries, an associate and a jointly controlled entity are set out in notes 39, 17 and 18 respectively to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 March 2009 are set out in the consolidated income statement on page 32.

An interim dividend of HK0.4 cent per share was paid to the shareholders on 21 January 2009. The Directors do not recommend the payment of a final dividend.

## Property, Plant and Equipment

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

## Investment Properties

Details of the movements in investment properties are set out in note 15 to the consolidated financial statements.

## Share Capital

Details of the movements in share capital of the Company are set out in note 31 to the consolidated financial statements.

## Donations

During the year, the Group made charitable or other donations totalling HK$553,000.

## Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 41 to the consolidated financial statements respectively.

## Distributable Reserves of the Company

As at 31 March 2009, the Company's reserves available for distribution to shareholders of the Company were HK$249.9 million, representing share premium of HK$235.8 million, share option reserve of HK$9.3 million and retained profits of HK$4.8 million.

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provision of the Company's Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group is set out on page 96.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Directors

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

### Executive Directors:

Ms. Chong Siw Yin *(Chairperson)*
Mr. Cao Yang *(Chief executive officer)*
Mr. Liu Zhao Ming (resigned on 1 November 2008)
Mr. Chung Yuk Ming
Ms. Wong Pui Chun (appointed on 7 November 2008)

### Independent Non-executive Directors

Dr. Low Seow Chay
Dr. Hon. Lui Ming Wah, SBS, JP
Mr. Tsang Yiu Keung, Paul
Mr. Chan Wah Tip, Michael

The biographical details of the Directors are set out on page 11 to page 13 of this annual report.

In accordance with Article 87 of the Company's Articles of Association, Mr. Cao Yang, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Ms. Wong Pui Chun who has been appointed as an executive director, holds office until the forthcoming annual general meeting, and being eligible, offers herself for election.

## Directors *(Continued)*

Three of the Executive Directors, namely Ms. Chong Siw Yin, Mr. Cao Yang and Mr. Chung Yuk Ming, have service contracts with the Company for a term of three years commencing on 16 October 2006, and the other Executive Director, Ms. Wong Pui Chun has a service contract with the Company for a term of three years commencing on 7 November 2008. The service contracts can be terminated by not less than six months' notice in writing served by either party.

The Independent Non-executive Directors, namely Dr. Low Seow Chay, Dr. Hon. Lui Ming Wah, SBS, JP, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael were re-appointed for a term of three years in September 2007. Each of the Independent Non-executive Directors or the Company may terminate the appointment at any time during the three-year term by giving the other party at least three months' notice in writing.

Each of the Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors being 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 employing company within one year without payment of compensation, other than statutory compensation.

## Directors' Interest in Contracts

No contract of significance, to which the Company, its holding company, any of its subsidiaries or fellow 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 any time during the year except for those disclosed under "Continuing Connected Transaction" below.

## Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 March 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of SFO (including any interests which were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

| Name of director | Name of company | Capacity | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|---|
| Ms. Chong Siw Yin ("Ms. Chong") | the Company | See Note (1) | 750,000,000[(1)] Long position | 74.05% |
| | the Company | Beneficial owner | 3,000,000[(2)] Long position | 0.3% |
| Mr. Cao Yang | the Company | Beneficial owner | 1,000,000 Long position | 0.1% |
| | | | 2,000,000[(2)] Long position | 0.2% |
| Mr. Chung Yuk Ming | the Company | Beneficial owner | 1,000,000 Long position | 0.1% |
| | | | 2,000,000[(2)] Long position | 0.2% |
| Ms. Wong Pui Chun | the Company | Beneficial owner | 600,000[(2)] Long position | 0.06% |

Notes:

1. These 750,000,000 shares are owned by Girgio Industries Limited ("Girgio"). Girgio is owned as to 95% by Fullwit Profits Limited ("Fullwit") as trustee of The Liu Family Unit Trust and 5% by Mr. Liu Siong Song ("Mr. Liu"), the spouse of Ms. Chong. Fullwit is wholly-owned by Ms. Chong. Ms. Chong is deemed to be interested in the shares held by Girgio through Fullwit and Mr. Liu.

2. Such interest in shares is held pursuant to options granted under the Pre-IPO Share Option Scheme, details of which are described in the paragraph headed "Share Option Schemes" in this report.

Save as disclosed above, none of the Directors and chief executive of the Company had registered any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Interests and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 March 2009, the persons, other than the Directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

| Name | Capacity | Number of shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Girgio | Beneficial owner | 750,000,000(1) Long position | 74.05% |
| Mr. Liu | See Note (2) | 750,000,000(2) Long position | 74.05% |
| | | 3,000,000(2) Long position | 0.3% |
| Fullwit | See Note (1) | 750,000,000(1) Long position | 74.05% |
| HSBC International Trustee Limited | See Note (3) | 750,000,000(3) Long position | 74.05% |
| The Hamon Investment Group Pte Limited | Investment manager | 70,607,500 Long position | 6.97% |
| The Dreyfus Corporation | Investment manager | 61,742,500 Long position | 6.10% |

Notes:

1. These 750,000,000 shares are owned by Girgio. Girgio is owned as to 95% by Fullwit as trustee of The Liu Family Unit Trust and 5% by Mr. Liu. Fullwit is wholly-owned by Ms. Chong.

2. Mr. Liu is the spouse of Ms. Chong and is deemed to be interested in the shares held by Ms. Chong. Besides, Mr. Liu holds 5% interest in Girgio.

3. HSBC International Trustee Limited is the trustee of The Liu Family Trust. The Liu Family Trust was established by Mr. Liu on 22 February 2002 as an irrevocable discretionary trust for the benefit of Ms. Chong and the children of Mr. Liu and Ms. Chong. HSBC International Trustee Limited as trustee of The Liu Family Trust owns 99.9% of the units issued under The Liu Family Unit Trust and Ms. Chong owns the remaining 0.1% of the units.

Save as disclosed above, the Directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who has interest in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

## Share Option Schemes

A Pre-IPO Share Option Scheme was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 23 September 2006. Movements of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 March 2009 were as follows:

| Name/category of participant | Date of grant | Exercise price HK$ | Exercise period | Number of shares subject to options<br>Outstanding as at 01/04/08 | Reclassification during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31/03/09 |
|---|---|---|---|---|---|---|---|---|
| **The Directors** | | | | | | | | |
| Ms. Chong | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 3,000,000 | – | – | – | 3,000,000 |
| Mr. Cao Yang | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 2,000,000 | – | – | – | 2,000,000 |
| Mr. Liu Zhao Ming (Note 1) | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 3,000,000 | – | – | (3,000,000) | – |
| Mr. Chung Yuk Ming | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 2,000,000 | – | – | – | 2,000,000 |
| Ms. Wong Pui Chun (Note 2) | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | – | 600,000 | – | – | 600,000 |
| | | | | 10,000,000 | 600,000 | – | (3,000,000) | 7,600,000 |
| **Other Employees** | 23/09/2006 | 0.666 | 16/04/2007 – 15/10/2016 | 14,687,500 | (600,000) | (1,590,000) | (1,467,500) | 11,030,000 |
| | | | | 24,687,500 | – | (1,590,000) | (4,467,500) | 18,630,000 |

Notes:

1. Mr. Liu Zhao Ming resigned as a director with effect from 1 November 2008.

2. Ms. Wong Pui Chun was appointed as a director with effect from 7 November 2008. The 600,000 share options held by her were reclassified from the category of other employees to director during the year.

## Share Option Schemes *(Continued)*

Each of the grantees to whom options were granted under the Pre-IPO Share Option Scheme would be subject to the following restrictions on the exercise of the options granted to him/her:

| Period (as from 16 October 2006, the day on which the shares of the Company commenced trading on the Stock Exchange, the "Listing Date") | Maximum cumulative percentage of the shares under option exercisable by the grantee |
|---|---|
| First 6 months | 0% |
| Second 6 months | 33% |
| Third 6 months | 66% |
| For the remaining option period | 100% |

Save as disclosed above, no further options were granted under the Pre-IPO Share Option Scheme as the right to do so had ended on the day on which the prospectus of the Company dated 29 September 2006 (the "Prospectus") was registered with the Registrar of Companies in Hong Kong.

The fair value of the options granted under the Pre-IPO Share Option Scheme amounting to HK$18,480,000 was determined at the Listing Date under the Binominal Option Pricing Model by an independent valuer. The assumptions used to calculate the fair value of the options are disclosed in note 42 to the consolidated financial statements.

The fair value of the options granted is expensed over the respective vesting periods.

The weighted average closing price immediately before the dates on which the options were exercised during the year was HK$0.95.

In addition, a share option scheme (the "Share Option Scheme") was also adopted pursuant to the written resolution passed by the sole shareholder of the Company on 23 September 2006. No options had been granted under the Share Option Scheme since its date of adoption and up to 31 March 2009.

### A. Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme (as summarised in section B below) except that:

(a) the subscription price for the shares is HK$0.666;

(b) the total number of shares subject to the Pre-IPO Share Option Scheme is 36,800,000 shares and there are no similar requirements on granting options to connected persons as detailed in the Share Option Scheme;

(c) only employees, executive directors, non-executive directors and independent non-executive directors are eligible for the grant of options under the Pre-IPO Share Option Scheme;

(d) save for the options which have been granted (with details set out in the Prospectus), no further options will be granted as the right to do so has ended on the day on which the Prospectus was registered with the Registrar of Companies in Hong Kong;

## Share Option Schemes *(Continued)*

### A. Pre-IPO Share Option Scheme *(Continued)*

(e) the options granted under the Pre-IPO Share Option Scheme will not be exercised within the first six months of the Listing Date;

(f) the grantees will not exercise any option as a result of which the Company will not be able to comply with the public float requirement of the Listing Rules; and

(g) each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme is subject to the restrictions on the exercise of the options granted to him/her as mentioned in the preceding paragraph.

### B. The Share Option Scheme

*(a) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution to the Group.

*(b) Participants of the Share Option Scheme*

The Board may, at its absolute discretion, invite any employees (whether full time or part time), any executive directors, any non-executive directors, any independent non-executive directors, or any consultant, suppliers or customers of the Group (the "Participants") to take up options to subscribe for shares at a price calculated in accordance with paragraph (g) below.

*(c) Maximum number of shares available for issue under the Share Option Scheme*

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme(s) of the Group, if this will result in such 30% limit being exceeded.

*(d) Maximum entitlement of each Participant under the Share Option Scheme*

The total number of shares issued and which may fall to be issued on the exercise of options granted under the Share Option Scheme and any other share option scheme(s) of the Group (including both exercised and outstanding options) to each Participant shall not exceed 1% of the total issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the approval of the shareholders of the Company in general meeting with such Participant and his associates abstaining from voting.

*(e) Amount payable upon acceptance of the option*

The Participant must pay HK$10 to the Company by way of a non-refundable nominal consideration for the grant thereof. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Participant together with the said consideration of HK$10 is received by the Company.

## Share Option Schemes *(Continued)*

### B. The Share Option Scheme *(Continued)*

(f) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined on the date of grant and to be notified by the Directors to each grantee which period may commence from the date of acceptance of the offer for the grant of options but shall end in any event not later than ten years from the date of grant, subject to the provisions for early termination thereof. An option may not be exercised after the expiry of ten years from the date of grant. The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to), if appropriate, the minimum period for which an option must be held or may be exercised. All of the options must be held for a period of six months (the "Six-Months period") from the date of grant and no option may be exercised within the Six-Months Period.

The Board may in the letter containing the offer of grant of option to the Participant pursuant to the Share Option Scheme impose restrictions on the exercise of an option during the period an option may be exercised including (but not limited to) a performance target (as determined by the Board from time to time) which must be achieved before an option can be exercised.

(g) *Basis of determining the exercise price*

The subscription price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant, which must be a business day; and (iii) the nominal value of the shares on the date of grant of option.

(h) *Period of the Share Option Scheme*

Subject to earlier termination by the Company by ordinary resolution in general meeting, the Share Option Scheme will remain in force for a period of ten years commencing from 23 September 2006 after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all aspect.

## Arrangements to Purchase Shares Or Debentures

Other than the Company's share option schemes disclosed above, at no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debentures, of the Company or any other body corporate.

## Management Contracts

No contracts concerning the management and administration of the whole or any part of the business of the Company were entered into or existed during the year.

## Competing Business

Each of Mr. Liu, Girgio, Ms. Chong, Mr. Liu Zhou Ming and Fullwit has provided a written confirmation, which has been reviewed and confirmed by the Independent Non-executive Directors of the Company, confirming compliance with the terms the Non-competition Undertaking entered into between them and the Company.

## Major Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year.

## Continuing Connected Transaction

A related party transaction as detailed below and disclosed in note 32 to the consolidated financial statements constituted a connected transaction under the Listing Rules which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

L.K. Machinery Company Limited, a wholly-owned subsidiary of the Company had a tenancy agreement (the "Tenancy Agreement") with Wheelfit Investment Limited ("Wheelfit"), a company directly owned as to 50% by Mr. Liu and 50% by an independent third party, in respect of the lease from Wheelfit the premises at Unit A, Ground floor (with a gross floor area of approximately 12,104 sq.ft.), Mai Wah Industrial Building, Nos. 1-7 Wah Sing Street, Kwai Chung, New Territories (the "Premises"). The Tenancy Agreement had expired on 31 August 2008. On 29 August 2008, L.K. Machinery International Limited, a wholly-owned subsidiary of the Company, entered into a new tenancy agreement with Wheelfit in respect of the Premises for a term of two years from 1 September 2008 to 31 August 2010 at a monthly rental of HK$100,000. During the year, the rentals paid by the Group to Wheelfit amounted to HK$1,165,000.

## Staff and Remuneration Policies

As at 31 March 2009, the Group employed approximately 2,500 full time staff. The staff costs for current year amounted to HK$273.9 million (2008: HK$210.8 million). The remuneration policies of the Group are determined based on market trends, future plans and the performance of individuals. In addition, the Group also provides to staff other staff benefits such as mandatory provident fund, state-managed social welfare scheme and share option schemes.

## Sufficiency of Public Float

As at the latest practicable date prior to the issue of this report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

## Purchase, Sale Or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries, fellow subsidiaries and holding company has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 March 2009.

## Continuing Disclosure Requirement Under Rule 13.21 of Chapter 13 of the Listing Rules

In accordance with the requirements of Rule 13.21 of Chapter 13 of the Listing Rules, the following is the details of the facility agreement with a covenant relating to specific performance of the controlling shareholder of the Company at 31 March 2009.

On 18 July 2008, L.K. Machinery Company Limited as borrower, and the Company as a guarantor, entered into a facility agreement with, inter alia, The Hongkong and Shanghai Banking Corporation Limited as the mandated coordinating arranger and the agent and other financial institutions as lenders for a three-year term loan/revolving credit facility of up to HK$500 million (the "Facility Agreement"), the Facility Agreement imposes a covenant relating to specific performance of the controlling shareholder of the Company.

The Facility Agreement provides that it would constitute an event of default under the Facility Agreement if Ms. Chong Siw Yin (a controlling shareholder of the Company held as to approximately 74% of equity interests in the Company as at the date of the Facility Agreement) does not or ceases to hold (directly or indirectly) beneficially and legally, more than 50% of the shares and equity interests in the Company.

The aforesaid obligation continued to exist at 31 March 2009.

## Auditor

BDO McCabe Lo Limited has changed its name to BDO Limited. Accordingly, the auditor's report is now signed under the new name. A resolution to re-appoint Messrs. BDO Limited as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board
**Cao Yang**
*Chief Executive Officer*

Hong Kong, 22 July 2009

**BDO Limited**
Certified Public Accountants
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111 Connaught Road Central
Hong Kong
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傳真:(八五二)二八一五 二二三九

**TO THE SHAREHOLDERS OF**
**L.K. TECHNOLOGY HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of L.K. Technology Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 32 to 95, which comprise the consolidated and company balance sheets as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, and to report our opinion solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*
**Wong Chi Wai**
*Practising Certificate Number P04945*

Hong Kong, 22 July 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Turnover | 6 | **1,192,487** | 1,261,972 |
| Cost of sales | | **(887,564)** | (852,274) |
| Gross profit | | **304,923** | 409,698 |
| Other revenue | 6 | **25,934** | 26,781 |
| Other gains/(losses) | 6 | **10,251** | 8,362 |
| Selling and distribution expenses | | **(131,164)** | (145,106) |
| Administration expenses | | **(218,506)** | (153,947) |
| (Loss)/profit from operations | 7 | **(8,562)** | 145,788 |
| Finance income | 9 | **3,921** | 5,320 |
| Finance costs | 9 | **(42,022)** | (19,298) |
| Finance costs – net | 9 | **(38,101)** | (13,978) |
| Share of loss of an associate | 17 | **(1,227)** | – |
| Share of loss of a jointly controlled entity | 18 | **(8)** | – |
| (Loss)/profit before income taxes | | **(47,898)** | 131,810 |
| Income taxes | 10 | **(4,315)** | (16,389) |
| (Loss)/profit for the year | | **(52,213)** | 115,421 |
| Attributable to: | | | |
| Equity holders of the Company | | **(43,671)** | 115,421 |
| Minority interests | | **(8,542)** | – |
| | | **(52,213)** | 115,421 |
| Dividends | 11 | **4,051** | 50,586 |
| | | **HK cents** | HK cents |
| (Loss)/earnings per share | 12 | | |
| – basic | | **(4.3)** | 11.5 |
| – diluted | | **(4.3)** | 11.4 |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 13 | **14,999** | 3,174 |
| Property, plant and equipment | 14 | **632,280** | 410,560 |
| Investment properties | 15 | **22,140** | 25,650 |
| Land use rights | 16 | **83,353** | 74,767 |
| Deposits paid | 24 | **21,935** | 25,474 |
| Interest in an associate | 17 | **75,476** | 21,336 |
| Interest in a jointly controlled entity | 18 | **3,078** | – |
| Available-for-sale financial assets | 19 | **–** | 746 |
| Deferred tax assets | 20 | **16,951** | 10,717 |
| Restricted bank balances | 22 | **6,092** | 5,950 |
| | | **876,304** | 578,374 |
| **Current assets** | | | |
| Inventories | 23 | **454,410** | 472,451 |
| Available-for-sale financial assets | 19 | **9,091** | – |
| Bills and accounts receivable | 21 | **351,737** | 360,943 |
| Other receivables, prepayments and deposits | 24 | **55,064** | 46,826 |
| Derivative financial instruments | 25 | **4,778** | – |
| Restricted bank balances | 22 | **21,632** | 56,223 |
| Cash and bank balances | 26 | **330,265** | 170,785 |
| | | **1,226,977** | 1,107,228 |
| **Current liabilities** | | | |
| Bills and accounts payable | 27 | **161,427** | 248,836 |
| Other payables, deposits and accruals | 28 | **169,007** | 121,209 |
| Amount due to an associate | 32 | **40,909** | – |
| Derivative financial instruments | 25 | **5,543** | – |
| Bank borrowings – due within one year | 29 | **841,153** | 381,074 |
| Tax payable | | **481** | 1,677 |
| | | **1,218,520** | 752,796 |
| **Net current assets** | | **8,457** | 354,432 |
| **Total assets less current liabilities** | | **884,761** | 932,806 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | **3,708** | – |
| Bank borrowings – due after one year | 29 | **2,923** | 18,508 |
| Provision for post-employment benefits | 30 | **10,503** | – |
| | | **17,134** | 18,508 |
| **Net assets** | | **867,627** | 914,298 |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 31 | **101,284** | 101,125 |
| Reserves | | **751,947** | 813,173 |
| **Equity attributable to the equity holders of the Company** | | **853,231** | 914,298 |
| **Minority interests** | | **14,396** | – |
| **Total equity** | | **867,627** | 914,298 |

Approved by the Board of Directors on 22 July 2009 and signed on behalf of the Board by:

**Cao Yang**
*Chief Executive Officer*

**Chung Yuk Ming**
*Executive Director*

# BALANCE SHEET

As at 31 March 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 39 | **65,000** | 65,000 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | | **204** | 129 |
| Amounts due from subsidiaries | 40 | **287,645** | 296,505 |
| Restricted bank balance | 22 | **–** | 13,000 |
| Cash and bank balances | | **901** | 1,474 |
| | | **288,750** | 311,108 |
| **Current liabilities** | | | |
| Other payables, deposits and accruals | | **2,542** | 2,804 |
| **Net current assets** | | **286,208** | 308,304 |
| **Net assets** | | **351,208** | 373,304 |
| **EQUITY** | | | |
| Share capital | 31 | **101,284** | 101,125 |
| Reserves | 41 | **249,924** | 272,179 |
| **Equity attributable to the equity holders of the Company** | | **351,208** | 373,304 |

Approved by the Board of Directors on 22 July 2009 and signed on behalf of the Board by:

**Cao Yang**
*Chief Executive Officer*

**Chung Yuk Ming**
*Executive Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

| | Equity attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Capital reserve HK$'000 | Special reserve HK$'000 (Note i) | Exchange fluctuation reserve HK$'000 | Statutory reserve HK$'000 (Note ii) | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Dividend reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2007 | 100,000 | 222,068 | 10,281 | – | 13,771 | 18,754 | 64,015 | (931) | 2,200 | 20,110 | 302,346 | 752,614 | – | 752,614 |
| Exchange realignment | – | – | – | – | – | 77,147 | – | – | – | – | – | 77,147 | – | 77,147 |
| Gain on fair value changes of available-for-sale financial assets | – | – | – | – | – | – | – | 463 | – | – | – | 463 | – | 463 |
| Gain recognised in equity | – | – | – | – | – | 77,147 | – | 463 | – | – | – | 77,610 | – | 77,610 |
| Transfer to income statement upon disposal of available-for-sale financial assets | – | – | – | – | – | – | – | 654 | – | – | – | 654 | – | 654 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 115,421 | 115,421 | – | 115,421 |
| Total recognised income for the year | – | – | – | – | – | 77,147 | – | 1,117 | – | – | 115,421 | 193,685 | – | 193,685 |
| Issue of shares upon exercise of share options | 1,125 | 6,365 | – | – | – | – | – | – | – | – | – | 7,490 | – | 7,490 |
| Transfer to share premium upon exercise of share options | – | 5,575 | (5,575) | – | – | – | – | – | – | – | – | – | – | – |
| Share-based payments | – | – | 7,964 | – | – | – | – | – | – | – | – | 7,964 | – | 7,964 |
| Transfer to retained profits upon lapse of share options | – | – | (388) | – | – | – | – | – | – | – | 388 | – | – | – |
| Transfer to reserve | – | – | – | – | – | – | 19,279 | – | – | – | (19,279) | – | – | – |
| 2007 final dividend declared and paid | – | – | – | – | – | – | – | – | – | (20,110) | (44) | (20,154) | – | (20,154) |
| 2008 interim dividend paid (Note 11) | – | – | – | – | – | – | – | – | – | – | (27,301) | (27,301) | – | (27,301) |
| 2008 proposed final dividend (Note 11) | – | – | – | – | – | – | – | – | – | 23,285 | (23,285) | – | – | – |
| | 1,125 | 11,940 | 2,001 | – | – | 77,147 | 19,279 | 1,117 | – | 3,175 | 45,900 | 161,684 | – | 161,684 |
| At 31 March 2008 | 101,125 | 234,008 | 12,282 | – | 13,771 | 95,901 | 83,294 | 186 | 2,200 | 23,285 | 348,246 | 914,298 | – | 914,298 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

| | Equity attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Capital reserve HK$'000 | Special reserve HK$'000 (Note i) | Exchange fluctuation reserve HK$'000 | Statutory reserve HK$'000 (Note ii) | Available-for-sale investment reserve HK$'000 | Property revaluation reserve HK$'000 | Dividend reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2008 | 101,125 | 234,008 | 12,282 | – | 13,771 | 95,901 | 83,294 | 186 | 2,200 | 23,285 | 348,246 | 914,298 | – | 914,298 |
| Exchange realignment | – | – | – | – | – | 8,909 | – | – | – | – | – | 8,909 | (3,378) | 5,531 |
| Gain on fair value changes of available-for-sale financial assets | – | – | – | – | – | – | – | 206 | – | – | – | 206 | – | 206 |
| Gain/(loss) recognised in equity | – | – | – | – | – | 8,909 | – | 206 | – | – | – | 9,115 | (3,378) | 5,737 |
| Transfer to income statement upon disposal of available-for-sale financial assets | – | – | – | – | – | – | – | (392) | – | – | – | (392) | – | (392) |
| Loss for the year | – | – | – | – | – | – | – | – | – | – | (43,671) | (43,671) | (8,542) | (52,213) |
| Total recognised income/(expense) for the year | – | – | – | – | – | 8,909 | – | (186) | – | – | (43,671) | (34,948) | (11,920) | (46,868) |
| Issue of shares upon exercise of share options | 159 | 900 | – | – | – | – | – | – | – | – | – | 1,059 | – | 1,059 |
| Transfer to share premium upon exercise of share options | – | 847 | (847) | – | – | – | – | – | – | – | – | – | – | – |
| Share-based payments | – | – | 168 | – | – | – | – | – | – | – | – | 168 | – | 168 |
| Transfer to retained profits upon lapse of share options | – | – | (2,243) | – | – | – | – | – | – | – | 2,243 | – | – | – |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | 8,616 | 8,616 |
| Capital contribution from a minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | 17,700 | 17,700 |
| 2008 final dividend declared and paid | – | – | – | – | – | – | – | – | – | (23,285) | (10) | (23,295) | – | (23,295) |
| 2009 interim dividend paid (Note 11) | – | – | – | – | – | – | – | – | – | – | (4,051) | (4,051) | – | (4,051) |
| | 159 | 1,747 | (2,922) | – | – | 8,909 | – | (186) | – | (23,285) | (45,489) | (61,067) | 14,396 | (46,671) |
| At 31 March 2009 | 101,284 | 235,755 | 9,360 | – | 13,771 | 104,810 | 83,294 | – | 2,200 | – | 302,757 | 853,231 | 14,396 | 867,627 |

Note:

(i) Special reserve represents the difference between the share capital and capital reserve of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of corporate reorganisation.

(ii) The statutory reserve is reserve of the Company's subsidiaries operating as foreign investment enterprises in the People's Republic of China (the "PRC"). The transfer to this reserve is governed by relevant regulations of the PRC and the articles of association of these subsidiaries. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses or capitalised as paid up capital.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/profit before income taxes | **(47,898)** | 131,810 |
| Adjustments for: | | |
| Depreciation and amortisation | **80,372** | 49,485 |
| Share-based payments | **168** | 7,964 |
| Decrease/(increase) in fair value of investment properties | **3,840** | (5,631) |
| Bank interest income | **(3,921)** | (5,320) |
| Interests on bank borrowings | **42,022** | 19,298 |
| Share of loss of an associate | **1,227** | – |
| Share of loss of a jointly controlled entity | **8** | – |
| Excess of fair value of net assets acquired over cost of acquisition | **(17,452)** | – |
| Impairment losses on intangible assets | **327** | – |
| Impairment losses on property, plant and equipment | **5,168** | – |
| Impairment losses on accounts receivable | **4,760** | – |
| Write down of inventories | **9,158** | 5,682 |
| Net fair value loss on derivative financial instruments | **3,290** | – |
| Gain on disposal of available-for-sale financial assets | **(392)** | (607) |
| Gains on disposals of property, plant and equipment | **(387)** | (40) |
| **Operating profit before changes in working capital** | **80,290** | 202,641 |
| Decrease/(increase) in inventories | **141,352** | (124,587) |
| Decrease/(increase) in bills and accounts receivable | **128,635** | (69,744) |
| Decrease/(increase) in other receivables, prepayments and deposits | **31,956** | (29,803) |
| (Decrease)/increase in bills and accounts payable | **(183,625)** | 29,077 |
| (Decrease)/increase in other payables, deposits and accruals | **(47,691)** | 20,776 |
| Increase in amounts due to an associate | **40,909** | – |
| Decrease in provision for post-employment benefits | **(7,238)** | – |
| Effect of foreign exchange rates changes | **2,806** | 23,769 |
| **Cash generated from operations** | **187,394** | 52,129 |
| Tax paid | **(8,243)** | (15,903) |
| Interest paid | **(42,022)** | (19,298) |
| **Net cash from operating activities** | **137,129** | 16,928 |

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | **(224,356)** | (68,206) |
| Payments for intangible assets | | **(6,065)** | – |
| Deposits for acquisition of property, plant and equipment | | **(4,602)** | (7,879) |
| Payment for land use rights | | **(8,566)** | (36,137) |
| Deposits for acquisition of land use rights | | **–** | (8,303) |
| Decrease/(increase) in restricted bank balances | | **34,449** | (34,987) |
| Interest in an associate | | **(55,261)** | (21,336) |
| Interest in a jointly controlled entity | | **(3,086)** | – |
| Acquisition of a subsidiary | 43 | **5,607** | – |
| Purchase of available-for-sale financial assets | | **(9,091)** | – |
| Proceeds from disposal of available-for-sale financial assets | | **952** | 1,928 |
| Proceeds from disposals of property, plant and equipment | | **2,165** | 1,804 |
| Interest received | | **3,921** | 5,320 |
| **Net cash used in investing activities** | | **(263,933)** | (167,796) |
| **Financing activities** | | | |
| Inception of new bank loans | | **773,458** | 376,964 |
| Proceeds from issue of shares | | **1,059** | 7,490 |
| Repayment of bank loans | | **(423,797)** | (272,303) |
| Net decrease in trust receipt and other loans | | **(56,951)** | (12,830) |
| Dividends paid | | **(27,346)** | (47,455) |
| Capital contribution from a minority shareholder of a subsidiary | | **17,700** | – |
| **Net cash from financing activities** | | **284,123** | 51,866 |
| **Net increase/(decrease) in cash and cash equivalents** | | **157,319** | (99,002) |
| **Effect of foreign exchange rates changes** | | **2,161** | 10,158 |
| **Cash and cash equivalents at beginning of year** | | **170,785** | 259,629 |
| **Cash and cash equivalents at end of year** | | **330,265** | 170,785 |

## 1. General Information

L.K. Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 October 2006. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report. The immediate and ultimate holding company of the Company is Girgio Industries Limited, a company incorporated in the British Virgin Islands.

On 2 April 2008, the Company completed the acquisition of a subsidiary, Idra S.r.l, as detailed in note 43.

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture, and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines and related accessories.

## 2. Basis of Preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for investment properties, available-for-sale financial assets and derivative financial instruments, which are measured at fair values as explained in the accounting policies set out in note 4.

### (c) Use of estimates and judgements

The preparation of the financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 5.

### (d) Functional and presentation currency

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

## 3. Adoption of Amendments and New HKFRSs

(a) In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the HKICPA that are effective for the current accounting period of the Group and the Company.

| | |
|---|---|
| Amendments to HKAS 39 and HKFRS 7 | Reclassification of Financial Assets |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The adoption of the above amendments and new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods and no prior period adjustment has been recognised.

(b) **Potential impact arising on HKFRSs not yet effective**

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective. The directors anticipate that the application of these new or revised HKFRSs, other than HKAS 23 (Revised) "Borrowing Costs" and HKFRS 8 "Operating Segments" as further discussed below, will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs [1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 [2] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards [3] |
| Amendments to HKAS 32 and HKAS 1 | Puttable Financial Instruments and Obligations Arising on Liquidation [4] |
| Amendment to HKAS 39 | Eligible Hedged Items [3] |
| Amendments to HKFRS 1 and HKAS 27 | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [4] |
| Amendments to HKFRS 7 | Improving Disclosures about Financial Instruments [4] |
| Amendments to HK(IFRIC) – Interpretation 9 and HKAS 39 | Embedded Derivatives [5] |
| HKAS 1 (Revised) | Presentation of Financial Statements [4] |
| HKAS 23 (Revised) | Borrowing Costs [4] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements [3] |
| HKFRS 2 Amendment | Share-based Payment – Vesting Conditions and Cancellations [4] |
| HKFRS 3 (Revised) | Business Combinations [3] |
| HKFRS 8 | Operating Segments [4] |
| HK(IFRIC) – Interpretation 13 | Customer Loyalty Programmes [6] |
| HK(IFRIC) – Interpretation 15 | Agreements for the Construction of Real Estate [4] |
| HK(IFRIC) – Interpretation 16 | Hedges of a Net Investment in a Foreign Operation [7] |
| HK(IFRIC) – Interpretation 17 | Distributions of Non-cash Assets to Owners [3] |
| HK(IFRIC) – Interpretation 18 | Transfers of Assets from Customers [8] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January, 2009, 1 July, 2009 and 1 January, 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 January 2009
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 July 2008
7 Effective for annual periods beginning on or after 1 October 2008
8 Effective for transfers of assets from customers received on or after 1 July 2009

## 3. Adoption of Amendments and New HKFRSs *(Continued)*

### (b) Potential impact arising on HKFRSs not yet effective *(Continued)*

HKAS 23 (Revised) "Borrowing Costs" requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset and removes the option of immediately expensing those borrowing costs. The adoption of this revised standard may result in capitalisation of borrowing costs incurred for the Group's qualifying assets.

HKFRS 8 "Operating Segments" replaces HKAS 14 and requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management as to whether it will change the number of reportable segments and the manner in which the segments are reported in order to be consistent with the internal reporting provided to the chief operating decision maker.

## 4. Significant Accounting Policies

The principal accounting policies which have been consistently applied during the year are set out below:

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions and balances are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make additional investment to cover the losses.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

The purchase method of accounting is used to account for the acquisition of subsidiaries, associate, or jointly controlled entity by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. In respect of associate and jointly controlled entity, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 4(o)).

## 4. Significant Accounting Policies *(Continued)*

### (b) Goodwill

Goodwill is test annually for impairment and carried at cost less accumulated impairment losses, if any. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of acquisition is less than the fair value of the identifiable assets, liabilities and contingent liabilities of an entity acquired, the difference (i.e. negative goodwill) is recognised directly in the income statement.

### (c) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. Revenue is recognised in income statement as follows:

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

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

Interest income is recognised as it accrues using the effective interest method.

### (d) Government subsidies and value added tax refunded

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidies will be received and all attaching conditions will be complied with. Subsidies relating to expenses incurred by the Group are deferred and recognised in the income statement over the period necessary to match them with the expenses they are intended to compensate. Subsidies relating to the purchase of property, plant and equipment are deducted from the carrying amount of the asset so that the subsidies are recognised as income over the lives of the corresponding depreciable assets by way of a reduced depreciation charge.

Value added tax refunded is recognised when there is reasonable assurance that it will be received and the Group will comply with the conditions attaching to it.

### (e) Property, plant and equipment

Land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease, are treated as finance lease and included in leasehold land and buildings at cost, less accumulated depreciation and impairment losses, if any.

## 4. Significant Accounting Policies *(Continued)*

### (e) Property, plant and equipment *(Continued)*

Other property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement for the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss of each asset to its residual value over its estimated useful life at the following annual rates:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the unexpired lease term of lease and their estimated useful lives of no more than 50 years |
| Leasehold improvements | 5% – 20% |
| Plant and machinery | 10% – 20% |
| Furniture, fixtures and office equipment | 5% – 20% |
| Motor vehicles | 20% – 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

### (f) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in income statement for the period in which they arise.

## 4. Significant Accounting Policies *(Continued)*

### (f) Investment properties *(Continued)*

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 asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

### (g) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions. Investment in an associate is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investment in an associate includes any goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other long-term interest that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

### (h) Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as jointly controlled entity.

The Group recognises its interest in jointly controlled entity using equity method of accounting and is initially recognised at cost. The Group's investment in a jointly controlled entity includes any goodwill identified on acquisition, net of any accumulated impairment losses.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in income statement.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

### (i) Operating leases

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

Rental payments/receipts under operating leases are recognised in the income statement on a straight-line basis over the terms of the respective leases.

## 4. Significant Accounting Policies *(Continued)*

### (j) Foreign currencies

The individual financial statements of each group companies are presented in the currency of the primary economic environment in which the group company operates (its functional currency). For the purpose of preparation of the consolidated financial statements, the results, cash flows and financial position of each group companies are presented in Hong Kong dollars, which is the Company's functional currency and presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual group companies, transactions in currencies other than the group company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in income statement, except for exchange differences arising on monetary item that forms part of the Company's investment in a foreign operations, in which case, such exchange differences are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange fluctuation reserve. Such translation differences are recognised in income statement in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using historical cost prevailing at the date of acquisition.

### (k) Borrowing costs

Borrowing costs are recognised in income statement when they are incurred.

### (l) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

### (m) Income taxes

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

## 4. Significant Accounting Policies *(Continued)*

### (m) Income taxes *(Continued)*

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associate and jointly controlled entity, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (n) Intangible assets (other than goodwill)

*(i) Trademarks*

Trademarks are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives of not more than ten years.

Gains or losses arising from derecognition of an asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

*(ii) Research and development expenditures*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life of not more than five years, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

## 4. Significant Accounting Policies *(Continued)*

### (n) Intangible assets (other than goodwill) *(Continued)*

*(ii) Research and development expenditures (Continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to income statement in the period in which it is incurred.

### (o) Impairment of assets excluding goodwill and financial assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss:

– Intangible assets other than goodwill

– Property, plant and equipment

– Land use rights

– Interests in subsidiaries

– Interest in an associate

– Interest in a jointly controlled entity

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

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

### (p) Land use rights

Land use rights represent up-front payments to acquire long term interests in lessee-occupied properties. These payments are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged to the income statement on a straight-line basis over the terms of the respective leases.

## 4. Significant Accounting Policies *(Continued)*

### (q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary and usual course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write down is made for deteriorated, damaged, obsolete and slow moving inventories.

### (r) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

*(i) Financial assets*

The Group's financial assets are classified into one of the three categories, comprising financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading if:

- they have been acquired principally for the purpose of selling in the near future; or
- they are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- they are derivatives that are not designated as effective hedging instruments.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

## 4. Significant Accounting Policies *(Continued)*

### (r) Financial instruments *(Continued)*

*(i) Financial assets (Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or, loans and receivables. The Group designated its listed securities and an unlisted investment fund as available-for sale financial assets.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement.

*(ii) Impairment of financial assets*

Financial assets are assessed for objective evidence of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence that an asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

For loans and receivables, an impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, where the effect of discounting is material. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of loss is recognised as administration expenses. When a receivable is uncollectible, it is written off against the allowance account for the receivables. Subsequent recoveries of amounts previously written off are credited against administration expenses.

Assessment of impairment loss is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## 4. Significant Accounting Policies *(Continued)*

### (r) Financial instruments *(Continued)*

*(ii) Impairment of financial assets (Continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed in income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in income statement. The amount of the cumulative loss that is recognised in income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in income statement. Impairment losses recognised in income statement in respect of available-for-sale equity securities are not reversed in income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

*(iii) Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading if:

- they have been acquired principally for the purpose of selling in the near future; or

- they are derivatives that are not designated as effective hedging instruments.

Gains or losses on financial liabilities held for trading are recognised in the income statement.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

<u>Other financial liabilities</u>

Other financial liabilities of the Group are subsequently measured at amortised cost, using the effective interest method.

<u>Equity instruments</u>

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

## 4. Significant Accounting Policies *(Continued)*

### (r) Financial instruments *(Continued)*

*(iii) Financial liabilities and equity (Continued)*

Financial guarantee contracts

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but performs a liability adequacy test at each balance sheet date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee were to result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement.

The Group regards its financial guarantee contracts provided in respect of credit facilities granted by financial institutions to certain customers of the Group as insurance contracts.

*(iv) Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

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

### (s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Share-based payment transactions

*Equity-settled share-based payment transactions*

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in income statement, with a corresponding adjustment to share option reserve.

## 4. Significant Accounting Policies *(Continued)*

### (t) Share-based payment transactions *(Continued)*

*Equity-settled share-based payment transactions (Continued)*

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

### (u) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors. Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Inventories

Note 4(q) describes that inventories are stated at the lower of cost and net realisable value.

The Group has a policy to estimate the provision for inventories based on their aging. Management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value to ascertain whether allowance is required to be made for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventories and the write down of inventories in the period in which such estimate is changed.

### (b) Bills and accounts receivable

Note 4(r) describes that bills and accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Impairment loss on an account receivable is recognised in income statement when there is objective evidence that the asset is impaired. The Group adopts a prudent approach in selecting its customers in order to minimise its credit risk. All new customer accounts with credit terms are reviewed by the finance department in areas including credit ratings, credit history, and sales amount, etc for the purpose of making an assessment of the payment term or assigning a credit limit if applicable.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### (b) Bills and accounts receivable *(Continued)*

The Group has implemented a credit policy with an aim to maintain the accounts receivable balance at an acceptable level. The accounts receivable will be reviewed by the Group's senior management of the finance department on a monthly basis. Impairment loss is recognised and estimated when the recoverability of the outstanding debts is uncertain after taking into account various consideration including the aging of the debts, the current creditworthiness, the historical loss experience for debts with similar credit risk characteristics and the current market condition. Where the expectation is different from the original estimate, such difference will impact the carrying amount of bills and accounts receivable and the impairment losses on receivables in the period in which such estimate is changed.

### (c) Deferred tax

Deferred tax asset of HK$3,467,000 (2008: HK$1,849,000) in respect of tax losses of a subsidiary has been recognised as management considers, taking into account certain tax planning arrangements and profit forecast of the subsidiary, it is probable that future taxable profit will be available against which the tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred tax asset and tax expense in the period in which such estimate is changed.

### (d) Impairment of property, plant and equipment and intangible assets

The recoverable amounts of the intangible assets and property, plant and equipment of a loss-making subsidiary principally engaged in manufacture and sale of die-casting machines have been determined based on value in use calculation. This calculation uses cash flow projection based on financial budgets approved by management covering a period of one year and on the basis that there is new source of revenue from performing subcontracting work for group companies. Cash flows beyond one year are extrapolated for four years with no growth rate for sales and subcontracting work. The discount rate used is 15% which reflected management's estimate of the specific risks relating to the subsidiary.

As such, impairment losses of intangible assets of HK$327,000 (note 13) and property, plant and equipment of HK$5,168,000 (note 14) were recognised in the income statement during the year ended 31 March 2009.

A sensitivity analysis of significant assumptions is performed by management. Had negative growth rate of 10% per annum been sustained per year, the impairment loss would have increased by HK$4,297,000. Had the discount rate increased by 5%, the impairment loss would have increased by HK$4,590,000. The decrease in discount rate by 5% would result in reversal of the entire impairment losses of HK$5,495,000 recognised in the current year's income statement.

## 6. Turnover, Other Revenue, Other Gains/(Losses) and Segment Information

The turnover, other revenue and other gains/(losses) recognised during the year are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of machines and related accessories, net of returns and discounts | **1,192,487** | 1,261,972 |
| Other revenue | | |
| Value added tax refunded | **8,573** | 19,175 |
| Other subsidies from government | **11,088** | 4,216 |
| Rental income | **1,544** | 2,146 |
| Sundry income | **4,729** | 1,244 |
| | **25,934** | 26,781 |
| Total revenue | **1,218,421** | 1,288,753 |
| Other gains/(losses) | | |
| Excess of fair value of net assets acquired over cost of acquisition | **17,452** | – |
| Net foreign exchange (losses)/gains | **(850)** | 2,084 |
| Change in fair value of investment properties | **(3,840)** | 5,631 |
| Change in fair value of derivative financial instruments | **(3,290)** | – |
| Gains on disposals of property, plant and equipment | **387** | 40 |
| Gain on disposal of available-for-sale financial assets | **392** | 607 |
| | **10,251** | 8,362 |
| | **1,228,672** | 1,297,115 |

### Primary reporting format – Business segments

The Group is principally engaged in the design, manufacture, and sales of hot chamber and cold chamber die-casting machines, plastic injection moulding machines and related accessories.

As the Group has only one business segment, no business segment analysis is presented.

## 6. Turnover, Other Revenue, Other Gains/(Losses) and Segment Information *(Continued)*

### Secondary reporting format – Geographical segments

The Group's revenue by geographical location is determined by the final destination of delivery of the products.

The following tables present total revenue, assets and capital expenditure information of the Group's geographical segments.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Turnover and other revenue | | |
| The PRC | **748,986** | 1,164,173 |
| Europe | **264,962** | 23,777 |
| Middle and South America | **64,912** | 51,735 |
| North America | **73,991** | 6,032 |
| Other countries | **65,570** | 43,036 |
| | **1,218,421** | 1,288,753 |

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Location of assets | | |
| The PRC | **1,629,826** | 1,528,571 |
| Europe | **232,951** | 3,487 |
| Hong Kong | **135,728** | 74,868 |
| Other countries | **87,825** | 67,959 |
| Total segment assets | **2,086,330** | 1,674,885 |
| Deferred tax assets | **16,951** | 10,717 |
| Total assets | **2,103,281** | 1,685,602 |

Carrying amounts of segment assets are allocated based on where the assets are located.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Capital expenditure | | |
| The PRC | **232,768** | 101,534 |
| Europe | **9,302** | – |
| Hong Kong | **4,304** | 866 |
| Other countries | **754** | 1,943 |
| | **247,128** | 104,343 |

Capital expenditure is allocated based on where the assets are located.

## 7. (Loss)/Profit from Operations

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| (Loss)/profit from operations has been arrived at after charging/(crediting): | | |
| Share-based payments | **168** | 7,964 |
| Other staff costs | **245,405** | 192,852 |
| Contributions to defined contribution retirement plans | **28,282** | 10,025 |
| Total staff costs (Including directors' emoluments) | **273,855** | 210,841 |
| Amortisation of : | | |
| – Trademarks [1] | **1,369** | 56 |
| – Land use rights | **1,680** | 1,738 |
| – Development costs and others [2] | **4,547** | – |
| Depreciation of property, plant and equipment | **72,776** | 47,691 |
| Total amortisation and depreciation | **80,372** | 49,485 |
| Research and development costs | **29,547** | 24,582 |
| Less: Government grants | **(4,741)** | – |
| Net research and development costs | **24,806** | 24,582 |
| Auditor's remuneration | | |
| Audit fees | **1,904** | 1,680 |
| Underprovision of audit fees in prior year | **180** | 128 |
| Others | **601** | 302 |
| | **2,685** | 2,110 |
| Gross rental income from investment properties | **(1,544)** | (2,146) |
| Less: Direct operating expenses | **147** | 204 |
| | **(1,397)** | (1,942) |
| Gross rental income from machinery leasing (Included in turnover) | **(10,800)** | – |
| Less: Direct operating expenses[2] | **7,845** | – |
| | **(2,955)** | – |
| Cost of sales | **887,564** | 852,274 |
| Impairment losses on intangible assets [1] | **327** | – |
| Impairment losses on property, plant and equipment [1] | **5,168** | – |
| Impairment losses on accounts receivable | **4,760** | – |
| Provision for a legal claim | **2,841** | – |
| Write down of inventories[2] | **9,158** | 5,682 |

1 Included in administration expenses
2 Included in cost of sales

## 8. Directors' and Senior Executives' Emoluments

### (a) Directors' emoluments

The emoluments of each of the directors were as follows:

| | Fees | Salaries and other allowances | Discretionary bonuses (Note i) | Retirement scheme contributions | Share-based payments | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 March 2009** | | | | | | |
| *Executive directors* | | | | | | |
| Chong Siw Yin | **–** | **2,730** | **500** | **12** | **14** | **3,256** |
| Cao Yang | **–** | **1,448** | **500** | **83** | **14** | **2,045** |
| Liu Zhao Ming (Note ii) | **–** | **845** | **–** | **22** | **14** | **881** |
| Chung Yuk Ming | **–** | **1,682** | **500** | **12** | **14** | **2,208** |
| Wong Pui Chun (Note iii) | **–** | **495** | **–** | **5** | **–** | **500** |
| | **–** | **7,200** | **1,500** | **134** | **56** | **8,890** |
| *Independent non-executive directors* | | | | | | |
| Low Seow Chay | **180** | **–** | **–** | **–** | **–** | **180** |
| Lui Ming Wah | **233** | **–** | **–** | **–** | **–** | **233** |
| Tsang Yiu Keung | **270** | **–** | **–** | **–** | **–** | **270** |
| Chan Wah Tip | **270** | **–** | **–** | **–** | **–** | **270** |
| | **953** | **–** | **–** | **–** | **–** | **953** |
| | **953** | **7,200** | **1,500** | **134** | **56** | **9,843** |
| Year ended 31 March 2008 | | | | | | |
| *Executive directors* | | | | | | |
| Chong Siw Yin | – | 2,657 | 700 | 12 | 654 | 4,023 |
| Cao Yang | – | 1,540 | 667 | 50 | 654 | 2,911 |
| Liu Zhao Ming | – | 1,079 | 278 | 24 | 654 | 2,035 |
| Chung Yuk Ming | – | 1,640 | 350 | 12 | 654 | 2,656 |
| | – | 6,916 | 1,995 | 98 | 2,616 | 11,625 |
| *Independent non-executive directors* | | | | | | |
| Low Seow Chay | 180 | – | – | – | – | 180 |
| Lui Ming Wah | 180 | – | – | – | – | 180 |
| Tsang Yiu Keung | 250 | – | – | – | – | 250 |
| Chan Wah Tip | 250 | – | – | – | – | 250 |
| Liu Chee Ming | 250 | – | – | – | – | 250 |
| | 1,110 | – | – | – | – | 1,110 |
| | 1,110 | 6,916 | 1,995 | 98 | 2,616 | 12,735 |

## 8. Directors' and Senior Executives' Emoluments *(Continued)*

### (a) Directors' emoluments *(Continued)*

Notes:

(i) Discretionary bonuses are related to the performance of the Group and are determined by the Remuneration Committee.

(ii) Mr. Liu Zhao Ming resigned as executive director on 1 November 2008.

(iii) Ms. Wong Pui Chun was appointed as executive director on 7 November 2008.

No directors of the Company waived any emoluments for the year ended 31 March 2009 (2008: Nil).

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2008: four) were directors of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the remaining two (2008: one) individuals were as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | **886** | 488 |
| Discretionary bonuses | **2,181** | 1,196 |
| Retirement scheme contributions | **138** | 60 |
| Share-based payments | **19** | 436 |
| | **3,224** | 2,180 |

The emoluments of one of the above two individuals for the year ended 31 March 2009 were within the band from HK$1,000,001 to HK$1,500,000 and the emoluments of the remaining one were within the band from HK$1,500,001 to HK$2,000,000.

## 9. Finance Costs – Net

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Finance income: | | |
| Interest income on short-term bank deposits | **(3,921)** | (5,320) |
| Finance costs: | | |
| Interests on bank loans and overdrafts wholly repayable within five years | **42,022** | 19,298 |
| | **38,101** | 13,978 |

## 10. Income Taxes

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| The tax charge/(credit) for the year comprises: | | |
| Current income tax | | |
| – PRC income tax | **6,522** | 14,758 |
| – Hong Kong Profits Tax | **–** | – |
| – Under/(over)provision in prior years | **109** | (844) |
| | **6,631** | 13,914 |
| Deferred taxation (Note 20) | **(2,316)** | 2,475 |
| | **4,315** | 16,389 |

In accordance with the applicable Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, certain of the Company's subsidiaries registered in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax loss brought forward and are entitled to 50% relief on the income tax in the following three years. In addition, certain of these subsidiaries are entitled to additional tax concessions granted by local tax bureau. These subsidiaries are subject to income tax at rates ranging from 12.5% to 25% during the year (2008: 7.5% to 27%).

Under the new Enterprise Income Tax Law of the PRC ("New Tax Law") and its implementation rules effective on 1 January 2008, the PRC enterprise income tax rate for domestic-invested and foreign-invested enterprises is unified to 25%. Also, a foreign-invested enterprise established before the New Tax Law was promulgated on 16 March 2007, which is entitled to foreign-invested enterprise income tax holiday, can continue to enjoy the existing tax holiday, if any, until its expiry subject to a 5-year period restriction. Consequently, certain subsidiaries of the Company which have unexpired tax holidays, continue to be tax exempted. For those subsidiaries, which are still entitled to the 50% relief on income tax, the tax rate for the year is 12.5%. For those subsidiaries with tax holidays expired (other than those approved to be Advanced Technology Enterprises as discussed in the next paragraph), the tax rates for the year are 18% or 20% or 25% (2008: 18% or 25%). The tax rate of those subsidiaries subject to the tax rate of 18% or 20% will progressively increase to 25%.

During the year, certain principal subsidiaries in Shenzhen, Zhongshan and Shanghai were certified as Advanced Technology Enterprises and are entitled to a concessionary tax rate of 15% for three years commencing from 1 January 2008. They are entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

Under the New Tax Law, dividends out of profits earned on or after 1 January 2008 from the subsidiaries in the PRC distributed to the Group will be subject to dividend withholding tax. The implementation rules provides for the dividend withholding tax to be at 10% unless reduced by tax treaty. Pursuant to a double tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong are subject to a dividend withholding tax rate of 5%. Provision for withholding tax is included in deferred taxation.

No Hong Kong Profits Tax has been provided for the years ended 31 March 2009 and 2008 as there were no assessable profits arose for both years.

## 10. Income Taxes *(Continued)*

No provision for overseas income tax has been made as the Group has no assessable profits subject to overseas income tax for the years ended 31 March 2009 and 2008.

A reconciliation of the tax charge applicable to (loss)/profit before tax using the applicable tax rates for relevant tax jurisdiction to the tax expense at the Group's effective tax rate is as follows:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| (Loss)/profit before income taxes | **(47,898)** | 131,810 |
| Tax (credit)/charge at applicable tax rates for relevant tax jurisdictions | **(11,631)** | 46,430 |
| Effect of preferential tax rates applicable to relevant jurisdictions | **817** | (31,437) |
| Effect of tax concession | **(1,958)** | – |
| Effect of non-taxable income | **(6,377)** | (556) |
| Effect of non-deductible expenses | **4,552** | 1,910 |
| Effect of changes in tax rates | **1,536** | (2,960) |
| Effect of unrecognised tax losses | **12,908** | 3,579 |
| Effect of other temporary differences not recognised | **381** | 1,655 |
| Effect of recognition of temporary differences not previously recognised | **–** | (1,393) |
| Write-down of unrecoverable deferred tax assets | **–** | 5 |
| Effect of undistributed profits of subsidiaries in the PRC | **3,708** | – |
| Under/(over)provision of current income tax in prior years | **109** | (844) |
| Others | **270** | – |
| Tax charge for the year | **4,315** | 16,389 |

## 11. Dividends

Dividends paid or payable to equity holders of the Company attributable to the year are as follows:

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| 2009 interim dividend of HK0.4 cents per share (2008: 2008 interim dividend of HK2.7 cents per share) | **4,051** | 27,301 |
| 2009 final dividend of nil (2008: 2008 final dividend of HK2.3 cents per share) | **–** | 23,285 |
| | **4,051** | 50,586 |

Subsequent to the balance sheet date, the directors do not recommend the payment of final dividend for the year ended 31 March 2009 (2008: HK2.3 cents per share).

## 12. (Loss)/Earnings Per Share

### (a) Basic

The calculation of the basic (loss)/earnings per share is based on the consolidated loss attributable to the equity holders of the Company of HK$43,671,000 (2008: profit of HK$115,421,000) and on the weighted average number of approximately 1,012,603,000 (2008: 1,007,870,000) ordinary shares in issue during the year.

| | **2009** | 2008 |
|---|---|---|
| (Loss)/profit attributable to equity holders of the Company (HK$'000) | **(43,671)** | 115,421 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **1,012,603** | 1,007,870 |
| Basic (loss)/earnings per share (HK cents) | **(4.3)** | 11.5 |

### (b) Diluted

Diluted loss per share for the year is the same as basic loss per share as the effect of the assumed conversion of the outstanding share options is anti-dilutive.

Diluted earnings per share for the year ended 31 March 2008 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes of the Company are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's ordinary shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2008 |
|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 115,421 |
| Weighted average number of ordinary shares in issue (shares in thousands) | 1,007,870 |
| Effect of deemed issue of ordinary shares under the Company's share option schemes for nil consideration (shares in thousands) | 8,992 |
| Weighted average number of ordinary shares (diluted) (shares in thousands) | 1,016,862 |
| Diluted earnings per share (HK cents) | 11.4 |

## 13. Intangible Assets

| | Group | | | |
|---|---|---|---|---|
| | Goodwill HK$'000 (Note) | Trademarks HK$'000 | Development costs and others HK$'000 | Total HK$'000 |
| **Cost** | | | | |
| At 1 April 2007 | 2,799 | 500 | – | 3,299 |
| Exchange realignment | – | 56 | – | 56 |
| At 31 March 2008 | 2,799 | 556 | – | 3,355 |
| Exchange realignment | – | (644) | (1,406) | (2,050) |
| Acquisition of a subsidiary (Note 43) | – | 4,305 | 9,219 | 13,524 |
| Additions | – | 295 | 5,770 | 6,065 |
| **At 31 March 2009** | **2,799** | **4,512** | **13,583** | **20,894** |
| **Amortisation and impairment** | | | | |
| At 1 April 2007 | – | 112 | – | 112 |
| Exchange realignment | – | 13 | – | 13 |
| Amortisation during the year | – | 56 | – | 56 |
| At 31 March 2008 | – | 181 | – | 181 |
| Exchange realignment | – | (115) | (414) | (529) |
| Amortisation during the year | – | 1,369 | 4,547 | 5,916 |
| Impairment loss recognised (Note 5(d)) | – | 327 | – | 327 |
| **At 31 March 2009** | **–** | **1,762** | **4,133** | **5,895** |
| **Net book value** | | | | |
| At 31 March 2008 | 2,799 | 375 | – | 3,174 |
| **At 31 March 2009** | **2,799** | **2,750** | **9,450** | **14,999** |

Note:

The Group tests annually whether the goodwill arising from acquisition of a profitable subsidiary principally engaged in manufacture and sale of die-casting machine has suffered any impairment, in accordance with the accounting policy stated in note 4(b). The recoverable amount of the subsidiary (i.e. cash-generating unit), to which the goodwill relates, has been determined based on a value-in-use calculation. The calculation is based on a one year profit forecast approved by the management. The cash flows beyond the one year period are extrapolated for five years assuming no growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 10% (2008: 7.5%) and management believes it reflects specific risks relating to the subsidiary.

Management believes that any reasonably possible change in any of the key assumptions including the projected sales and gross margin and discount rate would not result in the carrying amount of goodwill exceeding its recoverable amount.

## 14. Property, Plant and Equipment

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Leasehold land and buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
| **Cost** | | | | | | | |
| At 1 April 2007 | 196,054 | 5,880 | 18,103 | 243,319 | 32,049 | 33,044 | 528,449 |
| Exchange realignment | 21,496 | 654 | 1,645 | 25,772 | 2,751 | 3,259 | 55,577 |
| Additions | 823 | 19,720 | 1,276 | 35,005 | 5,208 | 6,174 | 68,206 |
| Disposals | – | – | (141) | (652) | (659) | (3,620) | (5,072) |
| Reclassification | (1,652) | (9,004) | 4,244 | 6,412 | – | – | – |
| At 31 March 2008 | 216,721 | 17,250 | 25,127 | 309,856 | 39,349 | 38,857 | 647,160 |
| Exchange realignment | 4,025 | 392 | (3,963) | 1,880 | (219) | 669 | 2,784 |
| Acquisition of a subsidiary (Note 43) | 5,516 | – | 28,610 | 29,485 | 4,947 | 438 | 68,996 |
| Additions | 5,880 | 175,022 | 1,223 | 44,760 | 4,184 | 1,428 | 232,497 |
| Disposals | – | – | (52) | (623) | (207) | (5,814) | (6,696) |
| Reclassification | 927 | (3,622) | – | 3,320 | (283) | (342) | – |
| **At 31 March 2009** | **233,069** | **189,042** | **50,945** | **388,678** | **47,771** | **35,236** | **944,741** |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 April 2007 | 32,370 | – | 5,579 | 101,328 | 15,358 | 17,784 | 172,419 |
| Exchange realignment | 4,154 | – | 658 | 11,490 | 1,550 | 1,946 | 19,798 |
| Charge for the year | 9,868 | – | 3,116 | 23,852 | 5,850 | 5,005 | 47,691 |
| Written back on disposals | – | – | (5) | (121) | (556) | (2,626) | (3,308) |
| Reclassification | (30) | – | 30 | – | – | – | – |
| At 31 March 2008 | 46,362 | – | 9,378 | 136,549 | 22,202 | 22,109 | 236,600 |
| Exchange realignment | 1,011 | – | (221) | 1,518 | 165 | 362 | 2,835 |
| Charge for the year | 11,564 | – | 7,140 | 40,067 | 8,581 | 5,424 | 72,776 |
| Impairment loss recognised (Note 5(d)) | 1,892 | – | 384 | 2,861 | 31 | – | 5,168 |
| Written back on disposals | – | – | (3) | (523) | (151) | (4,241) | (4,918) |
| **At 31 March 2009** | **60,829** | **–** | **16,678** | **180,472** | **30,828** | **23,654** | **312,461** |
| **Net book value** | | | | | | | |
| At 31 March 2008 | 170,359 | 17,250 | 15,749 | 173,307 | 17,147 | 16,748 | 410,560 |
| **At 31 March 2009** | **172,240** | **189,042** | **34,267** | **208,206** | **16,943** | **11,582** | **632,280** |

Certain property, plant and equipment are pledged to secure bank borrowings of the Group as detailed in note 35(a).

The leasehold land and buildings as at 31 March 2009 include the cost of leasehold land and buildings situated in Hong Kong under medium term leases of HK$7,434,000 (2008: HK$3,337,000) where their fair values cannot practically be separated.

## 15. Investment Properties

| | Group HK$'000 |
|---|---|
| **At fair value** | |
| At 1 April 2007 | 18,700 |
| Exchange realignment | 1,319 |
| Increase in fair value during the year | 5,631 |
| At 31 March 2008 | 25,650 |
| Exchange realignment | 330 |
| Decrease in fair value during the year | (3,840) |
| **At 31 March 2009** | **22,140** |

| | Group | |
|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 |
| The carrying amount of investment properties shown above comprises: | | |
| Leasehold land and buildings in Hong Kong under medium term leases | **8,280** | 11,120 |
| Leasehold land and buildings in the PRC under medium term leases | **13,860** | 14,530 |
| | **22,140** | 25,650 |

The fair value of the investment properties at 31 March 2009 has been arrived at on the basis of a valuation carried out on that date by Messrs, Jones Lang LaSalle Sallmanns Limited, being independent professional surveyors and valuers not connected with the Group. Messrs Jones Lang LaSalle Sallmanns Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"), and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to the HKIS Valuation Standard on Properties (First Edition), was made on market value basis calculated by reference to net rental income allowing for reversionary income potential of the properties or direct comparison approach by making reference to comparable sales transaction as available in the relevant market.

One of the investment properties is pledged to secure bank borrowings of the Group as detailed in note 35(a).

## 16. Land Use Rights

| | Group HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2007 | 37,854 |
| Exchange realignment | 6,591 |
| Additions | 36,137 |
| At 31 March 2008 | 80,582 |
| Exchange realignment | 1,832 |
| Additions | 8,566 |
| **At 31 March 2009** | **90,980** |
| **Amortisation** | |
| At 1 April 2007 | 3,565 |
| Exchange realignment | 512 |
| Amortisation during the year | 1,738 |
| At 31 March 2008 | 5,815 |
| Exchange realignment | 132 |
| Amortisation during the year | 1,680 |
| **At 31 March 2009** | **7,627** |
| **Net book value** | |
| At 31 March 2008 | 74,767 |
| **At 31 March 2009** | **83,353** |

| | Group | |
|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 |
| The carrying amount of land use rights shown above are located in the PRC and comprises: | | |
| Long term leases | **10,078** | 10,040 |
| Medium term leases | **73,275** | 64,727 |
| | **83,353** | 74,767 |

Certain land use rights are pledged to secure bank borrowings of the Group as detailed in note 35(a).

## 17. Interest in an Associate

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Share of net assets | **72,443** | 4,667 |
| Goodwill arising from additional capital contribution | **3,033** | – |
| Amount due from an associate | **–** | 16,669 |
| | **75,476** | 21,336 |

As at 31 March 2009, the Group had equity interest in the following associate:

| Name of entity | Form of business structure | Place of establishment and operation | Particulars of registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| 阜新力昌鋼鐵鑄造有限公司 Fuxin Li Chang Steel & Iron Foundry Co., Ltd. * | Limited liability Company | PRC | RMB60,000,000 | 35% | Iron ore mining and smelting |

* *The English name is made for identification purpose only.*

The summarised financial information in respect of the associate is set out below:

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Total assets | **290,849** | 30,000 |
| Total liabilities | **(83,869)** | (16,667) |
| Net assets | **206,980** | 13,333 |
| Group's share of net assets of the associate | **72,443** | 4,667 |
| Revenue | **–** | – |
| Loss for the year | **(3,505)** | – |
| Group's share of loss of the associate for the year | **(1,227)** | – |

No revenue was generated by the associate during the year as the associate has not yet commenced commercial operation as at 31 March 2009.

The amount due from the associate as at 31 March 2008, which was interest free, unsecured and with no fixed terms of repayment, was applied for payment of registered capital of the associate on 8 April 2008.

## 18. Interest in a Jointly Controlled Entity

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Share of net liabilities | **(3)** | – |
| Loan to a jointly controlled entity | **3,081** | – |
| | **3,078** | – |

As at 31 March 2009, the Group has equity interest in the following jointly controlled entity:

| Name of entity | Place of incorporation and operation | Nominal value of issued share capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Pang Cheung Co., Ltd. | Hong Kong | HK$10,000 | 50% | Investment holding |

The summarised financial information in respect of the jointly controlled entity is set out below:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Non-current assets | **29** | – |
| Current assets | **3,386** | – |
| Non-current liabilities | **(3,091)** | – |
| Current liabilities | **(330)** | – |
| Net liabilities | **(6)** | – |
| Group's share of net liabilities of the jointly controlled entity | **(3)** | – |
| Revenue | **3** | – |
| Loss for the year | **(17)** | – |
| Group's share of loss of the jointly controlled entity for the year | **(8)** | – |

The jointly controlled entity has not yet commenced commercial operation as at 31 March 2009.

The loan to a jointly controlled entity is unsecured, interest free and has no fixed repayment terms.

## 19. Available-For-Sale Financial Assets

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **Current assets** | | |
| Unlisted investment (Note) | **9,091** | – |
| **Non-current assets** | | |
| Equity securities listed in Hong Kong, at fair value | **–** | 746 |
| | **9,091** | 746 |
| Market value of listed securities in Hong Kong | **–** | 746 |

Note: The fair value of the unlisted investment fund approximates its cost as at 31 March 2009.

## 20. Deferred Taxation

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Deferred tax assets | **16,951** | 10,717 |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **(3,708)** | – |
| | **13,243** | 10,717 |

(a) The following are the components of deferred tax assets/(liabilities) recognised and movements thereon during the current and prior year:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Unutilised tax losses HK$'000 | Impairment losses and allowances HK$'000 | Depreciation allowances HK$'000 | Revaluation of investment properties HK$'000 | Other temporary differences HK$'000 | Total HK$'000 |
| At 1 April 2007 | 5 | 4,301 | 3,772 | (565) | 4,583 | 12,096 |
| Exchange realignment | – | 571 | 522 | (120) | 123 | 1,096 |
| Credit/(charge) to income statement (Note 10) | 1,844 | 1,396 | 711 | (854) | (5,572) | (2,475) |
| At 31 March 2008 | 1,849 | 6,268 | 5,005 | (1,539) | (866) | 10,717 |
| Exchange realignment | – | 142 | 125 | (35) | (22) | 210 |
| Credit/(charge) to income statement (Note 10) | 1,618 | 860 | 552 | 608 | (1,322) | 2,316 |
| **At 31 March 2009** | **3,467** | **7,270** | **5,682** | **(966)** | **(2,210)** | **13,243** |

## 20. Deferred Taxation *(Continued)*

(a) *(Continued)*

At the balance sheet date, the Group has the following unutilised tax losses available for offsetting against future taxable profits:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Tax losses expire: | | |
| Within 5 years | **48,562** | 23,177 |
| Over 5 years | **7,546** | 7,546 |
| Without expiry date | **10,457** | 7,848 |
| | **66,565** | 38,571 |

No deferred tax asset has been recognised in respect of the above tax losses due to unpredictability of future profit streams.

(b) As mentioned in note 10, dividends out of profits earned on or after 1 January 2008 from the subsidiaries in the PRC distributed to the Group will be subject to dividend withholding tax. Accordingly, deferred tax liabilities of HK$3,708,000 (2008: nil) is recognised during the year and included in other temporary differences.

## 21. Bills and Accounts Receivable

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Gross accounts receivable | **341,947** | 350,552 |
| Less: Allowance for impairment losses | **(31,862)** | (26,156) |
| | **310,085** | 324,396 |
| Bills receivable | **41,652** | 36,547 |
| | **351,737** | 360,943 |

The following is an aging analysis of the gross accounts receivable:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Within 90 days | **159,782** | 168,931 |
| 91-180 days | **46,418** | 66,785 |
| 181-365 days | **57,253** | 63,944 |
| Over one year | **78,494** | 50,892 |
| | **341,947** | 350,552 |

## 21. Bills and Accounts Receivable *(Continued)*

The maturity date of the bills receivable is generally between one to six months.

Goods sold to customers are either made on cash on delivery or on credit. Customers in general are required to pay deposits upon purchases orders are placed, the remaining balances will be payable upon goods are delivered to customers. Some customers are granted a credit term with repayment period ranging from one month to six months. The Group also sells goods to certain customers with sales proceeds payable by instalments which normally range from 6 months to 12 months.

The following is an analysis of accounts receivable (net of impairment) comprising balances impaired, balances past due but not impaired, and balances neither past due nor impaired:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Balances impaired:** | | |
| Not past due | **4,478** | 1,420 |
| Past due: | | |
| Within 90 days | **12,483** | 152 |
| 91-180 days | **865** | 4,136 |
| 181-365 days | **6,384** | 6,400 |
| Over one year | **8,701** | 2,187 |
| Balances past due and impaired | **28,433** | 12,875 |
| Total balances impaired | **32,911** | 14,295 |
| **Balances not impaired:** | | |
| Not past due | **144,356** | 168,213 |
| Past due: | | |
| Within 90 days | **51,231** | 80,176 |
| 91-180 days | **30,701** | 29,293 |
| 181-365 days | **22,089** | 26,240 |
| Over one year | **28,797** | 6,179 |
| Balances past due but not impaired | **132,818** | 141,888 |
| Total balances not impaired | **277,174** | 310,101 |
| Total accounts receivable net of impairment | **310,085** | 324,396 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a large number of customers that have a good track record with the Group. Based on experience, management believes that no impairment loss is necessary in respect of these balances as there has not been a significant deterioration in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 21. Bills and Accounts Receivable *(Continued)*

Movement in the allowance for impairment losses on accounts receivable:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Balance at beginning of year | **26,156** | 24,066 |
| Exchange realignment | **473** | 2,090 |
| Impairment losses recognised | **4,760** | – |
| Amounts written off as uncollectible | **473** | – |
| Balance at end of year | **31,862** | 26,156 |

## 22. Restricted Bank Balances

Restricted bank balances of the Group represent deposits placed in banks to secure banking facilities. The banking facilities include bank loans, bank guarantees for bills payable to suppliers, letters of credit for import and trading finance granted by the banks to the Group's customers. The restricted bank balances will be released upon the settlement of relevant bank borrowings.

Restricted bank balance of the Company as at 31 March 2008 represents deposit placed in a bank to secure the bank loans borrowed by a subsidiary.

At the balance sheet date, the restricted bank balances carry interest at market rates which range from 0.36% to 4.14% per annum (2008: 0.72% to 2.1%).

## 23. Inventories

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Raw materials | **232,518** | 200,109 |
| Work in progress | **136,224** | 157,346 |
| Finished goods | **116,190** | 135,699 |
| | **484,932** | 493,154 |
| Less: Allowance for inventories | **(30,522)** | (20,703) |
| | **454,410** | 472,451 |

## 24. Other Receivables, Prepayments and Deposits

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Non-current** | | |
| Deposits for acquisition of land use rights | **18,772** | 15,440 |
| Deposits for acquisition of property, plant and equipment | **3,163** | 10,034 |
| | **21,935** | 25,474 |
| **Current** | | |
| Subsidies receivable from government | **5,345** | 16,926 |
| Value added tax receivable | **1,828** | 948 |
| Trade deposits | **16,442** | 8,347 |
| Advances to staff for business purpose | **3,090** | 2,938 |
| Sundry, rental and utility deposits | **2,892** | 2,054 |
| Others | **25,467** | 15,613 |
| | **55,064** | 46,826 |
| | **76,999** | 72,300 |

## 25. Derivative Financial Instruments

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Call options | **4,744** | – |
| Interest rate swap contract | **34** | – |
| Balance classified as current assets | **4,778** | – |
| Put options | **2,236** | – |
| Interest rate swap contract | **2,909** | – |
| Foreign exchange forward contract | **398** | – |
| Balance classified as current liabilities | **5,543** | – |

## 25. Derivative Financial Instruments *(Continued)*

### (a) Call and put options

During the year ended 31 March 2009, the Group entered into the following call and put option agreements in respect of acquisition of the remaining 30% interest in a subsidiary which was 70% acquired by the Group on 2 April 2008 as mentioned in note 43.

*Call options*

On 2 April 2008, the Group entered into a call option agreement with the minority shareholder of a subsidiary that the Group is granted a first call option to purchase 15% of equity interest in the subsidiary held by the minority shareholder within the first option period which will start since the approval date of the financial statements of the subsidiary for the year ending 31 December 2009 and will last for 90 days. The first exercise price (the "First Exercise Price") will be the higher of (a) 50% of the minority shareholder's pro-quota value of 8 times the subsidiary's net profit after taxes for the year ending 31 December 2009, provided that in no case the above value exceeding the amount of €2,500,000; and (b) 50% of the share of capital injection of €1,500,000 paid in by the minority shareholder, as yearly adjusted with the interest rate of 5% per annum.

Subject to the exercise of the first call option, the Group will have a second call option to purchase the remaining 15% equity interest in the subsidiary held by the minority shareholder within the second option period which will start since the approval date of the financial statements of the subsidiary for the year ending 31 December 2010 and will last for 90 days. The second exercise price (the "Second Exercise Price") is the higher of (a) 100% of the minority shareholder's pro-quota value of 8 times the subsidiary's net profit after taxes for the year ending 31 December 2010, provided that in no case the above value exceeding the amount of €2,500,000; and (b) 50% of the share of capital injection of €1,500,000 paid in by the minority shareholder, as yearly adjusted with the interest rate of 5% per annum.

*Put options*

On 2 April 2008, the Group also entered into a put option agreement with the same minority shareholder that the minority shareholder is granted a first put option to require the Group to purchase 15% of equity interest in the subsidiary held by the minority shareholder within the first option period which will start since the approval date of the financial statements of the subsidiary for the year ending 31 December 2009 and will last for 90 days. The first exercise price will be the same as the First Exercise Price of the Call options.

Subject to the exercise of the first put option, the minority shareholder will have a second put option to require the Group to purchase the remaining 15% equity interest in the subsidiary held by the minority shareholder within the second option period which will start since the approval date of the financial statements of the subsidiary for the year ending 31 December 2010 and will last for 90 days. The second exercise price is the same as the Second Exercise Price of the Call options.

## 25. Derivative Financial Instruments *(Continued)*

### (a) Call and put options *(Continued)*

*Valuation of the call and put options*

The call and put options are measured at fair value estimated by a firm of independent professional valuers in Hong Kong by using the Black-Scholes Option Pricing Model.

The inputs into the model for the value of the call and put options as at the grant date of 2 April 2008 were as follows:

| Grant date | First call option 2 April 2008 | Second call option 2 April 2008 | First put option 2 April 2008 | Second put option 2 April 2008 |
|---|---|---|---|---|
| Share spot price (HK$'000) | 10,943 | 10,943 | 10,943 | 10,943 |
| Risk-free rate | 3.56% | 3.63% | 3.56% | 3.63% |
| Annualised volatility | 32% | 30% | 32% | 30% |
| Assumed exercise period | From 2 April 2010 to 1 July 2010 | From 2 April 2011 to 1 July 2011 | From 2 April 2010 to 1 July 2010 | From 2 April 2011 to 1 July 2011 |
| Exercise price (HK$'000) | 10,096 | 10,601 | 10,096 | 10,601 |
| Value of options (HK$'000) | 2,829 | 1,610 | 1,219 | 695 |

The inputs into the model for the value of the call and put options as at 31 March 2009 were as follows:

| Grant date | First call option 2 April 2008 | Second call option 2 April 2008 | First put option 2 April 2008 | Second put option 2 April 2008 |
|---|---|---|---|---|
| Share spot price (HK$'000) | 10,087 | 10,087 | 10,087 | 10,087 |
| Risk-free rate | 0.91% | 1.34% | 0.91% | 1.34% |
| Annualised volatility | 52% | 45% | 52% | 45% |
| Assumed exercise period | From 2 April 2010 to 1 July 2010 | From 2 April 2011 to 1 July 2011 | From 2 April 2010 to 1 July 2010 | From 2 April 2011 to 1 July 2011 |
| Exercise price (HK$'000) | 8,473 | 8,473 | 8,473 | 8,473 |
| Value of options (HK$'000) | 3,076 | 1,668 | 1,367 | 869 |

### (b) Interest rate swap contracts

The Group has entered into two interest rate swap contracts to manage its exposure to interest rate movements on its bank borrowings. One interest rate swap contract of notional amount of HK$50,000,000 was entered during the year to swap floating-rate borrowings to fixed-rate borrowings at interest rate of 3% per annum. Another interest rate swap contract of notional amount of HK$50,000,000 was entered during the year to swap its floating-rate borrowings to another floating-rate borrowings which is considered by management to be more favourable under their expectation of future market conditions.

The interest rate swap contracts are measured at fair value provided by the counterparty banks.

## 25. Derivative Financial Instruments *(Continued)*

### (c) Foreign exchange forward contract

At the balance sheet date, the Group has entered into a foreign currency forward contract denominated in Euro to buy €400,000 at the exchange rate 1.4557 against United States dollar and the maturity date is 23 April 2009.

The foreign exchange forward contract is measured at fair value provided by the counterparty bank.

## 26. Cash and Bank Balances

Cash and bank balances comprise cash held by the Group and short-term bank deposits, with an original maturity of three months or less. At the balance sheet date, the bank balances carry interest rates ranging from 0.01% to 2.8% per annum (2008:0% to 1.22%).

## 27. Bills and Accounts Payable

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Accounts payable | **136,782** | 218,513 |
| Bills payable | **24,645** | 30,323 |
| | **161,427** | 248,836 |

The following is the aging analysis of the accounts payable:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Within 90 days | **70,147** | 185,007 |
| 91-180 days | **46,608** | 25,479 |
| 181-365 days | **8,661** | 4,565 |
| Over one year | **11,366** | 3,462 |
| | **136,782** | 218,513 |

The maturity date of the bills payable is generally between one to six months.

## 28. Other Payables, Deposits and Accruals

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Trade and other deposits and receipts in advance | **73,043** | 65,050 |
| Accrued salaries, bonuses and staff benefits | **19,758** | 15,435 |
| Accrued sales commission | **16,623** | 16,532 |
| Value added tax payable | **15,393** | 1,349 |
| Provision for a legal claim | **2,841** | – |
| Others | **41,349** | 22,843 |
| | **169,007** | 121,209 |

## 29. Bank Borrowings

The bank borrowings comprise:

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Secured: | | |
| Bank loans | **51,932** | 159,055 |
| Trust receipt loans | **–** | 1,942 |
| | **51,932** | 160,997 |
| Unsecured: | | |
| Bank loans | **695,370** | 238,585 |
| Other loans | **96,774** | – |
| | **792,144** | 238,585 |
| | **844,076** | 399,582 |
| The carrying amount is repayable as follows: | | |
| Within one year (Note) | **841,153** | 381,074 |
| In the second year | **1,949** | 11,368 |
| In the third to fifth year | **974** | 7,140 |
| | **844,076** | 399,582 |
| Less: Amount due within one year shown under current liabilities (Note) | **(841,153)** | (381,074) |
| Amount due after one year shown under non-current liabilities | **2,923** | 18,508 |
| Total bank borrowings | | |
| – at fixed rate | **75,000** | 159,443 |
| – at floating rate | **769,076** | 240,139 |
| | **844,076** | 399,582 |

## 29. Bank Borrowings *(Continued)*

The annual interest rates of the Group's major bank borrowings as at balance sheet date were as follows:

| | **2009** | 2008 |
|---|---|---|
| Fixed rate borrowings | **4.86% to 6.21%** | 4.65% to 8.19% |
| Floating rate borrowings | **HIBOR plus a margin from 1.00% to 1.95% or EURIBOR plus a margin 1.75%** | HIBOR plus a margin from 1% to 1.75% |

Note:

As at 31 March 2009, the Group was in breach of certain financial covenants relating to profitability and/or liquidity ratios prescribed under a syndicated bank loan agreement and a bank loan agreement. Consequently, the total amount of HK$600,000,000 (comprising a syndicated bank loan of HK$500,000,000 and a bank loan of HK$100,000,000) becomes repayable upon demand as at 31 March 2009 and the non-current portion of these long term loans of approximately HK$220,988,000 had been reclassified to current liabilities.

Subsequent to the balance sheet date, the agent for the syndicated bank loan of HK$500,000,000 and the Group have entered into an agreement ("Amendment Agreement") whereby the agent has agreed to amend or waive certain financial covenants including the aforementioned financial covenants as at 31 March 2009. As such, the breach of relevant financial covenants was rectified and the outstanding loan amount to the extent of HK$183,813,000 was reclassified to non-current liabilities upon the Amendment Agreement was signed.

Subsequent to the balance sheet date, the Group was advised by the bank in respect of the bank loan of HK$100,000,000 that it will temporarily refrain from exercising its rights and remedies under the relevant terms of the bank loan agreement and will discuss with the Group for renewal of the banking facilities including possible waiver and/or amendments of the financial covenants in due course. The directors believe that the Group will be able to obtain the renewal of the banking facilities and waiver of the relevant financial covenants.

## 30. Provision for Post-employment Benefits

The movement of the provision during the year is as follows:

| | **Group**<br>HK$'000 |
|---|---|
| Balance as at 1 April 2008 | – |
| Arising from acquisition of a subsidiary (Note 43) | 17,741 |
| Additions during the year | 4,561 |
| Payments during the year | (9,546) |
| Exchange realignment | (2,253) |
| **Balance as at 31 March 2009** | **10,503** |

## 30. Provision for Post-employment Benefits *(Continued)*

The provision represents end-of-service payments payable to employees of a subsidiary (incorporated and operating in Italy) attributable to their services rendered up to 31 December 2006 when they leave the subsidiary, whether voluntarily or otherwise. The provision is set aside based on gross wages or salary and revalued annually by a fixed rate of 1.5% and by 75% of the official inflation rate. Effective from 1 January 2007, the laws governing the payments have been amended whereby the subsidiary is required to make contributions for all its employees to a private pension fund or a fund managed by National Social Security Institute instead of accruing in the financial statements. Therefore, the provision as at 31 March 2009 represents the end-of-service payments accrued up to 31 December 2006 plus the aforementioned adjustments less subsequent payments made to relevant employees who left the subsidiary after 31 December 2006.

Management estimated that payment of HK$940,000 may be payable to employees within one year based on the historical staff turnover ratio.

## 31. Share Capital

| | | Number of ordinary shares of HK$0.1 each | Amount HK$'000 |
|---|---|---|---|
| **Authorised:** | | | |
| At 1 April 2007, 31 March 2008 and 31 March 2009 | | 3,000,000,000 | 300,000 |
| **Issued and fully paid:** | | | |
| At 1 April 2008 | | 1,000,000,000 | 100,000 |
| Shares issued upon exercise of share options | (Note 42(a)) | 11,245,000 | 1,125 |
| At 31 March 2008 | | 1,011,245,000 | 101,125 |
| Shares issued upon exercise of share options | (Note 42(a)) | 1,590,000 | 159 |
| **At 31 March 2009** | | **1,012,835,000** | **101,284** |

## 32. Related Party Transactions

(a) During the year, the Group had the following transactions with its related parties.

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Operating lease rentals paid to: | | |
| Wheelfit Investment Limited | **1,165** | 1,116 |

Wheelfit Investment Limited is 50% owned by Mr. Liu Siong Song who is the spouse of a director of the Company, Ms. Chong Siw Yin.

The above transaction also constituted a continuing connected transaction under 14A.34 of the Listing Rules.

(b) The remuneration of directors and other members of key management during the year was as follows:

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Short term benefits (mainly include salaries and allowances and bonus) | **16,867** | 16,832 |
| Share-based payments | **102** | 4,820 |
| Retirement fund contributions | **327** | 236 |
| | **17,296** | 21,888 |

(c) The Group has the following amounts due (to)/from its associate and jointly controlled entity as at 31 March 2009 and 2008:

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **Associate** | | |
| Fuxin Li Chang Steel and Iron Foundry Co., Ltd. | **(40,909)** | 16,669 |
| **Jointly controlled entity** | | |
| Pang Cheung Co., Ltd. | **3,081** | – |

The balances are unsecured, interest free and have no fixed repayment terms.

The directors considered the above transactions and balances were made at normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable to the Group than those applicable to independent third parties.

## 33. Financial Instruments

The Group's financial instruments as at 31 March 2009 and 2008 are categorised as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Financial assets at fair value through profit or loss** | | |
| Derivative financial instruments | **4,778** | – |
| **Loans and receivables** | | |
| Amount due from an associate | **–** | 16,669 |
| Loan to a jointly controlled entity | **3,081** | – |
| Bills and accounts receivables | **351,737** | 360,943 |
| Restricted bank balances | **27,724** | 62,173 |
| Other receivables | **14,842** | 25,660 |
| Cash and bank balances | **330,265** | 170,785 |
| | **727,649** | 636,230 |
| **Available-for-sale financial assets** | **9,091** | 746 |
| Total financial assets | **741,518** | 636,976 |
| **Financial liabilities at fair value through profit or loss** | | |
| Derivative financial instruments | **5,543** | – |
| **Other financial liabilities** | | |
| Bills and accounts payable | **161,427** | 248,836 |
| Other payables and accruals | **67,617** | 54,810 |
| Bank borrowings | **844,076** | 399,582 |
| Amount due to an associate | **40,909** | – |
| | **1,114,029** | 703,228 |
| Total financial liabilities | **1,119,572** | 703,228 |

The Company only has "loans and receivables" and "other financial liabilities" which represent the carrying amounts of its current assets of HK$288,750,000 (2008: HK$311,108,000) and current liabilities of HK$2,542,000 (2008: HK$2,804,000) respectively as detailed in the Company's balance sheet as at 31 March 2009.

Details of these financial instruments are disclosed in respective notes to the financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

## 33. Financial Instruments *(Continued)*

### (a) Market risk

The Group's activities expose primarily to the financial risks of changes in interest rates and foreign currency exchange rates as discussed below. There has been no material change in the Group's exposure to market risks or the manner in which it manages and measures the risks.

*(i) Interest rate risk*

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which carry at prevailing market interest rates as shown in notes 26 and 29 respectively. The management will consider hedging significant interest rate exposure should the need arise.

The Group's fair value interest rate risk relates primarily to its derivative financial instruments (see Note 25(b)) which are used to mitigate its exposure to cash flow interest rate risk.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for bank deposits and bank borrowings at the balance sheet date. For variable rate borrowings and bank deposits, the analysis is prepared assuming the amount of liability/asset outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2009 would increase/decrease by HK$5,539,000/HK$6,767,000 (2008: profit decrease/increase by HK$781,000).

*(ii) Currency risk*

The functional currencies of the Group's respective principal subsidiaries are Renminbi ("RMB"), Euro and Hong Kong dollars ("HKD"). While most of the Group's operations are transacted in the functional currencies of the respective group companies, the Group undertakes certain transactions denominated in foreign currencies. The Group uses a foreign exchange forward contract as mentioned in note 25(c) to mitigate its foreign currency exposure and closely monitors this exposure and will consider hedging significant exposure when necessary.

## 33. Financial Instruments *(Continued)*

### (a) Market risk *(Continued)*

*(ii) Currency risk (Continued)*

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies other than functional currencies of the relevant group companies at the balance sheet date are as follows:

| | Group | | | |
|---|---|---|---|---|
| | Denominated in foreign currencies | | | |
| | RMB<br>HK$'000 | USD<br>HK$'000 | HKD<br>HK$'000 | EURO<br>HK$'000 |
| **At 31 March 2009** | | | | |
| Bills and accounts receivable | **–** | **33,311** | **–** | **539** |
| Other receivables | **–** | **589** | **–** | **170** |
| Cash and cash equivalents | **38** | **18,632** | **90** | **545** |
| Bills and accounts payable | **–** | **(2,472)** | **–** | **(10,400)** |
| Other payables and accruals | **(155)** | **(3,115)** | **–** | **–** |
| Bank borrowings | **–** | **(5,359)** | **–** | **–** |
| Gross exposure arising from recognised assets and (liabilities) | **(117)** | **41,586** | **90** | **(9,146)** |
| Contract amount of foreign exchange forward contract | **–** | **–** | **–** | **4,542** |
| Net exposure arising from recognised assets and (liabilities) | **(117)** | **41,586** | **90** | **(4,604)** |
| **As at 31 March 2008** | | | | |
| Bills and accounts receivable | – | 8,231 | – | – |
| Other receivables | 25 | – | – | 1,922 |
| Cash and cash equivalents | – | 9,131 | 12,897 | 19,070 |
| Bills and accounts payable | – | (6,660) | – | (745) |
| Other payables and accruals | (4,464) | – | – | – |
| Bank borrowings | – | (7,613) | – | (383) |
| Exposure arising from recognised assets and (liabilities) | (4,439) | 3,089 | 12,897 | 19,864 |

## 33. Financial Instruments *(Continued)*

### (a) Market risk *(Continued)*

*(ii)* *Currency risk (Continued)*

Foreign currency sensitivity

As HKD is pegged to United States dollars ("USD"), currency risk in relation to HKD against USD denominated monetary assets and liabilities is expected to be minimal. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 5% change in foreign currency rates where the functional currency of relevant group companies weakens against RMB, Euro and USD, and vice versa.

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| **RMB** (appreciate against HKD) | | |
| Increase/(decrease) in profit for the year | **1,358** | (1,085) |
| **RMB** (depreciate against HKD) | | |
| (Decrease)/increase in profit for the year | **(1,358)** | 1,085 |
| **EURO** (appreciate against HKD) | | |
| (Decrease)/increase in profit for the year | **(355)** | 993 |
| **EURO** (depreciate against HKD) | | |
| Increase/(decrease) in profit for the year | **355** | (993) |

*(iii)* *Equity price risk*

The Group's exposure to equity price risk primarily arises from its available-for-sale financial assets. As the carrying amount of the available-for-sale financial assets is not significant, the directors consider the Group's exposure to equity price risk is minimal.

### (b) Credit risk

The Group has no significant concentration of credit risk with exposure spreading over a large number of counterparties and customers. The carrying amounts of the total financial assets as mentioned above together with the guarantees given by the Group for the customers as mentioned in note 34 represent the Group's maximum exposure to credit risk. The Group has a credit policy in place as described in notes 5(b) and 21 to minimise credit risk which is monitored on an ongoing basis. Bank balances and fixed deposits are placed with reputable banks which management believes are of high credit quality with insignificant credit risk.

### (c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its requirements in the short and longer term. If breach of loan covenants is anticipated, the Group will communicate with the lenders to obtain waiver and/or rectify the breach in due course. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as raising of loans and investment of surplus cash.

## 33. Financial Instruments *(Continued)*

### (c) Liquidity risk *(Continued)*

The following table details the Group's contractual maturities of its financial liabilities at the balance sheet date. The table has been drawn up based on the undiscounted cash flows and the earliest date on which the Group can be required to pay:

| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 3 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 31 March 2009** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Fixed rates bank borrowings | **–** | **77,494** | **–** | **–** | **77,494** |
| Floating rates bank borrowings | **600,000** | **171,680** | **2,005** | **1,003** | **774,688** |
| Accounts payable | **51,595** | **85,187** | **–** | **–** | **136,782** |
| Bills payable | **–** | **24,645** | **–** | **–** | **24,645** |
| Other payables and accruals | **–** | **67,617** | **–** | **–** | **67,617** |
| Amount due to an associate | **–** | **40,909** | **–** | **–** | **40,909** |
| | **651,595** | **467,532** | **2,005** | **1,003** | **1,122,135** |
| **Derivative financial liabilities – net settlement** | | | | | |
| Interest rate swaps | **–** | **1,350** | **1,350** | **346** | **3,046** |
| Foreign exchange forward contracts | **–** | **4,513** | **–** | **–** | **4,513** |
| Put options | **–** | **–** | **8,663** | **9,075** | **17,738** |
| | **–** | **5,863** | **10,013** | **9,421** | **25,297** |
| | **651,595** | **473,395** | **12,018** | **10,424** | **1,147,432** |
| **At 31 March 2008** | | | | | |
| Fixed rates bank borrowings | – | 163,582 | – | – | 163,582 |
| Floating rates bank borrowings | – | 229,224 | 12,341 | 7,788 | 249,353 |
| Accounts payable | 147,024 | 71,489 | – | – | 218,513 |
| Bills payable | – | 30,323 | – | – | 30,323 |
| Other payables and accruals | – | 54,810 | – | – | 54,810 |
| | 147,024 | 549,428 | 12,341 | 7,788 | 716,581 |

## 33. Financial Instruments *(Continued)*

### (c) Liquidity risk *(Continued)*

The Company's contractual undiscounted cash flows of its financial liabilities approximate the carrying amount of other payables and accruals included in current liabilities, which are payable within one year, as the effect of discounting is insignificant.

### (d) Capital risk management

The Group manages its capital to ensure that companies 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 capital structure of the Group consists of debts, which includes the bank borrowings disclosed in note 29, and equity attributable to equity holders of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure periodically. The directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the raising of new debts or the repayment of existing debts. No changes were made in the objectives, policies or processes during the year.

### (e) Fair value

The fair value of the financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

## 34. Financial Guarantees

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| The amount of the outstanding loans granted by banks to customers to purchase the Group's products for which guarantees have been given by the Group to the banks | **71,278** | 77,446 |

The Group has provided guarantees to banks in respect of credit facilities up to the maximum amount of HK$218,068,000 (2008: HK$233,333,000) granted to certain customers of the Group to purchase its products. Pursuant to the terms of the guarantees, the Group is required to deposit a portion of the sales proceeds received from these customers with the banks as mentioned in note 35(b). Upon default in repayments by these customers, the Group is responsible to repay the outstanding loan principals together with accrued interest and related costs owed by the defaulted customers to the banks, and the Group is entitled to take over the legal title and possession of the related products. The Group's guarantee period starts from the dates of grant of the relevant bank loans and ends when these customers have fully repaid their bank loans.

The Company has provided guarantees in respect of banking facilities of its subsidiaries amounting to approximately HK$945,750,000 (2008: HK$375,171,000). These facilities guaranteed by the Company and utilised by the subsidiaries as at 31 March 2009 amounted to HK$638,000,000 (2008: HK$139,081,000).

## 35. Pledge of Assets

(a) The carrying amounts of the assets of the Group pledged to secure its bank borrowings are as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Restricted bank balances | **6,086** | 37,702 |
| Leasehold land and buildings | **68,363** | 74,215 |
| Land use rights | **11,400** | 19,265 |
| Investment properties | **5,220** | 7,290 |
| Plant and machinery | **9,631** | 57,510 |
| | **100,700** | 195,982 |

(b) The Group also has restricted bank balances to the extent of HK$21,638,000 (2008: HK$24,471,000) pledged to banks for credit facilities granted to customers to purchase the Group's products as mentioned in note 34.

(c) As at 31 March 2008, the Company's investments in certain subsidiaries with aggregate net asset value of HK$156,920,000 were pledged to a bank for banking facilities granted to its subsidiaries. The pledge of assets was released during the year.

## 36. Commitments

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Capital commitments in respect of acquisition of property, plant and equipment: | | |
| Contracted but not provided for | **57,715** | 105,266 |
| Capital commitments in respect of acquisition of land use rights: | | |
| Contracted but not provided for | **–** | 44,937 |
| Capital commitments in respect of capital contribution in a jointly controlled entity | **15,405** | – |
| Other commitments: | | |
| Contracted but not provided for | **5,987** | 6,918 |

## 37. Operating Leases

### The Group as lessee

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Minimum lease payments paid under operating leases for buildings | **14,653** | 4,649 |

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of buildings under non-cancellable operating leases which fall due as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Leases payable: | | |
| Within one year | **12,086** | 2,365 |
| In the second to fifth year inclusive | **32,452** | 952 |
| | **44,538** | 3, 317 |

The Group leases a number of properties under operating leases. The leases generally run for an initial period of one to five years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

### The Group as lessor

The Group leases out the investment properties and certain machinery under operating leases. The leases generally run for an initial period of one to five years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases include contingent rentals.

As at the balance sheet date, the Group had contracted with lessees under non-cancellable operating leases in respect of buildings and machinery for the following future minimum leases receivable:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Leases receivable: | | |
| Within one year | **11,070** | 743 |
| In the second to fifth year inclusive | **1,288** | 833 |
| | **12,358** | 1,576 |

The Company has no lease arrangement at the balance sheet date.

## 38. Retirement benefit plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

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

The subsidiary incorporated and operating in Italy is required to make defined contributions for all its employees to a private pension fund or a fund managed by National Social Security Institute effective from 1 January 2007. For the employees' services rendered up to 31 December 2006, the subsidiary has made a provision of end-of-service payments payable to them as mentioned in note 30.

## 39. Investments in Subsidiaries

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Investments in unlisted shares, at cost | **65,000** | 65,000 |

Details of the Company's principal subsidiaries as at 31 March 2009 are as follows:

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries directly held by the Company** | | | | | |
| Best Truth Enterprises Limited | Corporation | British Virgin Islands | 2 ordinary shares of US$1 each | 100% | Investment holding |
| Cyberbay Pte Ltd. | Corporation | Singapore | 2 ordinary shares of S$1 each | 100% | Investment holding |
| **Subsidiaries indirectly held by the Company** | | | | | |
| 重慶力勁機械有限公司 Chongqing L.K. Machinery Co. Ltd.* | Wholly Foreign-owned ("WFOE") | PRC | US$2,000,000 | 100% | Sale of die-casting machines |
| 阜新力勁北方機械有限公司 Fuxin L.K. Northern Machinery Co. Ltd.* | WFOE | PRC | HK$30,000,000 | 100% | Manufacture and sale of die-casting machines |

## 39. Investments in Subsidiaries *(Continued)*

Details of the Company's principal subsidiaries as at 31 March 2009 are as follows: *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| Gold Millennium Ltd. | Corporation | British Virgin Islands | 1 ordinary share of US$1 | 100% | Investment holding |
| Gold Progress Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Investment holding |
| L.K. Machinery Company Limited | Corporation | Hong Kong | 10,000,000 ordinary shares of HK$1 each | 100% | Investment holding |
| L.K. Machinery International Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Sale of die-casting machines and plastic injection moulding machines |
| 力勁機械股份有限公司 L.K. Machinery Corp. | Corporation | Taiwan | 11,100,000 ordinary shares of NT$10 each | 100% | Sale of die-casting machines and plastic injection moulding machines |
| L.K. Machinery, Inc. | Corporation | USA | 1,000 shares with US$10 paid up | 100% | Sale of die-casting machines and plastic injection moulding machines |
| 力勁機械(深圳)有限公司 L.K. Machinery (Shenzhen) Co. Ltd.* | WFOE | PRC | HK$69,500,000 | 100% | Manufacture and sale of die-casting machines |
| Lucky Prosper Limited | Corporation | Hong Kong | 1 ordinary share of HK$1 | 100% | Investment holding |
| 寧波力勁機械有限公司 Ningbo L.K. Machinery Co. Ltd.* | WFOE | PRC | US$1,660,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| 寧波力勁科技有限公司 Ningbo L.K. Technology Co. Ltd. * | WFOE | PRC | US$13,600,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| Power Excel International Limited | Corporation | Hong Kong | 2 ordinary shares of HK$1 each | 100% | Investment holding |

## 39. Investments in Subsidiaries *(Continued)*

Details of the Company's principal subsidiaries as at 31 March 2009 are as follows: *(Continued)*

| Name of subsidiary | Form of business structure | Place of incorporation/ establishment and operations | Issued and fully paid up share capital/ registered capital | Attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|---|
| 上海一達機械有限公司 Shanghai Atech Machinery Co. Ltd.* | WFOE | PRC | US$4,900,000 | 100% | Manufacture and sale of die-casting machines |
| 深圳領威科技有限公司 Shenzhen Leadwell Technology Co. Ltd.* | WFOE | PRC | RMB127,000,000 | 100% | Manufacture and sale of die-casting machines and plastic injection moulding machines |
| 中山力勁機械有限公司 Zhongshan L.K. Machinery Co. Ltd.* | WFOE | PRC | US$5,580,000 | 100% | Manufacture and sale of plastic injection moulding machines |
| 阜新力達鋼鐵鑄造有限公司 Fuxin Lida Steel Casting Co. Ltd.* | WFOE | PRC | HK$90,000,000 | 100% | Steel casting |
| Idra S.r.l | Corporation | Italy | €5,032,661 | 70% | Design, manufacture and sale of die-casting machines and equipment |

* *The English name is made for identification purpose only.*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results, assets, or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 40. Amounts Due from Subsidiaries

The amounts are interest free, unsecured and repayable on demand.

## 41. Reserves

| | Company | | | | |
|---|---|---|---|---|---|
| | Share premium HK$'000 | Share option reserve HK$'000 | Dividend reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| At 1 April 2007 | 222,068 | 10,281 | 20,110 | 1,171 | 253,630 |
| Issue of shares upon exercise of share options | 6,365 | – | – | – | 6,365 |
| Share-based payments | – | 7,964 | – | – | 7,964 |
| Transfer to share premium upon exercise of share options | 5,575 | (5,575) | – | – | – |
| Transfer to retained profits upon lapse of share options | – | (388) | – | 388 | – |
| Profit for the year | – | – | – | 51,675 | 51,675 |
| 2007 final dividend declared and paid | – | – | (20,110) | (44) | (20,154) |
| 2008 interim dividend paid (Note 11) | – | – | – | (27,301) | (27,301) |
| 2008 proposed dividend (Note 11) | – | – | 23,285 | (23,285) | – |
| At 31 March 2008 | 234,008 | 12,282 | 23,285 | 2,604 | 272,179 |
| Issue of shares upon exercise of share options | 900 | – | – | – | 900 |
| Share-based payments | – | 168 | – | – | 168 |
| Transfer to share premium upon exercise of share options | 847 | (847) | – | – | – |
| Transfer to retained profits upon lapse of share options | – | (2,243) | – | 2,243 | – |
| Profit for the year | – | – | – | 4,023 | 4,023 |
| 2008 final dividend declared and paid | – | – | (23,285) | (10) | (23,295) |
| 2009 interim dividend paid (Note 11) | – | – | – | (4,051) | (4,051) |
| **At 31 March 2009** | **235,755** | **9,360** | **–** | **4,809** | **249,924** |

The consolidated (loss)/profit for the year attributable to equity holders of the Company includes a loss of HK$5,977,000 (2008: loss of HK$10,325,000) which has been dealt with in the financial statements of the Company.

## 42. Share Option Schemes

### (a) Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme (further details of which are set out in the Company's directors' report) was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 23 September 2006. Details of the options granted under the Pre-IPO Share Option Scheme during the year are as follows:

| Category of grantee | Exercise price HK$ | Exercise period | Number of shares subject to options: Outstanding as at 1 April 2008 | Reclassification during the year (Note) | Lapsed during the year | Exercised during the year | Outstanding as at 31 March 2009 |
|---|---|---|---|---|---|---|---|
| Directors | 0.666 | 16 April 2007 – 15 October 2016 | 10,000,000 | 600,000 | (3,000,000) | – | 7,600,000 |
| Employees | 0.666 | 16 April 2007 – 15 October 2016 | 14,687,500 | (600,000) | (1,467,500) | (1,590,000) | 11,030,000 |
| | | | 24,687,500 | – | (4,467,500) | (1,590,000) | 18,630,000 |

| Category of grantee | Exercise price HK$ | Exercise period | Number of shares subject to options: Outstanding as at 1 April 2007 | Lapsed during the year | Exercised during the year | Outstanding as at 31 March 2008 |
|---|---|---|---|---|---|---|
| Directors | 0.666 | 16 April 2007 – 15 October 2016 | 12,000,000 | – | (2,000,000) | 10,000,000 |
| Employees | 0.666 | 16 April 2007 – 15 October 2016 | 24,800,000 | (867,500) | (9,245,000) | 14,687,500 |
| | | | 36,800,000 | (867,500) | (11,245,000) | 24,687,500 |

Note: Ms. Wong Pui Chun was appointed as executive director on 7 November 2008. The 600,000 share options held by her were reclassified from the category of employee to director during the year.

During the year, 1,590,000 (2008: 11,245,000) share options were exercised. The weighted average closing price on the dates on which the options were exercised was HK$0.95 (2008: HK$1.02).

## 42. Share Option Schemes *(Continued)*

### (a) Pre-IPO Share Option Scheme *(Continued)*

Each of the grantees to whom options were granted under the Pre-IPO Option Scheme would be subject to the following restrictions on the exercise of the options granted to him/her:

| Period (as from 16 October 2006, the date on which the shares of the Company commenced trading on the Stock Exchange, the "Listing Date") | Maximum cumulative percentage of the shares under option exercisable by the grantee |
|---|---|
| First six months | 0% |
| Second six months | 33% |
| Third six months | 66% |
| For the remaining option period | 100% |

The fair value of the options granted under the Pre-IPO Share Option Scheme amounting to HK$18,480,000 was determined at the Listing Date under the Binominal Option Pricing Model. The following assumptions were used to calculate the fair value of the options :

| | |
|---|---|
| Share price at date of grant: | HK$1.11 (being the IPO share price of the Company) |
| Exercise price: | HK$0.666 |
| Expected volatility (Note): | 47% |
| Suboptimal exercise factor: | 1.5 |
| Risk-free rate: | 4.046% |
| Expected dividend yield: | 4% |

Note: Expected volatility was determined by using the volatility of share price for comparable companies with shares listed on the Stock Exchange and engaged in the similar business as the Company.

The Group recognised an expense of HK$168,000 for the year ended 31 March 2009 (2008: HK$7,964,000) in relation to share options granted by the Company.

Save as disclosed above, no further options were granted under the Pre-IPO Share Option Scheme as the right to do so had ended on the day on which the prospectus of the Company dated 29 September 2006 was registered with the Registrar of Companies in Hong Kong.

### (b) Share Option Scheme

Another share option scheme (further details of which are set out in the Company's directors' report) is also adopted pursuant to the written resolution passed by the sole shareholder of the Company on 23 September 2006. No options were granted under the share option scheme since its date of adoption and up to 31 March 2009.

## 43. Acquisition of a subsidiary

On 2 April 2008, the Group completed the acquisition of 70% of the issued share capital of Idra S.r.l for a consideration of €0.70 (HK$ equivalent 8.53), further details of which are set out in the Company's circular dated 20 March 2008. Idra S.r.l is principally engaged in the design, manufacture and sale of die-casting machines and equipment.

The fair values of the identifiable assets and liabilities of Idra S.r.l acquired as at the date of acquisition, which have no significant differences from their respective carrying amounts, are as follows:

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Intangible assets | 13,524 |
| Property, plant and equipment | 68,996 |
| Inventories | 132,469 |
| Bills and accounts receivable | 124,189 |
| Other receivables, prepayments and deposits | 40,194 |
| Cash and bank balances | 10,783 |
| Bills and accounts payable | (96,216) |
| Other payables, deposits and accruals | (95,695) |
| Bank borrowings | (151,784) |
| Provision for post-employment benefits | (17,741) |
| Minority interest | (8,616) |
| Attributable net assets acquired by the Group | 20,103 |
| Direct expenses relating to the acquisition | (5,176) |
| Net fair values of put options and call options | 2,525 |
| Purchase consideration | – |
| Excess of fair value of net assets acquired over cost of acquisition | 17,452 |
| Net cash inflow arising on acquisition: | |
| Cash consideration paid (€0.70) | – |
| Direct expenses relating to the acquisition | (5,176) |
| Cash and bank balances acquired | 10,783 |
| | 5,607 |

The excess of the fair value of attributable net assets acquired over the cost of acquisition of HK$17,452,000 (i.e. negative goodwill) was recognised as other gain in the income statement for the year ended 31 March 2009. Management consider the negative goodwill is resulted from a bargain purchase.

Subsequent to the acquisition, the Group also subscribed for 70% of the new issued share capital of Idra S.r.l for a cash consideration of €3,500,000 (HK$ equivalent 41,300,000).

Idra S.r.l contributed loss of HK$28,404,000 to the Group's loss for the year between the date of acquisition and the balance sheet date. If the acquisition had been completed on 1 April 2008, there is no material change to the Group's revenue and loss for the year.

# FINANCIAL SUMMARY

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **1,192,487** | 1,261,972 | 969,375 | 851,519 | 667,588 |
| (Loss)/profit before income taxes | **(47,898)** | 131,810 | 69,298 | 117,876 | 106,445 |
| Income taxes | **(4,315)** | (16,389) | (9,023) | (10,260) | (3,630) |
| (Loss)/profit for the year | **(52,213)** | 115,421 | 60,275 | 107,616 | 102,815 |
| (Loss)/profit attributable to: | | | | | |
| Equity holders of the Company | **(43,671)** | 115,421 | 60,275 | 107,616 | 102,816 |
| Minority interests | **(8,542)** | – | – | – | (1) |
| | **(52,213)** | 115,421 | 60,275 | 107,616 | 102,815 |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Assets and liabilities | | | | | |
| Total assets | **2,103,281** | 1,685,602 | 1,383,127 | 1,057,816 | 869,559 |
| Total liabilities | **(1,235,654)** | (771,304) | (630,513) | (583,874) | (507,748) |
| | **867,627** | 914,298 | 752,614 | 473,942 | 361,811 |
| Equity attributable to the equity holders of the Company | **853,231** | 914,298 | 752,614 | 473,942 | 361,811 |
| Minority interests | **14,396** | – | – | – | – |
| | **867,627** | 914,298 | 752,614 | 473,942 | 361,811 |

The results and summary of assets and liabilities for each of the two years ended 31 March 2005 and 2006 which were extracted from the Company's prospectus dated 29 September 2006 have been prepared on a combined basis to present the results of the Group as if the group structure had been in existence throughout those years.