



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  
**2011/12**

## Corporate Profile

L.K. Technology Holdings Limited is the world's largest die-casting machines manufacturer. The Group engages in the design, manufacture and sale of three product lines, i.e. die-casting machines, plastic injection moulding machines and computerised numerical controlled (CNC) machining centres. The Group has manufacturing bases and R&D centres in Shenzhen, Zhongshan, Ningbo, Shanghai, Fuxin and Kunshan in China and in Taiwan and Italy. To capture overseas markets, the Group has established sales and services companies in Japan and the USA. The Group also operates a casting factory in Fuxin for the production of cast iron/steel components.



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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

#### Non-executive Director

Mr. Hu Yongmin

#### Independent non-executive Directors

Dr. Low Seow Chay  
Dr. 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. Lui Ming Wah, *SBS, JP*  
Mr. Chan Wah Tip, Michael  
Mr. Hu Yongmin

### Nomination Committee

Mr. Chan Wah Tip, Michael  
Dr. Low Seow Chay  
Dr. Lui Ming Wah, *SBS, JP*  
Mr. Hu Yongmin

### Remuneration Committee

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

### Auditor

PricewaterhouseCoopers

### 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  
China Citic Bank  
Shenzhen Development Bank Ltd  
Australia and New Zealand Banking Group 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 the results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2012 (the "Year").

The Year was characterized by dramatic volatility in the world economy with challenging business environment. The European sovereign debt crisis further deteriorated, the US economy remained sluggish, the growth in the emerging economies has generally slackened. Affected by the austerity policies, the China economy also slowed down while the combined operating costs increased sharply. Despite such unfavorable environment, the revenue of the Group reached a new high and burst the cap of HK\$3 billion to HK\$3,011,636,000, representing an increase of 16% as compared to last year. Three business segments, namely die-casting machines, plastic injection moulding machines and computerised numerical controlled (CNC) machines continued to register growth, especially CNC machine business whose revenue recorded a remarkable increase of 134% to approximately HK\$550,000,000. The increase of revenue was mainly attributable to: (1) our excellent performance in respect of medium-to-large-tonnage intelligent die-casting machine cells; (2) the strong growth of CNC machine business; and (3) the satisfactory business development of Idra which is located in one of the core countries of the European debt crisis.

During the Year, the Group introduced the third generation die-casting machines with more powerful features and better competitive strength, and hence enhanced the performance of our die-casting machines in the areas of operating efficiency, automation, control, energy saving and environmental protection, helping the Group to maintain its leading position in die-casting machine industry in China. The Group has also made progress with the plastic injection moulding machines especially the medium-to-large-tonnage models which have achieved continuous breakthroughs and have been successfully delivered to our customers, facilitating the Group to enter into the segmented markets such as automobile, large home appliances, large logistics packaging and expand the customer base accordingly. Moreover, the Group is awarded "Top Ten Enterprises of the China Plastic Injection Moulding Machines Manufacturers" by China Plastics Machinery Industry Association, which proves the brand influence of our plastic injection moulding machines. In respect of CNC machines, our "TC" series CNC machines continue to receive good responses from the market. Meanwhile, the Group has consistently improved "MV" and "HT" series CNC machines in order to lay a solid foundation to enter into the vast market of automobile components, machinery processing and die making.

Though the Group achieved a new record in its revenue for the Year, the increase of resources investing in R&D, market expansion, sales and services network, and production facilities led to the increase in costs and expenses. Profit attributable to the owners of the Company for the Year amounted to HK\$203,773,000, representing a decrease of 21% as compared to the profit of HK\$259,365,000 of the corresponding period last year.

Looking forward to the year ahead, the macroeconomic environment remains challenging, the outlook of the European debt crisis is uncertain, the economic recovery in US is still sluggish and the growth in emerging economies including China is slowing down, which will all affect the desire of the customers to invest in new equipment and in turn will have impact on the business of the Group. However, the monetary policies of the China government have relaxed, the bulk commodity prices in the global market begin to fall, and the automobile market has gradually recovered, all these factors would help the Group to control the costs and grasp market opportunities. Particularly, the Group keeps renewing and upgrading all product lines with the spirit of innovation, and has introduced the third generation die-casting machines, expanded the product series of plastic injection moulding machines and CNC machines. All of these developments are favorable for the Group to broaden its customer base and enhance product competitive strength and brand benefits. The Group is confident and capable to cope with all possible challenges ahead and will adjust our development strategies and pace in a timely manner to respond to the market conditions so as to achieve steady and sustainable growth.

## Chairman's Statement (*Continued*)

On behalf of the Board and our 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. My heartfelt gratitude also goes to our dedicated Board members and committed staff, for their diligence and effort, which have contributed to the business development of the Group in the past year.

**Chong Siw Yin**

*Chairperson*

29 June 2012

## Management Discussion and Analysis

### Financial Review

For the year ended 31 March 2012 (the “Year”), despite the turbulent world economy and the continuous macroeconomic austerity in China, the revenue of the Group reached a new high. During the Year, the Group recorded an encouraging increase of 16% to HK\$3,011,636,000 in revenue as compared to last year, bursting the cap of HK\$3,000,000,000 for the first time. However, the increase of resources investing in R&D, market expansion, sales and service network, and production facilities for the Year led to the increase of costs and expenses. Profit attributable to the owners of the Company for the Year amounted to HK\$203,773,000, representing a decrease of 21% as compared to the profit of HK\$259,365,000 of the corresponding period last year.

### Business Review

During the Year, the world economy remained turbulent, while the sovereign debt crisis in the European countries got deteriorated, leading to an overall slowdown in the real economy in Europe. Meanwhile, the austerity policies adopted in Europe intensified the downward pressure on the Eurozone and the global economy. Furthermore, the economic recovery in US remained sluggish. The serious problems in major developed economies significantly affected the China economy with continuous slowdown in export growth, especially the shrinkage in export to Europe was noticeable. On the other hand, the China government adopted stricter monetary tightening policies in order to address the fallout arising from the massive stimulus measures implemented during the global financial crisis. Given the deteriorating European debt crisis, the prolonged weakness in the U.S. economy and the austerity policies adopted by China, many small and medium-sized enterprises in China were confronted with a situation of dramatic decline in the number of orders received and lack of liquidity in the domestic market to invest in equipment due to credit tightening by the banks, which in turn affected the equipment manufacturers including the Group. The negative impact of

these adverse conditions were much more obvious in the second half of the Year.

Despite the volatile external environment and the austerity macro-economic measures imposed by China, the Group implemented timely adjustment to its strategies and captured opportunities arising from the blooming development of the consumer goods like smart phones and tablet personal computers. Besides, keeping abreast of the market trend of using automation equipment by the manufacturers, the Group placed large effort in promoting its computerised numerical controlled (CNC) machines, plastic injection moulding machines and large tonnage automatic die-casting machine cells, resulting in an increase in the revenue of these three business sectors, namely die-casting machines, plastic injection moulding machines and CNC machines, and achieved record revenue.

The revenue of the Group for the Year realized the first-ever breakthrough of HK\$3,000,000,000, representing an increase of 16% as compared to last year. During the Year, China remained the main market of business growth for the Group with the revenue from China amounting to HK\$2,443,725,000, representing an increase of 18% as compared to last year.

Although the Europe economy was trapped in European debt crisis, leveraging on the growth opportunities in China and other emerging markets, Idra, an Italy based wholly-owned subsidiary of the Group engaged in the die-casting machines business, achieved dramatic increase in its revenue and became one of the major attributors to the revenue growth of the Group.

## Management Discussion and Analysis (Continued)

### Die-casting Machines

During the Year, the growth of China's automobile industry slowed down generally, the property sector became the main target for a new round of macroeconomic control measures, and the traditional cell phone components manufacturers were severely hit by the new generation electronic consumer goods like smart phones and tablet personal computers, the demand for die-casting machines was under continuous suppression. Nevertheless, leveraging on its leading position in the global die-casting machine industry, the Group seized the market opportunities from the expansion of large automobile manufacturers and of large tonnage automatic die-casting machine cells, resulting in an increase in the revenue of die-casting machines and the peripheral equipment business of the Group amounting to approximately HK\$1,710,000,000.

### Plastic Injection Moulding Machines

The Group has achieved satisfactory performance in sales of large tonnage plastic injection moulding machines, servo control energy saving plastic injection moulding machines and sophisticated direct-clamp plastic injection moulding machines. Furthermore, driven by the electrical appliances and toy business sectors in China, the revenue of plastic injection moulding machine business of the Group for the Year exceeded HK\$500,000,000, representing an increase as compared to last year.

### Computerised Numerical Controlled (CNC) Machines

The CNC machines is one of the business focuses of the Group. With the flourishing business of the processing enterprises for smart phones and tablet personal computers,

various models of the CNC machines of the Group continued to be well-received in the market due to its good value and outstanding performance, and had successfully secured bulk orders from a number of renowned enterprises, such as Foxconn, Pegatron and BYD Electronic. The revenue of the Group's CNC machines amounted to approximately HK\$550,000,000 for the Year, representing a significant increase of 134% as compared to the previous year.

### Research and Development ("R&D")

#### R&D of Die-casting Machines

During the Year, the Group completed the design and R&D of the third generation die-casting machines and successfully delivered to the customers. The third generation die-casting machines integrate the state-of-the-art technology, enabling customers to reduce cost and enhance competitive strength with features such as more energy-saving and room saving, highly integrated with automatic peripheral accessories, easier to operate and more comprehensive and more powerful.

#### R&D of Plastic Injection Moulding Machines

The Group has continued to invest in the R&D of plastic injection moulding machines and has achieved major breakthrough in large-tonnage plastic injection moulding machines series. During the Year, large tonnage plastic injection moulding machines with clamping force of over 1,000-tonnes had successfully been delivered to the customers. Large tonnage plastic injection moulding machines can be used in the production of large plastic accessories such as automobile instrument panels, large home appliances and large logistic containers, enabling the Group to offer a more complete range of plastic injection moulding machines.



## Research and Development (“R&D”) (continued)

### R&D of CNC Machines

During the Year, the R&D center of the Group in Taiwan has been focusing on the continuous enhancement on the functions and efficiency of the existing models in addition to the R&D of new models. The “TC” series, including “TC510” and “TC710” small size vertical drilling CNC machines specialised for post die-casting processing has already gained high recognition among our customers in the market, while the “MV” series for fine processing of automobile components namely “MV650”, “MV850”, “MV1050” and “MV-1680” has been improved. Meanwhile, the Group has extended the application of the “HT” series horizontal CNC machines, including “HT400”, “HT500”, “HT630” and “HT800”. The diversification of CNC machines products will strengthen the development of the business.

### Launch of New Production Facilities

During the Year, the new phase factory in Shenzhen City, Guangdong Province and phase one of the new factory in Kunshan City, Jiangsu Province had commenced operations, and the Group’s new factory in Taiwan had commenced production in the first quarter of 2012, which further increased the production capacity as well as efficiency of the three businesses of the Group, strengthened the promotion of automation equipment and enabled the Group to grasp the market opportunities of rising demand for automation due to the increase in labour cost and labour shortage in China.

### Disposal of 35% Interests in Fuxin Li Chang Steel & Iron Foundry Co., Ltd. (“Li Chang”)

Li Chang is located in Liaoning Province, China, which is engaged in iron ore mining, casting and smelting of iron ore and steel, and owns the mining rights for a mine. The Group held 35% shareholding interest in Li Chang with an aim to secure a stable short-distance source of raw material supply for the Group’s cast components manufacturing, so as to achieve cost effective synergy. However, this company had been loss making due to the financial crisis and downturn of the iron and steel market, moreover, the supply of iron and steel by this company did not fit in with the requirements for the Group’s cast components manufacturing. Therefore, the Directors considered that it would be an appropriate strategy to dispose of this non-core and loss-making business. The Group disposed of its 35% interests in Li Chang for a consideration of RMB69 million in March 2012.

## Prospects

Looking forward to the year ahead, the world economy is still full of volatilities and uncertainties. In particular, the European sovereign debt crisis may be further deteriorated, and the orders from the export-oriented customers may further slow down. The China economy is undergoing structural adjustment, and the market consensus expects that the China economy might have been slackened from rapid growth to moderate growth. These factors that have negative impact on equipment manufacturers may also deliver new challenges to the short-term growth of the Group.

On the other hand, there are favourable factors for the equipment manufacturers which include the reduced inflation pressure in China and the small and gradual adjustments to the tight monetary policies in China, such as several reductions of deposit-reserve ratio and interest rate cuts. These are helpful for the customers of the Group to obtain the credit facilities to invest in equipment, therefore increasing their willingness to invest, though we believe this will be a slow process.

Regarding the specific businesses, for the business of die-casting machines, although automobile manufacturing industry in China shows signs of recovery, electronic consumer products such as traditional cell phones are being impacted by smart electronic consumer products, it is expected that the die-casting machines industry in China will remain under pressure in the year ahead. However, the third generation die-casting machines of the Group integrate multiple state-of-the-art technologies with more powerful functions and stronger competitiveness and are expected to be well-received in the market.

For the business of plastic injection moulding machines, due to the sheer size of the market, the Group will provide a better and even more comprehensive range of plastic injection moulding machines to maintain stable growth.

For the business of CNC machines, the emerging smart electronic consumer products such as smart phones and tablet personal computers have been one of the major growth drivers for the last two years. Looking forward to the year ahead, since the first round of investment boom to the emerging smart electronic consumer products might be subsiding, it is expected that the CNC machine business of the Group may gradually slow down after continuous fast growth over past several years.

## Management Discussion and Analysis (*Continued*)

### **Prospects** (*continued*)

Notwithstanding the above concerns, the management still believes that the three product lines of the Group are widely used in the manufacture industry in China. Moreover, given the leading position of the Group in the die-casting machine industry, the wide variety of product series of the plastic injection moulding machines and CNC machines, coupled with the extensive customer base, the comprehensive sales and service network, strong R&D capability and good brand influence, the management remains confident in the long term growth of the Group. However, in the meanwhile, the management will closely monitor the macro-economy and market condition, and will adopt cautious measures in a timely manner, so as to cope with the challenges ahead.

## Directors and Senior Management Profiles

### Directors

**Ms. Chong Siw Yin**, aged 56, 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 24 years of management experience.

**Mr. Cao Yang**, aged 45, 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 20 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 the Youth Entrepreneur Association, Vice Director General of Guangdong Die-Casting Association, Vice President of Shenzhen Machinery Association and Vice President of Shenzhen Hi-Tech Industry Association.

**Mr. Chung Yuk Ming**, aged 64, 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 30 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.

**Mr. Hu Yongmin**, aged 42, was appointed as a non-executive Director of the Company in February 2011. Mr. Hu graduated from Fudan University. He is a co-founder of FountainVest. Prior to the founding of FountainVest, Mr. Hu was a managing director of Temasek Holdings Pte Ltd. Mr. Hu was also a member of Temasek's global investment committee, and head of its real estate investment. Previously an investment banker, Mr. Hu was a director and head of China telecom, media and technology investment banking for Credit Suisse First Boston (Hong Kong) Limited and Shanghai Chief Representative for Bear Stearns Asia Limited. Mr. Hu is currently a non-executive director of Central China Real Estate Limited, a company listed on the Hong Kong Stock Exchange, and an independent director of Home Inns & Hotels Management Inc., a company listed on NASDAQ.

**Dr. Low Seow Chay**, aged 62, 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 30 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.

## Directors and Senior Management Profiles (*Continued*)

**Dr. Lui Ming Wah, SBS, JP**, aged 74, 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 Honorary President of The Chinese Manufacturers' Association of Hong Kong, the founder chairman of Hong Kong Shandong Business Association and a member of The Hong Kong International Arbitration Center Advisory Council. In the PRC, he is a member of the National Committee of The Chinese People's Political Consultative Conference and a honorary 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 the managing director of Keystone Electronics Co., Limited. Besides, he is currently an independent non-executive director of AV Concept Holdings Limited, Glory Mark Hi-tech (Holdings) Limited, Gold Peak Industries (Holdings) Limited, S.A.S Dragon Holdings Limited (all being listed companies on the Stock Exchange in Hong Kong) and Asian Citrus Holdings Limited (also listed on the London Stock Exchange). Dr. Lui obtained a master degree in Applied Science from the University of New South Wales in Australia and a PhD from the University of Saskatchewan in Canada.

**Mr. Tsang Yiu Keung, Paul**, aged 58, 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. Tsang is currently an independent non-executive director of Guotai Junan International Holdings Limited, a listed company on the Stock Exchange in Hong Kong, and CITIC Bank International Limited (formerly known as CITIC Ka Wah Bank Limited), a licensed bank in Hong Kong and CITIC International Financial Holdings Limited.

**Mr. Chan Wah Tip, Michael**, aged 59, 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 34 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 (PC.LL) from the University of Hong Kong in 1976. Mr. Chan is a partner of Wilkinson & Grist. Mr. Chan is currently a non-executive director of High Fashion International Limited, which is listed on the Stock Exchange in Hong Kong.

### Senior Management

**Mr. Chan Kwok Keung**, aged 46 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. Mr. Chan was appointed as a director of L.K. Machinery International Limited in March 2012. He has 23 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 46, joined the Group in August 2007 as general manager and chief engineer of Injection Molding Machine Business Unit and was appointed as a director of L.K. Machinery International Limited in March 2012. Mr. Fung holds a master degree and a bachelor degree of science in Engineering from the University of Hong Kong. He has 23 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 50, 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 20 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, the honorary president of the 10th Executive Committee of the Shanghai Die-Casting Association, a member of the Sixth Executive Committee of China Foundry Association and the deputy officer of the 4th Executive Committee of the Die-Casting Technical Committee, Foundry Institution of the Chinese Mechanical Engineering Society, and deputy president of the Die-Casting Branch of China Foundry Association. Mr. Li was awarded the title of Excellent Entrepreneur in the Fifth National Association of Casting Industry.

**Mr. Liu Zhuo Ming**, aged 27, is the project manager of the Group. He joined the Group in October 2008 and is responsible for various system and information projects' management. Mr. Liu was appointed as a director of L.K. Machinery International Limited in March 2012. He graduated from Oregon State University with a bachelor degree in Computer Science. Mr. Liu is the son of Ms. Chong Siw Yin, the chairperson of the Board of the Company.

**Mr. SZE Shun Pan, Jeffrey**, aged 53, is the Financial Controller of the Group. He is responsible for the financial and management operations of the Group. Mr. Sze is a qualified accountant. He is an associate member of both the Hong Kong Institute of Certified Public Accountants and the General Certified Accountant in Canada, and a fellow member of the Association of Chartered Certified Accountants in the U.K. Mr. Sze holds a master degree in Business Administration from the Manchester Business School in the U.K. He has over 30 years of auditing and financial management experience gained from various companies in Hong Kong. He was the Group Financial Controller of Carry Wealth Holdings Ltd., a company listed on the Stock Exchange of Hong Kong prior to joining the Group in March 2012.

**Mr. Te Yi Ming**, aged 49, 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 23 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. He is a member of the Chinese People's Political Consultative Conference, Liuzhou City.

**Mr. Tse Siu Sze**, aged 44, is the general manager of Zhongshan L.K. Machinery Co. Ltd. and is responsible for the management, production, sales and marketing of this company. He joined the Group in July 1990 and served several positions in the Group, including supervisor of technical support department, manager of customer services department and manager of sales department. He has over 18 years of rich experience in business management. Mr. Tse currently services as vice president of the Tenth 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, vice president of Shenzhen Plastics & Rubber Association, managing vice president of Guangdong Plastics Industry Association and committee member of China Plastics Machinery Industry Association. 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..

## Directors and Senior Management Profiles (*Continued*)

**Mr. Wang Xin Liang**, aged 44, 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 20 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. Wong Kee Ying, William**, aged 54, joined the Group in October 2011 as chief executive officer of CNC machine tool business unit. He holds a master degree in Business Administration and a bachelor degree of science in Business from California State University of Fresno. He is a Certified Public Accountant in the state of California and a fellow member of the California State Society of CPAs. Mr. Wong has over 30 years of working experience in key management positions. Prior to joining the Group, he was the chief executive officer of Taiwan Far East Machinery Co., Ltd.

**Mr. Yang Yi Zhong**, aged 69, 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 47 years of experience in finance and accounting. Mr. Yang is a member of The Chinese Institute of Certified Public Accountants and is entitled Senior Accountant.

## 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 “Stock Exchange”) throughout the year ended 31 March 2012 save as disclosed below.

The Company does not fully comply with code provision A.4.1 in the CG Code. Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Hu Yongmin, being a non-executive director of the Company, has not been appointed for a specific term but is subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company.

### Board of Directors

The Board currently comprises three Executive Directors, one non-executive Director 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 the Company with 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 9 to 10 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.

## Corporate Governance Report (Continued)

### Board of Directors (continued)

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. There is a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses in order to assist them to discharge their duties to the Company.

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			Remuneration Committee meeting
	Board meeting	Audit Committee meeting	Nomination Committee meeting	
<b>Executive Directors</b>				
Ms. Chong Siw Yin	4/4	N/A	N/A	N/A
Mr. Cao Yang	4/4	N/A	N/A	N/A
Mr. Chung Yuk Ming	4/4	N/A	N/A	N/A
<b>Non-executive Director</b>				
Mr. Hu Yongmin	4/4	4/4	2/2	2/2
<b>Independent Non-executive Directors</b>				
Dr. Low Seow Chay	4/4	N/A	2/2	N/A
Dr. Lui Ming Wah, SBS, JP	3/4	3/4	2/2	2/2
Mr. Tsang Yiu Keung, Paul	4/4	4/4	N/A	2/2
Mr. Chan Wah Tip, Michael	4/4	4/4	2/2	2/2



## Board Committees

### Remuneration Committee

The Remuneration Committee currently comprises three Independent Non-executive Directors, namely Dr. Lui Ming Wah, Mr. Chan Wah Tip, Michael and Mr. Tsang Yiu Keung, Paul and a Non-executive Director, namely Mr. Hu Yongmin. Dr. Lui Ming Wah 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 two meetings during the year. The members of the Remuneration Committee discussed and reviewed the incentive scheme for senior management. They also reviewed the salary, bonus and benefit of the Executive Directors.

### Nomination Committee

The Nomination Committee currently comprises three Independent Non-executive Directors, namely Mr. Chan Wah Tip, Michael, Dr. Low Seow Chay and Dr. Lui Ming Wah, and a Non-executive Director, namely Mr. Hu Yongmin. 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 two meetings. They assessed the independence of the Independent Non-executive Directors and reviewed the structure, size and composition of the Board.

### Strategy Committee

The Strategy Committee was established on 24 February 2011 to oversee certain strategy-related matters of the Company, including without limitation, the Company's future expansion strategies (both domestic or international), major merger and acquisitions, and other significant investment activities of the Company. The Strategy Committee comprises three Executive Directors namely, Ms. Chong Siw Yin, Mr. Cao Yang and Mr. Chung Yuk Ming, a Non-executive Director, namely Mr. Hu Yongmin and an Independent non-Executive Director, namely Mr. Tsang Yiu Keung, Paul.

### Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. Tsang Yiu Keung, Paul, Dr. Lui Ming Wah and Mr. Chan Wah Tip, Michael and a non-executive Director, namely Mr. Hu Yongmin. 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, the Audit Committee held four meetings with the representatives of the management, the internal auditors and the external auditor of the Company to discuss the auditing, financial reporting and internal control matters. The Audit Committee also met with external auditor in the absence of management to discuss and make enquiries on various financial and operational matters.

## Corporate Governance Report (Continued)

### Board Committees (continued)

#### Audit Committee (continued)

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 independence of the external auditor;
- (iv) making recommendation to the Board on the appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;
- (v) review of the quarterly reports submitted by the Internal Audit Department and make recommendations;
- (vi) review of the internal control review report and findings from the external consultant; and
- (vii) review of the system of internal control and working procedures of the Group.

#### Auditor's Remuneration

The financial statements of the Group for the year ended 31 March 2012 have been audited by PricewaterhouseCoopers ("PwC"). The remuneration paid/payable to PwC is set out as follows:

	<b>Fee paid/payable</b>
	HK\$'000
Audit services	2,762
Non-audit services	778
	<b>3,540</b>

The non-audit services are mainly for interim results review, tax compliance and internal control assessment.

#### 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. 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 2012.

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 28 and 29.

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 direct 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 PricewaterhouseCoopers Ltd. ("PWCL") to assist in reviewing the Group's internal control system and procedures. PWCL has performed a review on certain designated issues and submitted a report to the Audit Committee.

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 and ready to answer shareholders' questions.

In order to promote effective communication, the Company maintains a website [www.lktechnology.com](http://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. Designated members of the Board and senior management of the Company are given the specific responsibilities to maintain regular contact with institutional investors, potential investors, financial analysts and fund managers. During the year, plant visits and meetings were held to keep 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 2012.

### 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 Group is also engaged in steel casting. The activities of the Company's principal subsidiaries and a jointly controlled entity are set out in notes 10 and 16 respectively to the consolidated financial statements.

### Results and Appropriations

The results of the Group for the year ended 31 March 2012 are set out in the consolidated income statement on page 33.

The Directors recommended a final dividend of HK5 cents per ordinary share for the year ended 31 March 2012.

### Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

### Investment Properties

Details of the movements in investment properties are set out in note 8 to the consolidated financial statements.

### Share Capital

Details of the movements in share capital of the Company are set out in note 19 to the consolidated financial statements.

### Donations

During the year, the Group made charitable or other donations totalling HK\$84,000.

### 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 21 to the consolidated financial statements respectively.

### Distributable Reserves of the Company

As at 31 March 2012, the Company's reserves available for distribution to shareholders of the Company were HK\$611.1 million, representing share premium of HK\$498.6 million, share option reserve of HK\$0.9 million and retained profits of HK\$111.6 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 108.

## 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. Chung Yuk Ming

### Non-executive Director:

Mr. Hu Yongmin

### Independent Non-executive Directors:

Dr. Low Seow Chay  
Dr. 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 9 to page 10 of this annual report.

In accordance with Article 87 of the Company's Articles of Association, Mr. Cao Yang, Dr. Low Seow Chay and Dr. Lui Ming Wah shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The three Executive Directors, namely Ms. Chong Siw Yin, Mr. Cao Yang and Mr. Chung Yuk Ming, have entered into service contracts with the Company for a term of three years commenced on 16 October 2009.

The Non-executive Director, namely Mr. Hu Yongmin who was appointed on 25 February 2011, has not entered into any service contract with the Company but is subject to the requirements of rotation, retirement and re-election under the Company's Articles of Association.

The Independent Non-executive Directors, namely Dr. Low Seow Chay, Dr. Lui Ming Wah, Mr. Tsang Yiu Keung, Paul and Mr. Chan Wah Tip, Michael were appointed for a term of three years in September 2010. 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' Report (Continued)

### 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.

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

As at 31 March 2012, 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)	645,980,000 <sup>(1)</sup> Long position	57.08%
	the Company	Beneficial owner	1,050,000 Long position	0.09%
	the Company	Beneficial owner	1,500,000 <sup>(2)</sup> Long position	0.13%
Mr. Cao Yang	the Company	Beneficial owner	2,000,000 Long position	0.18%
Mr. Chung Yuk Ming	the Company	Beneficial owner	2,000,000 Long position	0.18%

Notes:

- These 645,980,000 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 Siang 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.
- 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 2012, 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	645,980,000 <sup>(1)</sup> Long position	57.08%
Mr. Liu	See Note (2)	645,980,000 <sup>(2)</sup> Long position	57.08%
		1,050,000 <sup>(2)</sup> Long position	0.09%
		1,500,000 <sup>(2)</sup> Long position	0.13%
Fullwit	See Note (1)	645,980,000 <sup>(1)</sup> Long position	57.08%
HSBC International Trustee Limited	See Note (3)	645,980,000 <sup>(3)</sup> Long position	57.08%
FountainVest China Growth Partners GP, Ltd. ("FountainVest")	Beneficial owner See Note (4)	112,000,000 <sup>(4)</sup> 58,000,000 <sup>(4)</sup> 25,600,000 <sup>(4)</sup>	9.90% 5.12% 2.26%
Kui Tang	Investment manager See Note (5)	112,000,000 <sup>(4)</sup> 58,000,000 <sup>(4)</sup> 25,600,000 <sup>(4)</sup>	9.90% 5.12% 2.26%

Notes:

- These 645,980,000 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.
- 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.
- 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.

## Directors' Report (Continued)

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

Notes: (continued)

4. On 26 January 2011, the Company and China Machinery Investment Holdings Limited ("China Machinery") entered into an investment agreement relating to, amongst other things, the issue of new subscription shares, the issue of perpetual convertible securities at an aggregate principal amount of HK\$145,000,000 ("Perpetual Convertible Securities") and the issue of warrants entitling China Machinery to subscribe for a maximum 25,600,000 Shares ("Warrants"). China Machinery is wholly owned by FountainVest indirectly. Based on the initial conversion price of HK\$2.50 per Share and assuming full conversion of the Perpetual Convertible Securities at such conversion price, the Perpetual Convertible Securities will be convertible into 58,000,000 Shares (the "Conversion Shares"). The Warrants entitle China Machinery to subscribe for a maximum of 25,600,000 Shares (the "Warrant Shares") at the initial exercise price of HK\$3.125 per Share. As at the date of this report, none of the Conversion Shares and/or the Warrant Shares was issued by the Company to China Machinery.
5. Kui Tang is deemed to be interested in the shares held by FountainVest by virtue of his 34% interest in FountainVest through One Venture Limited.

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 2012 were as follows:

Name/category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of shares subject to options			
				Outstanding as at 01/04/11	Exercised during the year	Lapsed during the year	Outstanding as at 31/03/12
<b>The Director</b>							
Ms. Chong	23/09/2006	0.666	16/04/2007 – 15/10/2016	1,500,000	–	–	1,500,000
<b>Employees</b>	23/09/2006	0.666	16/04/2007 – 15/10/2016	900,000	(700,000)	–	200,000
				2,400,000	(700,000)	–	1,700,000



### 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:

<b>Period (as from 16 October 2006, the date on which the shares of the Company commenced trading on the Stock Exchange, the “Listing Date”)</b>	<b>Maximum cumulative percentage of the shares under option exercisable by the grantee</b>
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 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\$2.81.

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 2012.

#### 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;

## Directors' Report (*Continued*)

### 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 10 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 Zhuo Ming (son of Mr. Liu and Ms. Chong) 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.

## Directors' Report (Continued)

### 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.

### Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

Mr. Chan Wah Tip, Michael, an Independent Non-executive Director of the Company, resigned as a non-executive director of Shougang Concord Technology Holdings Limited with effect from 1 January 2012.

### Staff and Remuneration Policies

As at 31 March 2012, the Group employed approximately 4,000 full time staff. The staff costs for current year amounted to HK\$463.5 million (2011: HK\$383.5 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 2012.

### 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 2012.

On 2 August 2011, L.K. Machinery Company Limited as borrower, and the Company as a guarantor, entered into a facility agreement with, inter alia, Hang Seng Bank Limited as the mandated coordinating arranger and facility agent and other financial institutions as lenders for a three-year term loan/revolving credit facility of up to HK\$475 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 (i) Mr. Liu Siong Song (a controlling shareholder of the Company held as to approximately 57% of equity interests in the Company as at the date of the Facility Agreement) and his family (the "Major Shareholders") collectively do not or cease to own, directly or indirectly, at least 40% of the beneficially interest in the Company, carrying at least 40% of the voting right, free from any security; (ii) the Major Shareholders collectively are not or cease to be the single largest shareholder of the Company; (iii) the Major Shareholders collectively do not or cease to have control over the board of directors of the Company; and (iv) Ms. Chong Siw Yin (spouse of Mr. Liu Siong Song) is not or ceases to be the Chairman of the Company.

The aforesaid obligation continued to exist at 31 March 2012.

**Auditor**

A resolution to re-appoint PricewaterhouseCoopers as the 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, 29 June 2012

## Independent Auditor's Report



羅兵咸永道

### INDEPENDENT AUDITOR'S REPORT 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 30 to 107, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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: PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

## Independent Auditor's Report

### 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 29 June 2012

## Consolidated Statement of Financial Position

As at 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>			
Intangible assets	6	14,828	14,463
Property, plant and equipment	7	848,608	719,408
Investment properties	8	34,090	32,240
Land use rights	9	254,016	142,273
Deposits paid	17	45,459	29,652
Deferred income tax assets	11	33,705	20,553
Trade and bills receivables	12	26,855	4,069
Other receivables	17	64,160	–
Restricted bank balances	18(b)	12,493	13,542
<b>Total non-current assets</b>		<b>1,334,214</b>	976,200
<b>Current assets</b>			
Inventories	15	1,191,188	861,932
Amount due from a jointly controlled entity	16	13,483	–
Trade and bills receivables	12	819,614	787,790
Other receivables, prepayments and deposits	17	211,150	177,094
Derivative financial instruments	13	–	37
Restricted bank balances	18(b)	66,372	66,374
Cash and cash equivalents (excluding bank overdrafts)	18(a)	439,231	444,303
Non-current assets held-for-sale	14	–	73,918
<b>Total current assets</b>		<b>2,741,038</b>	2,411,448
<b>Total assets</b>		<b>4,075,252</b>	3,387,648
<b>Equity</b>			
Share capital	19	113,177	113,107
Reserves	21	959,644	880,931
Retained earnings			
– Proposed final dividend	32	56,588	56,553
– Others		586,282	466,406
Equity attributable to owners of the parent		1,715,691	1,516,997
Non-controlling interests		1,276	3,439
<b>Total equity</b>		<b>1,716,967</b>	1,520,436



## Consolidated Statement of Financial Position

As at 31 March 2012

	Note	<b>2012</b> HK\$'000	2011 HK\$'000
<b>Non-current liabilities</b>			
Deferred income tax liabilities	11	7,572	4,475
Borrowings	22	305,225	91,765
Other payables		10,313	9,513
<b>Total non-current liabilities</b>		<b>323,110</b>	105,753
<b>Current liabilities</b>			
Trade and bills payables, other payables, deposits and accruals	23	1,017,228	957,825
Derivative financial instruments	13	3,909	60,347
Borrowings	22	973,359	713,951
Current income tax liabilities		40,679	29,336
<b>Total current liabilities</b>		<b>2,035,175</b>	1,761,459
<b>Total liabilities</b>		<b>2,358,285</b>	1,867,212
<b>Total equity and liabilities</b>		<b>4,075,252</b>	3,387,648
<b>Net current assets</b>		<b>705,863</b>	649,989
<b>Total assets less current liabilities</b>		<b>2,040,077</b>	1,626,189

Approved by the Board of Directors on 29 June 2012 and signed on behalf of the Board by:

**Cao Yang**  
Chief Executive Officer

**Chung Yuk Ming**  
Executive Director

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

## Statement of Financial Position

As at 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	10(a)	65,000	65,000
<b>Current assets</b>			
Other receivables, prepayments and deposits		239	257
Amounts due from subsidiaries	10(b)	808,274	748,235
Cash and cash equivalents	18(a)	845	21,147
<b>Total current assets</b>		<b>809,358</b>	769,639
<b>Total assets</b>		<b>874,358</b>	834,639
<b>EQUITY</b>			
Share capital	19	113,177	113,107
Reserves	21	696,499	658,356
<b>Total equity</b>		<b>809,676</b>	771,463
<b>Current liabilities</b>			
Other payables, deposits and accruals		3,185	3,577
Amount due to a subsidiary	10(b)	57,588	–
Derivative financial instruments	13	3,909	59,599
<b>Total current liabilities</b>		<b>64,682</b>	63,176
<b>Total equity and liabilities</b>		<b>874,358</b>	834,639
<b>Net current assets</b>		<b>744,676</b>	706,463
<b>Total assets less current liabilities</b>		<b>809,676</b>	771,463

Approved by the Board of Directors on 29 June 2012 and signed on behalf of the Board by:

**Cao Yang**  
Chief Executive Officer

**Chung Yuk Ming**  
Executive Director

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

## Consolidated Income Statement

For the year ended 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
Revenue	24	<b>3,011,636</b>	2,602,564
Cost of sales	26	<b>(2,185,280)</b>	(1,758,970)
Gross profit		<b>826,356</b>	843,594
Other income	24	<b>36,044</b>	34,430
Other gains – net	25	<b>62,471</b>	5,208
Selling and distribution expenses	26	<b>(292,737)</b>	(237,471)
General and administration expenses	26	<b>(325,813)</b>	(285,844)
Operating profit		<b>306,321</b>	359,917
Finance income	29	<b>4,672</b>	2,450
Finance costs	29	<b>(59,101)</b>	(42,931)
Finance costs – net	29	<b>(54,429)</b>	(40,481)
Share of loss of a jointly controlled entity		<b>(1,315)</b>	–
Profit before income tax		<b>250,577</b>	319,436
Income tax expense	30	<b>(50,447)</b>	(60,298)
Profit for the year		<b>200,130</b>	259,138
Profit attributable to:			
Owners of the parent		<b>203,773</b>	259,365
Non-controlling interests		<b>(3,643)</b>	(227)
		<b>200,130</b>	259,138
Earnings per share for profit attributable to owners of the parent during the year (expressed in HK cents per share)			
– Basic	31	<b>18.0</b>	25.0
– Diluted	31	<b>17.1</b>	24.8

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Profit for the year	<b>200,130</b>	259,138
Other comprehensive income for the year:		
Currency translation difference	<b>72,339</b>	36,430
Loss on fair value changes of available-for-sale financial assets	–	(759)
Reversal arising from the disposal of available-for-sale financial assets	–	(568)
Reversal arising from the disposal of non-current assets held-for-sale	<b>(6,171)</b>	–
<b>Total comprehensive income for the year, net of tax</b>	<b>266,298</b>	294,241
Attributable to:		
– Owners of the parent	<b>269,941</b>	294,468
– Non-controlling interests	<b>(3,643)</b>	(227)
	<b>266,298</b>	294,241

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Share reserve HK\$'000	Exchange translation reserve HK\$'000	Statutory reserve HK\$'000	Available-for-sale investment reserve HK\$'000	Property revaluation reserve HK\$'000	Perpetual convertible securities HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>At 1 April 2011</b>	113,107	497,862	1,239	13,771	145,947	134,511	-	2,200	85,401	522,959	1,516,997	3,439	1,520,436
<b>Profit for the year</b>	-	-	-	-	-	-	-	-	-	203,773	203,773	(3,643)	200,130
<b>Other comprehensive income</b>													
Currency translation differences	-	-	-	-	72,339	-	-	-	-	-	72,339	-	72,339
Reversal arising from disposal of non-current assets held-for-sale	-	-	-	-	(6,171)	-	-	-	-	-	(6,171)	-	(6,171)
<b>Total comprehensive income</b>	-	-	-	-	66,168	-	-	-	-	203,773	269,941	(3,643)	266,298
<b>Transactions with owners</b>													
Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	(12,224)	(12,224)	1,480	(10,744)
Issue of shares upon exercise of share options	70	395	-	-	-	-	-	-	-	-	465	-	465
Transfer to share premium upon exercise of share options	-	350	(350)	-	-	-	-	-	-	-	-	-	-
Transfer to reserve	-	-	-	-	-	12,150	-	-	-	(12,150)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	(59,488)	(59,488)	-	(59,488)
<b>At 31 March 2012</b>	113,177	498,607	889	13,771	212,115	146,661	-	2,200	85,401	642,870	1,715,691	1,276	1,716,967

  

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Share reserve HK\$'000	Exchange translation reserve HK\$'000	Statutory reserve HK\$'000	Available-for-sale investment reserve HK\$'000	Property revaluation reserve HK\$'000	Perpetual convertible securities HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
<b>At 1 April 2010</b>	102,146	244,947	5,047	13,771	109,517	83,465	1,327	2,200	-	322,909	885,329	3,443	888,772
<b>Profit for the year</b>	-	-	-	-	-	-	-	-	-	259,365	259,365	(227)	259,138
<b>Other comprehensive income</b>													
Currency translation differences	-	-	-	-	36,430	-	-	-	-	-	36,430	-	36,430
Loss on fair value change of available-for-sale financial assets	-	-	-	-	-	-	(759)	-	-	-	(759)	-	(759)
Reversal arising from disposal of available-for-sale financial assets	-	-	-	-	-	-	(568)	-	-	-	(568)	-	(568)
<b>Total comprehensive income</b>	-	-	-	-	36,430	-	(1,327)	-	-	259,365	294,468	(227)	294,241
<b>Transactions with owners</b>													
Issue of subscription shares and perpetual convertible securities (Note 19)	10,200	244,800	-	-	-	-	-	-	85,401	-	340,401	-	340,401
Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	(8,269)	(8,269)	223	(8,046)
Issue of shares upon exercise of share options	761	4,307	-	-	-	-	-	-	-	-	5,068	-	5,068
Transfer to share premium upon exercise of share options	-	3,808	(3,808)	-	-	-	-	-	-	-	-	-	-
Transfer to reserve	-	-	-	-	-	51,046	-	-	-	(51,046)	-	-	-
<b>At 31 March 2011</b>	113,107	497,862	1,239	13,771	145,947	134,511	-	2,200	85,401	522,959	1,516,997	3,439	1,520,436

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations	33	(15,376)	39,773
Interest paid		(62,827)	(46,325)
Income tax paid		(49,159)	(48,093)
Net cash used in operating activities		(127,362)	(54,645)
<b>Cash flow from investing activities</b>			
Payments for intangible assets		(6,083)	(3,720)
Purchases of property, plant and equipment		(194,583)	(197,521)
Deposits for acquisition of property, plant and equipment		–	(350)
Payments for land use rights		(85,873)	(113)
Deposits for acquisition of land use rights		(42,911)	(734)
Proceeds from disposals of property, plant and equipment	33	1,898	1,345
Proceeds from disposal of non-current assets held-for-sale	14	12,195	–
Interest received		4,672	2,450
Proceeds from disposal of available-for-sale financial assets		–	9,980
Net cash used in investing activities		(310,685)	(188,663)
<b>Cash flow from financing activities</b>			
Acquisition of additional interest in a subsidiary from a non-controlling shareholder	10(a)	(10,230)	(8,046)
Proceeds from issue of shares		465	405,068
Inception of new bank borrowings		849,637	553,178
Repayment of bank borrowings		(363,997)	(657,234)
Net (decrease)/increase in trust receipt loans		(12,772)	27,627
Decrease in amount due to holding company		–	(40,000)
Dividend paid		(59,488)	–
Net cash generated from financing activities		403,615	280,593
Net (decrease)/increase in cash and cash equivalents		(34,432)	37,285
Cash and cash equivalents at beginning of year		444,303	398,074
Exchange gains on cash and cash equivalents		29,360	8,944
Cash and cash equivalents at end of year	18(a)	439,231	444,303

The notes on pages 37 to 107 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 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 address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The immediate and ultimate holding company of the Company is Girgio Industries Limited, a company incorporated in the British Virgin Islands.

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, computerised numerical controlled (“CNC”) machining centre and related accessories. The Group is also engaged in steel casting.

These financial statements are presented in Hong Kong dollars (“HK\$”) unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 June 2012.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of L.K. Technology Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumption and estimates are significant to the consolidated financial statements are disclosed in note 4.

#### *Changes in accounting policy and disclosures*

##### (a) New and amended standards adopted by the Group

The following revised standard is mandatory for the first time for the financial year beginning 1 April 2011

- HKAS 24 (Revised), “Related Party Disclosures” is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - (i) The name of the government and the nature of their relationship;
  - (ii) The nature and amount of any individually significant transactions; and
  - (iii) The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. The standard does not have significant impact on the disclosure to the consolidated financial statements.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.1 Basis of preparation (*Continued*)

##### *Changes in accounting policy and disclosures (Continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 April 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) – Int 14 (Amendment), ‘Prepayments of a minimum funding requirement’.
- HK(IFIRC) – Int 19, ‘Extinguish financial liabilities with equity instruments’.
- HKFRSs (Amendment), ‘Improvements to HKFRSs 2010’.

The adoption of the above new and revised HKFRSs does not have any significant impacts on the financial statements of the Group for the current or prior accounting period.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 April 2011 and have not been early adopted

The Group’s assessment of the impact of these new standards and interpretations is set out below.

- HKAS 1 (Amendment), ‘Presentation of financial statements on other comprehensive income’ (effective for annual periods beginning on or after 1 July 2012).
- HKAS 12 (Amendment), ‘Deferred tax – Recovery of underlying assets’ (effective for annual periods beginning on or after 1 January 2012).
- HKAS 19 (Revised 2011), ‘Employee benefits’ (effective for annual periods beginning on or after 1 January 2013).
- HKAS 27 (Revised 2011), ‘Separate financial statements’ (effective for annual periods beginning on or after 1 January 2013).
- HKAS 28 (Revised 2011), ‘Associate and joint ventures’ (effective for annual periods beginning on or after 1 January 2013).
- HKAS 32 (Amendment), ‘Financial instruments: Presentation – Offsetting financial assets and financial liabilities’ (effective for annual periods beginning on or after 1 January 2014).
- HKFRS 7 (Amendment), ‘Financial instruments: Disclosures – Offsetting financial assets and financial liabilities’ (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 7 (Amendment), ‘Financial instruments: Disclosures – Transfer of financial assets’ (effective for annual periods beginning on or after 1 July 2011).
- HKFRS 9, ‘Financial instruments’ (effective for annual periods beginning on or after 1 January 2015).



## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.1 Basis of preparation (*Continued*)

##### *Changes in accounting policy and disclosures (Continued)*

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 April 2011 and have not been early adopted (*Continued*)

- HKFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 12, 'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2013).
- HKFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013).
- HKFRSs (Amendment), 'Improvements to HKFRSs 2011'.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### 2.2 Subsidiaries

##### 2.2.1 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.2 Subsidiaries (*Continued*)

##### 2.2.1 Consolidation (*Continued*)

###### (a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in consolidated income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated income statement.

###### (b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.2 Subsidiaries (*Continued*)

##### 2.2.1 Consolidation (*Continued*)

###### (c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated income statement.

##### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.3 Jointly controlled entities

The Group recognises its investment in jointly controlled entities using the equity method of accounting where interests in jointly controlled entities are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in the consolidated income statement and in the consolidated statement of comprehensive income respectively. When the Group's share of losses in jointly controlled entities equals or exceeds its interests in the jointly controlled entities (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entities), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

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

#### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within 'other gains – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of significant accounting policies (Continued)

#### 2.5 Foreign currency translation (Continued)

##### (d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in jointly controlled entities that do not result in the Group losing joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

#### 2.6 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

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% or over the lease term, whichever is shorter
Plant and machinery	10% – 20%
Furniture, fixtures and office equipment	5% – 20%
Motor vehicles	20% – 25%

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

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

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 the end of each reporting period.

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 consolidated income statement.

#### 2.7 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less impairment losses. Historical expenditure that is directly attributable to the construction comprises construction costs, the cost of plant and machinery and applicable borrowing costs incurred during the construction period. 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 other property, plant and equipment categories and depreciated in accordance with the policy mentioned above.

#### 2.8 Investment properties

Investment properties, principally comprising land and office buildings, are held for long-term rental yields and are not occupied by the Group. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are initially measured at cost, including related transaction costs. After initial recognition at cost investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of valuation gain or loss in 'other gains-net'.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.9 Intangible assets

##### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

##### (b) 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 consolidated income statement when the asset is derecognised.

##### (c) Patents

Patents are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their remaining useful lives of sixteen 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 consolidated income statement when the asset is derecognised.

##### (d) 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 accumulated impairment losses.

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 consolidated income statement in the period in which it is incurred.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.10 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 44 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

#### 2.11 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.12 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables' (Note 2.16), 'other receivables and deposits', restricted bank balances, and 'cash and cash equivalents' (Note 2.17) in the statement of financial position.



## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.12 Financial assets (*Continued*)

##### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group has designated its unlisted investment fund as available-for-sale financial assets.

#### 2.13 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the consolidated income statement within ‘other gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as ‘gain or loss on disposal of available-for-sale financial assets’ in ‘other gains – net’.

Interest in available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

##### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.13 Recognition and measurement (*Continued*)

##### (a) Assets carried at amortised cost (*Continued*)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of significant accounting policies (Continued)

#### 2.13 Recognition and measurement (Continued)

##### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria as disclosed in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

#### 2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within 'other gains – net'.

#### 2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. 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.

#### 2.16 Trade and bills receivables

Trade and bills receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### 2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### 2.19 Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and bills payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.20 Perpetual convertible securities

Perpetual convertible securities issued by the Group gives the right to the holder to convert these securities into a fixed number of the Company's shares at any time at a fixed exercise price per share. The perpetual convertible securities have no maturity date and are not redeemable. These securities are equity instruments.

#### 2.21 Financial liabilities

##### (i) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the Group 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.

Financial guarantee contracts are initially recognised at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date and the initial measurement, less amortisation calculated to recognise in the consolidated income statement the fee income earned on a straight-line basis over the life of the guarantee. These estimates are determined based on experience of similar transactions and debtors' payment history, supplemented by the judgement of management of the Group.

##### (ii) *Other financial liabilities*

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

Subsequently to initial recognition, the financial liability is carried at amortised cost using the effective interest method. The accretion of the discount on the financial liability and any adjustments to estimated amounts of the final redemption amount are recognised as a finance charge in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference is recognised in consolidated income statement.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### 2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

##### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### (b) *Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.23 Current and deferred income tax (*Continued*)

##### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 2.24 Employee benefits

##### *Pension obligations*

The Group operates various defined contribution plans for its employers in Hong Kong and The People's Republic of China (the "PRC"). A defined contribution plan is a pension plan under which the Group pays fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the relevant regulations of the PRC government, the subsidiaries in the PRC participate in local municipal government retirement benefits schemes (the "Schemes"), whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of those employees of the subsidiaries in the PRC. Contributions under the Schemes are charged to the consolidated income statement as incurred.

#### 2.25 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.25 Share-based payments (*Continued*)

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### 2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions are recorded in the Group's other payables, deposits and accruals balance.

#### 2.27 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

#### 2.28 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### (i) *Sale of goods*

Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, products have been delivered to its customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.28 Revenue recognition (*Continued*)

(ii) *Rental income*

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

(iii) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

#### 2.29 Government subsidies and value added tax refunded

Government subsidies are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and all the attaching conditions will be complied with. Subsidies relating to expenses incurred by the Group are deferred and recognised in the consolidated 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 refund is recognised when there is reasonable assurance that it will be received and the Group will comply with the conditions attaching to it.

#### 2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain properties out under an operating lease and lease income is recognised over the term of the lease on a straight-line basis.

#### 2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 2.32 Non-current assets held-for-sale

Non-current assets are classified as assets held-for-sale when the carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.



## Notes to the Consolidated Financial Statements (*Continued*)

### 2 Summary of significant accounting policies (*Continued*)

#### 2.33 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amount, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 3 Financial risk management

#### 3.1 Financial risk factors

##### (a) Market risk

The Group's activities expose it to the financial risks in relation to 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 is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank balances, cash and cash equivalents and borrowings which are carried at prevailing market interest rates as shown in Notes 18 and 22. Management will consider hedging significant interest rate exposure should the need arise.

The Group did not have any interest rate swap as at 31 March 2012.

As at 31 March 2011, the Group had used interest rate swap contracts, classified under derivative financial instruments (see Note 13(b)), 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 borrowings at the end of the reporting period. For variable rate borrowings and bank deposits, the analysis is prepared assuming the amount of liability/asset outstanding at the end of reporting period 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 with all other variables held constant, the Group's pre-tax profit for the year ended 31 March 2012 would decrease/increase by HK\$10,142,000/HK\$11,316,000 (2011: pre-tax profit decrease/increase by HK\$8,362,000/HK\$6,187,000).

## Notes to the Consolidated Financial Statements (*Continued*)

### 3 Financial risk management (*Continued*)

#### 3.1 Financial risk factors (*Continued*)

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

##### (ii) Foreign exchange risk

The functional currencies of the Group's respective principal subsidiaries are Renminbi ("RMB"), European dollars ("EUR") and HK\$. Majority of the purchases and sales of the local operations are transacted in local functional currency and therefore foreign exchange transactional risks are minimal.

For companies with HK\$ as their functional currency

As at 31 March 2012, there are no significant assets and liabilities denominated in currencies other than HK\$ and the United States dollars ("US\$"). Since HK\$ is pegged to US\$, there is no significant foreign currency exposure between those two currencies to the Group.

For companies with RMB as their functional currency

As at 31 March 2012, if US\$ had weakened/strengthened by 5% against RMB with all other variables held constant, pre-tax profit for the year then ended would have been approximately HK\$673,000 lower/higher (2011: HK\$1,539,000 lower/higher), mainly as a result of the foreign exchange losses/gains on translation of US\$ denominated cash and bank deposits and bank borrowings.

The Group does not have a foreign currency hedging policy. However management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

##### (b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, deposits placed with banks and guarantees given by the Group for its customers. The Group has no significant concentrations of credit risk. Management has policies in place to monitor the exposures to these credit risks on an on-going basis.

For banks and financial institutions, deposits are only placed with reputable banks. For credit exposures to customers, the Group has policies in place to ensure that sales are made and guarantees are granted to reputable and credit-worthy customers with an appropriate financial strength and credit history. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly recoverable amount of each individual trade and other receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (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.

The following table details the Group's contractual maturities of its financial liabilities at the end of reporting period. 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 5 years HK\$'000	Total HK\$'000
<b>As at 31 March 2012</b>					
<b>Non-derivative financial liabilities</b>					
Bank borrowings subject to a repayment on demand clause	749,322	-	-	-	749,322
Other bank borrowings (Note i)	-	225,793	101,527	217,808	545,128
Trade and bills payables, other payables, deposits and accruals	-	1,017,228	-	-	1,017,228
	<b>749,322</b>	<b>1,243,021</b>	<b>101,527</b>	<b>217,808</b>	<b>2,311,678</b>
<b>Financial guarantees issued</b>					
Maximum amount guaranteed (Note 35)	-	279,046	-	-	279,046

- (i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 March 2012, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 March 2012.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

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

	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 5 years HK\$'000	Total HK\$'000
<b>As at 31 March 2011</b>					
<b>Non-derivative financial liabilities</b>					
Bank borrowings subject to a repayment on demand clause	587,333	–	–	–	587,333
Other bank borrowings (Note i)	–	133,332	37,140	62,493	232,965
Trade and bills payables, other payables, deposits and accruals	–	957,825	–	–	957,825
	587,333	1,091,157	37,140	62,493	1,778,123
<b>Derivative financial liabilities</b>					
Interest rate swap contract	–	748	–	–	748
Put option	–	9,342	–	–	9,342
	–	10,090	–	–	10,090
	587,333	1,101,247	37,140	62,493	1,788,213
<b>Financial guarantees issued</b>					
Maximum amount guaranteed (Note 35)	–	193,610	–	–	193,610

- (i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 March 2011, without taking into account any subsequent changes in the amount of borrowings. Floating rate interest is based on current interest rate as at 31 March 2011.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

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

#### Maturity Analysis – Bank borrowings subject to a repayment on demand clause based on scheduled repayments

	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total outflows HK\$'000
<b>At 31 March 2012</b>	<b>719,329</b>	<b>18,084</b>	<b>11,908</b>	<b>–</b>	<b>749,321</b>
At 31 March 2011	567,287	3,208	16,838	–	587,333

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. The amount of guarantees issued by the Company is disclosed in Note 35.

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents. Total equity is shown in the consolidated statement of financial position.

During 2012, the Groups' strategy, which was unchanged from 2011, was to maintain the gearing ratio below 75%. The gearing ratio was as follows:

	<b>2012</b> HK\$'000	2011 HK\$'000
Total borrowings (Note 22)	<b>1,278,584</b>	805,716
Less: cash and cash equivalents	<b>(439,231)</b>	(444,303)
Net debt	<b>839,353</b>	361,413
Total equity	<b>1,716,967</b>	1,520,436
Gearing ratio	<b>48.9%</b>	23.7%

The increase in the gearing ratio resulted primarily from increase in net debt arising from addition of total borrowings for the year.

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation

The different levels for analysis of financial instruments carried at fair value, by valuation method are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2012.

#### As at 31 March 2012

	Group			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial liabilities</b>				
Derivative financial instruments:				
Warrants	–	–	1,909	1,909
Subscription Options	–	–	2,000	2,000
<b>Total</b>	–	–	3,909	3,909

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2011:

#### As at 31 March 2011

	Group			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets</b>				
Derivative financial instruments:				
Interest rate swap contract	–	37	–	37
<b>Financial liabilities</b>				
Derivative financial instruments:				
Interest rate swap contract	–	748	–	748
Warrants	–	–	22,569	22,569
Subscription Options	–	–	37,030	37,030
<b>Total</b>	–	748	59,599	60,347

## Notes to the Consolidated Financial Statements (Continued)

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation (Continued)

There were no transfers of financial assets between levels 1 and 2 value hierarchy classifications.

Reconciliation of Level 3 fair value measurements of financial liabilities:

	Put options HK\$'000	Warrants HK\$'000	Subscription Options HK\$'000	Total HK\$'000
Balance at 1 April 2011	–	22,569	37,030	59,599
Gains recognised in profit or loss	–	(20,660)	(35,030)	(55,690)
Balance at 31 March 2012	–	1,909	2,000	3,909

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

### 4 Critical accounting estimates and judgments

Estimates and judgments 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) Provision for impairment of inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, management identifies, using their judgment, inventories that are slow moving or obsolete, and considering their physical conditions, age, market conditions and market price for similar items.

#### (b) Provision for impairment of receivables

Trade and bills receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Impairment loss on a trade receivables is recognised in consolidated 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.

## Notes to the Consolidated Financial Statements (Continued)

### 4 Critical accounting estimates and judgments (Continued)

#### (b) Provision for impairment of receivables (Continued)

The Group has implemented a credit policy with an aim to maintain the trade receivables at an acceptable level. The trade receivables 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 trade and bills receivables and the impairment losses on receivables in the period in which such estimate is changed.

#### (c) Income taxes and deferred income tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

#### (d) Provision for loss on guarantees

The Group provides guarantees for loans granted by the PRC banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer defaults on a loan, the Group is obliged to settle the payable amounts. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different judgements or estimates could significantly affect the provision amounts and materially impact the results of operations.

#### (e) Fair value of derivatives and other instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on forecast business performance and the respective market conditions.



## Notes to the Consolidated Financial Statements (Continued)

### 4 Critical accounting estimates and judgments (Continued)

#### (f) Impairment of property, plant and equipment, land use rights and intangible assets (other than goodwill)

Property, plant and equipment, land use rights and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continue use of the asset in the business; (iii) whether a decline in asset's market value, increase in interest rates or other market rates that may affect the discount rate used in calculating the asset's recoverable amount; (iv) whether any assets have become obsolete or any plan to discontinue or restructure; and (v) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

#### (g) Estimate of useful lives of property, plant and equipment

The Group has significant property, plant and equipment. The Group determines the estimated useful lives and residual values in order to ascertain the amount of depreciation charges for each reporting period. These estimates are based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives or residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## Notes to the Consolidated Financial Statements (Continued)

### 5 Segment information

The Group determines its operating segments based upon the internal reports reviewed by the chief operating decision maker (“CODM”) that are used to make strategic decisions. Segment results represent the profit/(loss) for the period in each reportable segment. This is the measure reported to the Group’s management for the purpose of resource allocation and assessment of segment performance.

The measure used for reporting segment results is “profit/(loss) from operations”, i.e. profit/(loss) before finance income, finance costs and income taxes. To arrive at the profit/(loss) from operations, the Group’s profit is further adjusted for items not specifically attributed to individual segments.

The Group is organised into two main reportable segments.

- (i) Manufacture and sales of machinery and equipment
- (ii) Steel casting

The segment results for the year ended 31 March 2012 are as follows:

	<b>Manufacture and sales of machinery and equipment HK\$'000</b>	<b>Steel casting HK\$'000</b>	<b>Total segments HK\$'000</b>	<b>Eliminations HK\$'000</b>	<b>Total HK\$'000</b>
Revenue					
External sales	2,995,836	15,800	3,011,636	–	3,011,636
Inter-segment sales	4,440	123,208	127,648	(127,648)	–
Total sales	3,000,276	139,008	3,139,284	(127,648)	3,011,636
Other income	36,007	37	36,044	–	36,044
Total revenue and other income	3,036,283	139,045	3,175,328	(127,648)	3,047,680
Result					
Segment results	324,077	(17,756)	306,321	–	306,321
Finance income					4,672
Finance costs					(59,101)
Share of loss of a jointly controlled entity					(1,315)
Profit before income tax					250,577

## Notes to the Consolidated Financial Statements (Continued)

### 5 Segment information (Continued)

The segment results for the year ended 31 March 2011 are as follows:

	Manufacture and sales of machinery and equipment HK\$'000	Steel casting HK\$'000	Total segments HK\$'000	Eliminations HK\$'000	Total HK\$'000
Revenue					
External sales	2,582,058	20,506	2,602,564	–	2,602,564
Inter-segment sales	476	83,879	84,355	(84,355)	–
Total sales	2,582,534	104,385	2,686,919	(84,355)	2,602,564
Other income	34,389	41	34,430	–	34,430
Total revenue and other income	2,616,923	104,426	2,721,349	(84,355)	2,636,994
Result					
Segment results	362,354	(2,437)	359,917	–	359,917
Finance income					2,450
Finance costs					(42,931)
Profit before income tax					319,436

Sales between segments are carried out at arm's length basis. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

## Notes to the Consolidated Financial Statements (Continued)

### 5 Segment information (Continued)

#### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

	As at 31 March 2012		
	Manufacture and sales of machinery and equipment HK\$'000	Steel casting HK\$'000	Total HK\$'000
<b>Assets</b>			
Segment assets	3,736,974	291,090	4,028,064
Unallocated assets			47,188
Consolidated total assets			4,075,252
<b>Liabilities</b>			
Segment liabilities	2,207,029	99,096	2,306,125
Unallocated liabilities			52,160
Consolidated total liabilities			2,358,285

	As at 31 March 2011		
	Manufacture and sales of machinery and equipment HK\$'000	Steel casting HK\$'000	Total HK\$'000
<b>Assets</b>			
Segment assets	2,996,615	296,525	3,293,140
Unallocated assets			94,508
Consolidated total assets			3,387,648
<b>Liabilities</b>			
Segment liabilities	1,676,727	96,327	1,773,054
Unallocated liabilities			94,158
Consolidated total liabilities			1,867,212

## Notes to the Consolidated Financial Statements (Continued)

### 5 Segment information (Continued)

#### Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than corporate assets, non-current assets held-for-sale, interest in a jointly controlled entity, amount due from a jointly controlled entity, derivative financial instruments and deferred tax assets.
- all liabilities are allocated to reportable segments other than corporate liabilities, derivative financial instruments, current income tax liabilities and deferred income tax liabilities.
- liabilities for which segments are jointly liable are allocated in proportion to segment assets.

#### Other segment information

The following amounts are included in the measure of segment results or assets:

	For the year ended 31 March 2012		
	Manufacture and sales of machinery and equipment HK\$'000	Steel casting HK\$'000	Total HK\$'000
Additions to non-current assets <sup>1</sup>	317,799	910	318,709
Depreciation and amortisation	101,743	10,189	111,932
Write down of inventories	15,474	90	15,564
Provision for impairment of trade receivables	9,425	(1,044)	8,381

	For the year ended 31 March 2011		
	Manufacture and sales of machinery and equipment HK\$'000	Steel casting HK\$'000	Total HK\$'000
Additions to non-current assets <sup>1</sup>	194,591	10,157	204,748
Depreciation and amortisation	91,949	9,792	101,741
Write down of inventories	9,002	94	9,096
Provision for impairment of trade receivables	2,844	722	3,566

<sup>1</sup> Non-current assets exclude interest in a jointly controlled entity, deferred income tax assets, deposits and receivables and derivative financial instruments.

## Notes to the Consolidated Financial Statements (Continued)

### 5 Segment information (Continued)

#### Other segment information (Continued)

None of the customers of the Group individually accounted for 10% or more of the Group's revenue for both of the years ended 31 March 2011 and 2012.

	2012 HK\$'000	2011 HK\$'000
<b>Analysis of revenue by category</b>		
Sales of machinery and equipment	2,995,836	2,582,058
Steel casting	15,800	20,506
	<b>3,011,636</b>	2,602,564
Other revenue	36,044	34,430
	<b>3,047,680</b>	2,636,994

#### Geographical information

The Group's revenue by geographical location is determined by the final destination of delivery of the products and the geographical location of non-current assets is determined by where the assets are located and are detailed below:

	Revenue from external customers		Non-current assets <sup>1</sup>	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Mainland China	2,443,725	2,065,388	1,075,231	864,092
Hong Kong	–	–	31,396	30,146
Europe	283,284	231,006	25,849	30,876
Central America and South America	106,658	75,724	–	–
North America	55,273	137,211	226	303
Other countries	122,696	93,235	64,299	12,619
	<b>3,011,636</b>	2,602,564	<b>1,197,001</b>	938,036

<sup>1</sup> Non-current assets exclude non-current portion of trade and other receivables, restricted bank balances and deferred income tax assets.

## Notes to the Consolidated Financial Statements (Continued)

### 6 Intangible assets – Group

	Development costs				Total HK\$'000
	Goodwill HK\$'000 (Note)	Trademarks HK\$'000	Patents HK\$'000	and others HK\$'000	
At 1 April 2010					
Cost	2,799	4,827	3,420	18,953	29,999
Accumulated amortisation and impairment	–	(3,275)	(178)	(10,355)	(13,808)
<b>Net book amount</b>	<b>2,799</b>	<b>1,552</b>	<b>3,242</b>	<b>8,598</b>	<b>16,191</b>
Year ended 31 March 2011					
Opening net book amount	2,799	1,552	3,242	8,598	16,191
Exchange difference	–	(40)	–	(84)	(124)
Additions	–	–	–	3,720	3,720
Amortisation	–	(701)	(214)	(4,409)	(5,324)
<b>Closing net book amount</b>	<b>2,799</b>	<b>811</b>	<b>3,028</b>	<b>7,825</b>	<b>14,463</b>
At 31 March 2011					
Cost	2,799	4,823	3,420	22,727	33,769
Accumulated amortisation and impairment	–	(4,012)	(392)	(14,902)	(19,306)
<b>Net book amount</b>	<b>2,799</b>	<b>811</b>	<b>3,028</b>	<b>7,825</b>	<b>14,463</b>
Year ended 31 March 2012					
Opening net book amount	2,799	811	3,028	7,825	14,463
Exchange difference	–	(24)	–	(289)	(313)
Additions	–	156	–	5,927	6,083
Amortisation	–	(219)	(214)	(4,972)	(5,405)
<b>Closing net book amount</b>	<b>2,799</b>	<b>724</b>	<b>2,814</b>	<b>8,491</b>	<b>14,828</b>
At 31 March 2012					
Cost	2,799	4,886	3,420	27,833	38,938
Accumulated amortisation and impairment	–	(4,162)	(606)	(19,342)	(24,110)
<b>Net book amount</b>	<b>2,799</b>	<b>724</b>	<b>2,814</b>	<b>8,491</b>	<b>14,828</b>

Note:

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified according to operating segments.

## Notes to the Consolidated Financial Statements (Continued)

### 6 Intangible assets – Group (Continued)

An operating segment level summary of the goodwill allocation is presented below:

	2012 HK\$'000	2011 HK\$'000
Machinery and equipment	<b>2,799</b>	2,799

The recoverable amount of a CGU is determined based on a value-in-use calculation. The calculation uses pre-tax cash flow projection based on five-year financial budget approved by management using the estimated growth rate of 10%. Cash flows beyond the five-year period are extrapolated 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 14% (2011: 13%) and management believes it reflects specific risks relating to the segment. Management believes that any reasonably possible change in any of the key assumptions would not result in the impairment provision of goodwill. There was no impairment provision for intangible assets for the year ended 31 March 2012 (2011: HK\$Nil).



## Notes to the Consolidated Financial Statements (Continued)

### 7 Property, plant and equipment – Group

	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
At 1 April 2010							
Cost	341,033	33,147	54,547	468,462	53,929	35,678	986,796
Accumulated depreciation and impairment losses	(76,256)	–	(26,385)	(225,058)	(38,882)	(26,005)	(392,586)
<b>Net book amount</b>	<b>264,777</b>	<b>33,147</b>	<b>28,162</b>	<b>243,404</b>	<b>15,047</b>	<b>9,673</b>	<b>594,210</b>
Year ended 31 March 2011							
Opening net book amount	264,777	33,147	28,162	243,404	15,047	9,673	594,210
Additions	650	121,233	5,272	61,822	6,207	5,731	200,915
Disposals	(187)	–	(19)	(759)	(167)	(466)	(1,598)
Depreciation charge	(22,488)	–	(7,866)	(51,262)	(7,191)	(4,504)	(93,311)
Exchange difference	9,379	1,170	137	7,780	413	313	19,192
Reclassification	–	(19,521)	825	19,682	(986)	–	–
<b>Closing net book amount</b>	<b>252,131</b>	<b>136,029</b>	<b>26,511</b>	<b>280,667</b>	<b>13,323</b>	<b>10,747</b>	<b>719,408</b>
At 31 March 2011							
Cost	353,503	136,029	58,136	562,444	57,788	38,047	1,205,947
Accumulated depreciation and impairment losses	(101,372)	–	(31,625)	(281,777)	(44,465)	(27,300)	(486,539)
<b>Net book amount</b>	<b>252,131</b>	<b>136,029</b>	<b>26,511</b>	<b>280,667</b>	<b>13,323</b>	<b>10,747</b>	<b>719,408</b>
Year ended 31 March 2012							
Opening net book amount	252,131	136,029	26,511	280,667	13,323	10,747	719,408
Additions	956	153,703	3,925	24,885	12,171	8,541	204,181
Disposals	(677)	(138)	(5)	(1,693)	(513)	(812)	(3,838)
Depreciation charge	(25,636)	–	(7,024)	(58,009)	(7,448)	(4,729)	(102,846)
Exchange difference	11,559	6,280	218	12,873	366	407	31,703
Reclassification	142,725	(175,385)	66	30,331	2,521	(258)	–
<b>Closing net book amount</b>	<b>381,058</b>	<b>120,489</b>	<b>23,691</b>	<b>289,054</b>	<b>20,420</b>	<b>13,896</b>	<b>848,608</b>
At 31 March 2012							
Cost	513,222	120,489	62,435	639,583	71,694	42,988	1,450,411
Accumulated depreciation and impairment losses	(132,164)	–	(38,744)	(350,529)	(51,274)	(29,092)	(601,803)
<b>Net book amount</b>	<b>381,058</b>	<b>120,489</b>	<b>23,691</b>	<b>289,054</b>	<b>20,420</b>	<b>13,896</b>	<b>848,608</b>

Depreciation charge of HK\$76,514,000 (2011: HK\$65,979,000) has been charged in “cost of sales”, HK\$2,693,000 (2011: HK\$2,712,000) in “selling and distribution expenses” and HK\$23,639,000 (2011: HK\$24,620,000) in “general and administration expenses”.

Certain property, plant and equipment are pledged to secure bank borrowings of the Group as detailed in Note 22.

## Notes to the Consolidated Financial Statements (Continued)

### 8 Investment properties – Group

	HK\$'000
<b>At fair value</b>	
At 1 April 2010	25,910
Increase in fair value during the year	5,821
Exchange difference	509
At 31 March 2011 and 1 April 2011	32,240
Increase in fair value during the year	1,074
Exchange difference	776
<b>At 31 March 2012</b>	<b>34,090</b>

The Group's interests in investment properties at their carrying values are analysed as follows:

	2012 HK\$'000	2011 HK\$'000
Land and buildings in Hong Kong under leases of between 10 to 50 years	<b>17,370</b>	16,600
Land and buildings in the PRC under leases of between 10 to 50 years	<b>16,720</b>	15,640
	<b>34,090</b>	32,240

As at 31 March 2012, the fair values of the investment properties have been arrived at on the basis of a valuation carried out by Messrs Jones Lang LaSalle Sallmanns Limited, independent professional surveyors and valuers. 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 22.

## Notes to the Consolidated Financial Statements (Continued)

### 9 Land use rights – Group

	HK\$'000
<b>Cost</b>	
At 1 April 2010	150,606
Additions	113
Exchange difference	5,315
At 31 March 2011 and 1 April 2011	156,034
Additions	108,445
Exchange difference	7,705
<b>At 31 March 2012</b>	<b>272,184</b>
<b>Amortisation</b>	
At 1 April 2010	10,293
Amortisation	3,106
Exchange difference	362
At 31 March 2011 and 1 April 2011	13,761
Amortisation	3,681
Exchange difference	726
<b>At 31 March 2012</b>	<b>18,168</b>
<b>Net book value</b>	
<b>At 31 March 2012</b>	<b>254,016</b>
At 31 March 2011	142,273

Amortisation charge of HK\$3,681,000 (2011: HK\$3,106,000) has been charged in “general and administration expenses”.

The Group's interest in land use rights at their carrying values are analysed as follows:

	2012 HK\$'000	2011 HK\$'000
Land use rights in the PRC under leases of between 10 to 50 years	241,042	129,679
Land use rights in the PRC under leases of over 50 years	12,974	12,594
	<b>254,016</b>	142,273

Certain land use rights are pledged to secure bank borrowings of the Group as detailed in Note 22.

## Notes to the Consolidated Financial Statements (Continued)

### 10 Investment in subsidiaries – Company

#### (a) Investments in subsidiaries

	Company	
	2012 HK\$'000	2011 HK\$'000
Investments in unlisted shares, at cost	65,000	65,000

Details of the Company's principal subsidiaries as at 31 March 2012 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
<b>Subsidiaries directly held by the Company</b>					
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
World Force Limited	Corporation	British Virgin Islands	1 ordinary share of US\$1	100%	Investment holding
<b>Subsidiaries indirectly held by the Company</b>					
重慶力勁機械有限公司 Chongqing L.K. Machinery Co. Ltd. <sup>1</sup>	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. <sup>1</sup>	WFOE	PRC	HK\$30,000,000	100%	Manufacture and sale of steel casting
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	10,000,000 ordinary shares of HK\$1 each	100%	Sale of die-casting machines and plastic injection moulding machines

## Notes to the Consolidated Financial Statements (Continued)

### 10 Investment in subsidiaries – Company (Continued)

#### (a) Investments in subsidiaries (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
<b>Subsidiaries indirectly held by the Company</b>					
力勁機械股份有限公司 L.K. Machinery Corp.	Corporation	Taiwan	21,100,000 ordinary shares of NT\$10 each	100%	Manufacture and sale of CNC 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. <sup>1</sup>	WFOE	PRC	HK\$69,500,000	100%	Manufacture and sale of die-casting machines
力勁精密機械(昆山)有限公司 L.K. Precision Machinery (Kunshan) Co. Ltd. <sup>1</sup>	WFOE	PRC	US\$20,000,000	100%	Manufacture and sale of CNC machines
力勁科技(天津)有限公司 L.K. Tech (Tianjin) Co. Ltd. <sup>1</sup>	WFOE	PRC	US\$2,000,000	100%	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. <sup>1</sup>	WFOE	PRC	US\$8,060,000	100%	Manufacture and sale of plastic injection moulding machines
寧波力勁科技有限公司 Ningbo L.K. Technology Co. Ltd. <sup>1</sup>	WFOE	PRC	US\$20,400,000	100%	Manufacture and sale of die-casting machines
Power Excel International Limited	Corporation	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding

## Notes to the Consolidated Financial Statements (Continued)

### 10 Investment in subsidiaries – Company (Continued)

#### (a) Investments in subsidiaries (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
<b>Subsidiaries indirectly held by the Company</b>					
上海一達機械有限公司 Shanghai Atech Machinery Co. Ltd. <sup>1</sup>	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. <sup>1</sup>	WFOE	PRC	RMB127,000,000	100%	Manufacture and sale of die-casting machines
中山力勁機械有限公司 Zhongshan L.K. Machinery Co. Ltd. <sup>1</sup>	WFOE	PRC	US\$7,180,000	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. <sup>1</sup>	WFOE	PRC	HK\$140,000,000	100%	Steel casting
Idra S.r.l (Note i)	Corporation	Italy	EUR5,032,661	100%	Design, manufacture and sale of die-casting machines and equipment

- (i) In July 2011, the non-controlling shareholder exercised the put option in relation to Idra S.r.l, requiring the Group to acquire an additional 15% interest in Idra S.r.l at a cash consideration of EUR875,000 (approximately HK\$10,230,000). As a result of this acquisition, the Group's interest in Idra S.r.l has increased from 85% to 100%.

<sup>1</sup> 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 all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

#### (b) Amounts due from/(to) subsidiaries

The amounts are interest free, unsecured and repayable on demand. Their carrying values approximate their fair values.

## Notes to the Consolidated Financial Statements (Continued)

### 11 Deferred income tax – Group

The analysis of deferred income tax assets and liabilities is as follows:

	2012 HK\$'000	2011 HK\$'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	33,705	20,553
Deferred income tax liabilities		
– Deferred income tax liabilities to be settled after more than 12 months	(7,572)	(4,475)
<b>Deferred income tax assets, net</b>	<b>26,133</b>	<b>16,078</b>

The gross movement on the deferred income tax account is as follows:

	2012 HK\$'000	2011 HK\$'000
At the beginning of the year	16,078	2,478
Exchange differences	1,027	332
Credited to the consolidated income statement (Note 30)	9,028	13,268
<b>At the end of the year</b>	<b>26,133</b>	<b>16,078</b>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses HK\$'000	Impairment losses and other allowances HK\$'000	Decelerated tax depreciation HK\$'000	Total HK\$'000
At 1 April 2010	1,691	8,163	6,476	16,330
(Charged)/credited to consolidated income statement	(245)	5,764	1,831	7,350
Exchange differences	–	272	254	526
At 1 April 2011	1,446	14,199	8,561	24,206
(Charged)/credited to consolidated income statement	(324)	4,919	3,347	7,942
Exchange differences	–	954	423	1,377
<b>At 31 March 2012</b>	<b>1,122</b>	<b>20,072</b>	<b>12,331</b>	<b>33,525</b>

## Notes to the Consolidated Financial Statements (Continued)

### 11 Deferred income tax – Group (Continued)

	Revaluation of investment properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2010	(1,076)	(12,776)	(13,852)
(Charged)/credited to consolidated income statement	(151)	6,069	5,918
Exchange differences	(36)	(158)	(194)
At 1 April 2011	(1,263)	(6,865)	(8,128)
(Charged)/credited to consolidated income statement	(60)	1,146	1,086
Exchange differences	(90)	(260)	(350)
<b>At 31 March 2012</b>	<b>(1,413)</b>	<b>(5,979)</b>	<b>(7,392)</b>

Deferred income tax asset is recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

At the end of reporting period, the Group has the following unutilised tax losses available for offsetting against future taxable profits for which no deferred tax asset is recognised:

	Group	
	2012 HK\$'000	2011 HK\$'000
Tax losses expiring:		
Within 5 years	43,324	76,175
Over 5 years	23,139	27,557
Without expiry date	105,566	42,985
	<b>172,029</b>	<b>146,717</b>

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

Dividends out of profits earned on or after 1 January 2008 for the PRC subsidiaries distributed to the Group will be subject to dividend withholding tax. As at 31 March 2012, deferred tax liabilities of HK\$5,800,000 (2011: HK\$3,997,000) have been recognised and are included in 'others' within the deferred tax liabilities.

Deferred income tax liabilities of HK\$26,381,000 (2011: HK\$16,516,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled HK\$643,629,000 at 31 March 2012 (2011: HK\$410,265,000).



## Notes to the Consolidated Financial Statements (Continued)

### 12 Trade and bills receivables – Group

	2012 HK\$'000	2011 HK\$'000
Trade receivables	826,504	722,434
Less: Provision for impairment	(47,144)	(39,604)
	<b>779,360</b>	682,830
Bills receivables	<b>67,109</b>	109,029
	<b>846,469</b>	791,859
Less: Balance due after one year shown as non-current assets	(26,855)	(4,069)
Trade and bills receivables, net	<b>819,614</b>	787,790

The amount of provision for impaired trade receivables was HK\$47,144,000 (2011: HK\$39,604,000). The individually impaired receivables mainly relate to individual customers, the recoverability of which was in doubt.

The aging analysis of gross trade receivables based on invoice date at the end of reporting date is as follows:

	2012 HK\$'000	2011 HK\$'000
Within 90 days	459,618	459,409
91-180 days	132,237	103,039
181-365 days	123,919	80,312
Over one year	110,730	79,674
	<b>826,504</b>	722,434

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 basis. Customers in general are required to pay deposits upon placing purchase orders, the remaining balances will be payable upon goods delivery 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 installments which normally range from 6 months to 12 months.

## Notes to the Consolidated Financial Statements (Continued)

### 12 Trade and bills receivables – Group (Continued)

The following is an analysis of trade receivables net of provision for impairment:

	2012 HK\$'000	2011 HK\$'000
Not past due	593,274	455,332
Past due:		
Within 90 days	69,991	115,800
91-180 days	42,289	47,570
181-365 days	39,871	46,687
Over one year	33,935	17,441
Balances past due but not impaired	186,086	227,498
Total trade receivables net of provision for impairment	779,360	682,830

Receivables that were past due but not impaired relate to a large number of customers for whom there was no recent history of default and they are in continuous trading with the Group. Based on experience, management believes that no provision for impairment 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.

Movements in provision for impairment of trade receivables:

	2012 HK\$'000	2011 HK\$'000
Beginning of the year	39,604	37,760
Exchange realignment	1,440	927
Provision for impairment losses recognised	8,381	3,566
Amounts written off as uncollectible	(2,281)	(2,649)
End of the year	47,144	39,604

The Group has recognised a provision of HK\$8,381,000 (2011: HK\$3,566,000) for impairment of trade receivables for the year ended 31 March 2012. The Group has written off impaired receivables of HK\$2,281,000 (2011: HK\$2,649,000) against prior year provision during the year ended 31 March 2012. The provision for impairment of trade receivables has been included in “general and administration expenses” in the consolidated income statement.

## Notes to the Consolidated Financial Statements (Continued)

### 12 Trade and bills receivables – Group (Continued)

The carrying amounts of the trade and bills receivables are denominated in the following currencies:

	2012 HK\$'000	2011 HK\$'000
RMB	571,697	538,178
US\$	76,627	116,689
EUR	197,760	123,231
Other currencies	385	13,761
Trade and bills receivables, net	<b>846,469</b>	791,859

### 13 Derivative financial instruments – Group and Company

#### Group

	2012 HK\$'000	2011 HK\$'000
Balance classified as current assets		
Interest rate swap contract (Note (b))	–	37
Balance classified as current liabilities		
Warrants (Note (a))	1,909	22,569
Subscription Options (Note (a))	2,000	37,030
Interest rate swap contract (Note (b))	–	748
	<b>3,909</b>	60,347

#### Company

	2012 HK\$'000	2011 HK\$'000
Warrants (Note (a))	1,909	22,569
Subscription Options (Note (a))	2,000	37,030
	<b>3,909</b>	59,599

## Notes to the Consolidated Financial Statements (Continued)

### 13 Derivative financial instruments – Group and Company (Continued)

#### (a) Warrants and Subscription Options

On 26 January 2011, the Company and a third party investor (the “Investor”) entered into an investment agreement (the “Investment Agreement”), pursuant to which the Investor agreed to subscribe for the HK\$255 million “Subscription Shares” and the HK\$145 million “Perpetual Convertible Securities”, at a total cash consideration of HK\$400 million. The Company has also issued the “Warrants” and the “Subscription Options” to the Investor at nil consideration as part of the transaction. Pursuant to the terms of the Warrants and the Subscription Options as stipulated in the Investment Agreement, the Warrants and the Subscription Options are regarded as derivatives in accordance with the Group’s accounting policies (Note 2.14). Further details of the Investment Agreement are set out in Note 19.

#### Valuation of Warrants and Subscription Options

The Warrants and the Subscription Options are measured at their respective fair value upon their date of grant.

#### (i) Warrants

The estimate of the fair value of the Warrants is measured using the binomial tree model. The key assumptions used for the valuation are as follows:

	2012	2011
Expected dividend	1.75%	0%
Expected volatility	43%	54%
Risk free interest rate	0.18%	0.86%

#### (ii) Subscription Options

The estimate of the fair value of the Subscription Options is measured using the lattice model. The key assumptions used for the valuation are as follows:

	2012	2011
Risk free interest rate	0.18%	0.87%
Expected exercise year	2.5 years following the grant	2.5 years following the grant
Discount rate	14.2% – 18.4%	13.03% – 16.76%
Gross margin	26% – 27%	27% – 28%
Long term average growth rate	0% – 5%	0% – 5.16%

## Notes to the Consolidated Financial Statements (Continued)

### 13 Derivative financial instruments – Group and Company (Continued)

#### (b) Interest rate swap contracts

As at 31 March 2011, the Group had 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 into 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 into to swap its floating-rate borrowings to another floating-rate borrowings which was considered by management to be more favourable under their expectation of future market conditions.

All interest rate swap contracts were matured during the year and no such contract existed as at 31 March 2012.

### 14 Non-current other receivables – Group

As at 31 March 2011, the Group's 35% equity interest in Fuxin Li Chang Steel & Iron Foundry Co., Ltd ("Fuxin Li Chang"), a PRC incorporated entity principally engaged in the iron ore mining and smelting business in Fuxin, was classified as non-current assets held-for-sale. On 28 March 2012, the Group entered into an agreement with Fuxin Jin Da Steel Casting Company Limited ("Jin Da"), the 65% equity interest holder of Fuxin Li Chang, under which Jin Da would acquire the Group's 35% equity interest in Fuxin Li Chang, at a total consideration of RMB69,000,000 (equivalent to approximately HK\$84,870,000). The transaction was completed on 30 March 2012, and as at 31 March 2012 the Group had received a total of RMB10,000,000 (equivalent to approximately HK\$12,195,000). The receivable of RMB59,000,000 will be received by the Group over 3 instalments between December 2012 and October 2014. As at 31 March 2012, the total receivable at present value amounted to HK\$64,211,000, for which HK\$5,882,000 has been classified as current other receivable (Note 17) and HK\$58,329,000 has been classified as non-current other receivable (Note 17).

The gain arising on the disposal of non-current assets held-for-sale amounting to HK\$5,172,000 has been recognised in other gains, net in the consolidated income statement for the year ended 31 March 2012 (Note 25).

### 15 Inventories – Group

	2012 HK\$'000	2011 HK\$'000
Raw materials	516,536	416,768
Work in progress	376,261	287,412
Finished goods	359,144	201,132
	<b>1,251,941</b>	905,312
Less: Provision for impairment of inventories	<b>(60,753)</b>	(43,380)
	<b>1,191,188</b>	861,932

The cost of inventories recognised as an expense and included in cost of sales amounted to HK\$1,702,856,000 (2011: HK\$1,397,097,000).

## Notes to the Consolidated Financial Statements (Continued)

### 16 Interest in a jointly controlled entity – Group

	2012 HK\$'000	2011 HK\$'000
Share of net assets	–	–
Amount due from a jointly controlled entity	15,483	–
Less: Provision for impairment	(2,000)	–
	<b>13,483</b>	–

	2012 HK\$'000	2011 HK\$'000
Unlisted investment at cost		
Reclassified from other non-current assets	1,315	–
Share of loss	(1,315)	–
	–	–

Particulars of the jointly controlled entity as at 31 March 2012:

Name	Place of issued shares held	Principal activities and place of operations	Particulars of issued share capital	Assets	Liabilities	Revenues	Loss	Interest held
				HK\$'000	HK\$'000	HK\$'000	HK\$'000	
L.K. Japan Co. Ltd.	Japan	Manufacture and sales of peripheral equipment in Japan	800 ordinary shares of JPY50,000 each	28,895	33,918	49,374	7,073	70%

## Notes to the Consolidated Financial Statements (Continued)

### 17 Other receivables, prepayments and deposits – Group

	2012 HK\$'000	2011 HK\$'000
Non-current		
Deposits for acquisition of land use rights	37,037	21,510
Deposits for acquisition of property, plant and equipment	8,422	8,142
Consideration receivable (Note 14)	58,329	–
Others	5,831	–
	<b>109,619</b>	29,652
Current		
Other receivable for goods purchased on behalf of a customer	–	9,003
Value added tax refund receivable from government	4,334	5,990
Value added tax receivable	82,241	54,509
Trade deposits	66,037	45,709
Advances to staff for business purpose	5,493	4,845
Sundry, rental and utility deposits	5,432	3,476
Consideration receivable (Note 14)	5,882	–
Others	41,731	53,562
	<b>211,150</b>	177,094
Total	<b>320,769</b>	206,746

### 18 Cash and cash equivalents and restricted bank balances – Group and Company

#### (a) Cash and cash equivalents

##### Group

	2012 HK\$'000	2011 HK\$'000
Cash at bank and on hand	372,256	368,303
Short-term bank deposits	66,975	76,000
Cash and bank deposits	<b>439,231</b>	444,303
Cash and cash equivalents in the consolidated statement of cash flows	<b>439,231</b>	444,303

##### Company

	2012 HK\$'000	2011 HK\$'000
Cash at bank and on hand	845	21,147

## Notes to the Consolidated Financial Statements (Continued)

### 18 Cash and cash equivalents and restricted bank balances – Group and Company (Continued)

The Group and the Company's cash and cash equivalents and bank deposits are denominated in the following currencies:

#### Group

	2012 HK\$'000	2011 HK\$'000
US\$	22,484	94,720
HK\$	32,651	79,258
RMB	365,561	258,064
Other currencies	18,535	12,261
	<b>439,231</b>	444,303

#### Company

	2012 HK\$'000	2011 HK\$'000
HK\$	833	21,135
Other currencies	12	12
	<b>845</b>	21,147

The effective interest rate on short-term bank deposits was 1.53% (2011: 1.13%) per annum; these deposits have an average maturity period of 40 days (2011: 38 days).

The Group's cash and bank balances of approximately HK\$365,077,000 and HK\$257,902,000 as at 31 March 2012 and 2011, respectively, were denominated in RMB and kept in banks in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

#### (b) Restricted bank balances

Restricted bank balances of the Group represent deposits placed in banks to secure banking facilities granted by banks to certain customers, and the finance facilities for issuing letters of credit and acceptance bill by banks.

At the end of reporting period, the restricted bank balances carried interest at market rates which ranged from 0.00% to 3.30% (2011: 0.00% to 2.25%) per annum.



## Notes to the Consolidated Financial Statements (Continued)

### 19 Share capital

	Number of ordinary shares of HK\$0.1 each	Amount HK\$'000
<b>Authorised:</b>		
At 1 April 2010, 31 March 2011 and 31 March 2012	3,000,000,000	300,000
<b>Issued and fully paid:</b>		
At 1 April 2010	1,021,455,000	102,146
Shares issued upon exercise of share options (Note 20(a))	7,610,000	761
Shares issued pursuant to the Investment Agreement (Note)	102,000,000	10,200
At 31 March 2011	1,131,065,000	113,107
Shares issued upon exercise of share options (Note 20(a))	700,000	70
At 31 March 2012	1,131,765,000	113,177

Note: On 26 January 2011, the Company and the Investor entered into the Investment Agreement, pursuant to which the Investor agreed to subscribe for the HK\$255 million "Subscription Shares" and the HK\$145 million "Perpetual Convertible Securities", at a total cash consideration of HK\$400 million. The Company has also issued the "Warrants" and the "Subscription Options" to the Investor at nil consideration as part of the transaction. The Investment Agreement was completed on 25 February 2011.

Pursuant to the terms of Subscription Shares as stipulated in the Investment Agreement, the Company allotted and issued a total of 102,000,000 ordinary shares at HK\$2.5 each to the Investor. The Subscription Shares were issued and fully paid and rank pari passu with the other ordinary shares of the Company.

Pursuant to the terms of Perpetual Convertible Securities as stipulated in the Investment Agreement, the Company issued the Perpetual Convertible Securities to the Investor. The Investor has the right to convert the Perpetual Convertible Securities into 58,000,000 ordinary shares of the Company at any time at the exercise price of HK\$2.5 per share. The Perpetual Convertible Securities has no maturity date and is not redeemable. If the Company declares any dividend, each holder of Perpetual Convertible Securities shall be entitled to receive distributions in an amount equal to the aggregate amount of the dividends attributable to the relevant financial year which would have been paid (based on a dividend per share equal to that which the Company has declared) in respect of the number of shares into which the securities held by the holder would have been converted as at the record date for determining the shareholders of the Company eligible to receive such dividend.

Pursuant to the terms of the Warrants as stipulated in the Investment Agreement, the Company issued a total of 25,600,000 Warrants to the Investor, enabling the Investor to subscribe for a maximum of HK\$80,000,000 worth of the Company's shares at an initial exercise price of HK\$3.125 per share.

## Notes to the Consolidated Financial Statements (Continued)

### 19 Share capital (Continued)

Pursuant to the terms of the Subscription Options as stipulated in the Investment Agreement, the Investor has been granted the Subscription Options to acquire from the Group any of its existing subsidiaries' equity interests for up to HK\$240,000,000, except for those subsidiaries engaged in the die-casting machines business. The Investor may exercise the Subscription Options at any time until 24 February 2016. In addition, the aggregate of the subsidiaries' equity interests to be acquired by the Investor at any one time shall never exceed 30% of the ordinary share capital of the relevant subsidiary of the Group. The investment amount pursuant to an exercise of the Subscription Options shall be determined by a multiple of 10 times of the net income of the to be acquired subsidiary for the financial year immediately preceding the exercise date.

Upon the completion of the transaction, the Group received cash consideration of HK\$400 million, and also recorded the following in its consolidated statement of financial position:

- Share capital of HK\$10,200,000;
- Share premium of HK\$244,800,000;
- Perpetual convertible securities of HK\$85,401,000; and
- Derivative financial instruments arising from the Warrants and the Subscription Options of HK\$22,569,000 and HK\$37,030,000, respectively.

### 20 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 movements of 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 2011	Exercised during the year	Outstanding as at 31 March 2012
Directors	0.666	16 April 2007 – 15 October 2016	1,500,000	–	1,500,000
Employees	0.666	16 April 2007 – 15 October 2016	900,000	(700,000)	200,000
			2,400,000	(700,000)	1,700,000

## Notes to the Consolidated Financial Statements (Continued)

### 20 Share option schemes (Continued)

#### (a) Pre-IPO Share option scheme (Continued)

Category of grantee	Exercise price HK\$	Exercise period	Number of shares subject to options		
			Outstanding as at 1 April 2010	Exercised during the year	Outstanding as at 31 March 2011
Directors	0.666	16 April 2007 – 15 October 2016	6,000,000	(4,500,000)	1,500,000
Employees	0.666	16 April 2007 – 15 October 2016	4,010,000	(3,110,000)	900,000
			10,010,000	(7,610,000)	2,400,000

During the year, 700,000 (2011: 7,610,000) share options were exercised. The weighted average closing price on the dates on which the options were exercised was HK\$2.81 (2011: HK\$2.84).

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 date on which the shares of the Company commenced trading on the Stock Exchange)	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 grant date under the Binominal Option Pricing Model.

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 2012.

## Notes to the Consolidated Financial Statements (Continued)

### 21 Reserves – Group and Company

	Group									
	Share premium	Share option reserve	Share reserve	Exchange translation reserve	Statutory reserve	Available-for-sale investment reserve	Property revaluation reserve	Perpetual Convertible Securities	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note i)		(Note ii)					
At 1 April 2011	497,862	1,239	13,771	145,947	134,511	-	2,200	85,401	522,959	1,403,890
Profit for the year	-	-	-	-	-	-	-	-	203,773	203,773
Exchange differences arising on translation of foreign operations	-	-	-	72,339	-	-	-	-	-	72,339
Arising from issue of shares upon exercise of share options	395	-	-	-	-	-	-	-	-	395
Transfer to share premium upon exercise of share options	350	(350)	-	-	-	-	-	-	-	-
Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder	-	-	-	-	-	-	-	-	(12,224)	(12,224)
Reversal arising from disposal of non-current assets held-for-sale	-	-	-	(6,171)	-	-	-	-	-	(6,171)
Transfer to reserve	-	-	-	-	12,150	-	-	-	(12,150)	-
Dividend paid	-	-	-	-	-	-	-	-	(59,488)	(59,488)
<b>At 31 March 2012</b>	<b>498,607</b>	<b>889</b>	<b>13,771</b>	<b>212,115</b>	<b>146,661</b>	<b>-</b>	<b>2,200</b>	<b>85,401</b>	<b>642,870</b>	<b>1,602,514</b>

## Notes to the Consolidated Financial Statements (Continued)

### 21 Reserves – Group and Company (Continued)

	Group									
	Share premium	Share option reserve	Share reserve	Exchange translation reserve	Statutory reserve	Available-for-sale investment reserve	Property revaluation reserve	Perpetual Convertible Securities	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note i)		(Note ii)					
At 1 April 2010	244,947	5,047	13,771	109,517	83,465	1,327	2,200	–	322,909	783,183
Profit for the year	–	–	–	–	–	–	–	–	259,365	259,365
Exchange differences arising on translation of foreign operations	–	–	–	36,430	–	–	–	–	–	36,430
Loss on fair value changes of available-for-sale financial assets	–	–	–	–	–	(759)	–	–	–	(759)
Arising from issue of shares upon exercise of share options	4,307	–	–	–	–	–	–	–	–	4,307
Transfer to share premium upon exercise of share options	3,808	(3,808)	–	–	–	–	–	–	–	–
Arising from issue of Subscription Shares and Perpetual Convertible Securities (Note 19)	244,800	–	–	–	–	–	–	85,401	–	330,201
Acquisition of additional equity interest in a subsidiary from a non-controlling shareholder	–	–	–	–	–	–	–	–	(8,269)	(8,269)
Reversal arising from disposal of available-for-sale financial assets	–	–	–	–	–	(568)	–	–	–	(568)
Transfer to reserve	–	–	–	–	51,046	–	–	–	(51,046)	–
At 31 March 2011	497,862	1,239	13,771	145,947	134,511	–	2,200	85,401	522,959	1,403,890

Notes:

- (i) Share 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 the reserve of the Company's subsidiaries operating as foreign investment enterprises in the PRC. The use of this reserve is governed by relevant regulations of the PRC and the articles of association of these subsidiaries.

## Notes to the Consolidated Financial Statements (Continued)

### 21 Reserves – Group and Company (Continued)

	Company				Total HK\$'000
	Share premium HK\$'000	Share option reserve HK\$'000	Perpetual convertible securities HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	
At 1 April 2010	244,947	5,047	–	(5,511)	244,483
Profit for the year	–	–	–	79,365	79,365
Arising from issue of shares upon exercise of share options	4,307	–	–	–	4,307
Transfer to share premium upon exercise of share options	3,808	(3,808)	–	–	–
Arising from issue of Subscription Shares and Perpetual Convertible Securities (Note 19)	244,800	–	85,401	–	330,201
At 1 April 2011	497,862	1,239	85,401	73,854	658,356
Profit for the year	–	–	–	97,236	97,236
Arising from issue of shares upon exercise of share options	395	–	–	–	395
Transfer to share premium upon exercise of share options	350	(350)	–	–	–
Dividend paid	–	–	–	(59,488)	(59,488)
<b>At 31 March 2012</b>	<b>498,607</b>	<b>889</b>	<b>85,401</b>	<b>111,602</b>	<b>696,499</b>

The consolidated profit for the year attributable to owners of the Company includes a profit of HK\$97,236,000 (2011: HK\$79,365,000) which has been dealt with in the financial statements of the Company.

## Notes to the Consolidated Financial Statements (Continued)

### 22 Borrowings – Group

The borrowings of the Group comprise:

	2012 HK\$'000	2011 HK\$'000
Non-current		
Bank borrowings	305,225	91,765
Current		
Bank borrowings	937,772	665,592
Trust receipt loans	35,587	48,359
	973,359	713,951
	1,278,584	805,716

	2012 HK\$'000	2011 HK\$'000
Secured:		
Bank borrowings	496,752	441,369
Trust receipt loans	–	48,359
	496,752	489,728
Unsecured:		
Bank borrowings	567,275	193,881
Other borrowings	214,557	122,107
	781,832	315,988
	1,278,584	805,716

## Notes to the Consolidated Financial Statements (Continued)

### 22 Borrowings – Group (Continued)

At 31 March 2012, the Group's borrowings were repayable as follows:

	Trust receipt loans		Bank borrowings		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within 1 year	<b>35,587</b>	48,359	<b>907,780</b>	645,546	<b>943,367</b>	693,905
Bank borrowings due for repayment after one year (Note):						
After 1 year but within 2 years	–	–	<b>109,679</b>	36,149	<b>109,679</b>	36,149
After 2 years but within 5 years	–	–	<b>225,538</b>	75,662	<b>225,538</b>	75,662
After 5 years	–	–	–	–	–	–
	–	–	<b>335,217</b>	111,811	<b>335,217</b>	111,811
	<b>35,587</b>	48,359	<b>1,242,997</b>	757,357	<b>1,278,584</b>	805,716

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 March	
	2012 HK\$'000	2011 HK\$'000
HK\$	<b>573,483</b>	186,352
US\$	<b>20,061</b>	35,178
RMB	<b>546,790</b>	457,616
EUR	<b>135,861</b>	122,516
Other currencies	<b>2,389</b>	4,054
	<b>1,278,584</b>	805,716



## Notes to the Consolidated Financial Statements (Continued)

### 22 Borrowings – Group (Continued)

The effective interest rates at the statement of financial position date are as follows:

	As at 31 March 2012				As at 31 March 2011			
	US\$	HK\$	RMB	EUR	US\$	HK\$	RMB	EUR
Bank borrowings	1.84%	2.88%	6.87%	5.40%	2.28%	3.09%	5.55%	2.52%
Trust receipt bank loans	2.47%	2.70%	–	2.90%	2.20%	2.05%	–	2.21%

The carrying amounts of the assets of the Group pledged to secure its borrowings and financial guarantees are as follows:

	2012 HK\$'000	2011 HK\$'000
Restricted bank balances	78,865	58,693
Land use rights	126,998	117,064
Investment properties	9,750	9,570
Property, plant and equipment	281,722	186,834
	<b>497,335</b>	372,161

### 23 Trade and bills payables, other payables, deposits and accruals – Group

	2012 HK\$'000	2011 HK\$'000
Trade payables	531,183	548,857
Bills payable	34,716	43,158
Trade and other deposits and receipts in advance	174,447	173,101
Accrued salaries, bonuses and staff benefits	61,253	39,161
Accrued sales commission	54,611	40,057
Value added tax payable	32,158	8,422
Provision for a legal claim	–	701
Others	128,860	104,368
	<b>1,017,228</b>	957,825

## Notes to the Consolidated Financial Statements (Continued)

### 23 Trade and bills payables, other payables, deposits and accruals – Group (Continued)

The following is the aging analysis of the trade payables:

	2012 HK\$'000	2011 HK\$'000
Within 90 days	422,064	479,121
91-180 days	90,906	54,643
181-365 days	7,389	6,366
Over one year	10,824	8,727
	<b>531,183</b>	548,857

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2012 HK\$'000	2011 HK\$'000
US\$	3,654	3,425
HK\$	5,063	6,699
RMB	335,551	372,618
EUR	134,662	103,555
Taiwan dollars	86,955	86,129
Other currencies	14	19,589
	<b>565,899</b>	592,015

The maturity date of the bills payables are generally between one to six months.

### 24 Revenue and other income

	2012 HK\$'000	2011 HK\$'000
Turnover		
Sales of machinery and equipment	2,995,836	2,582,058
Steel casting	15,800	20,506
	<b>3,011,636</b>	2,602,564
Other income		
Value added tax refund	18,338	22,027
Other subsidies from government	11,458	5,169
Rental income	1,635	2,154
Sundry income	4,613	5,080
	<b>36,044</b>	34,430
Total revenue and other income	<b>3,047,680</b>	2,636,994

## Notes to the Consolidated Financial Statements (Continued)

### 25 Other gains, net

	2012 HK\$'000	2011 HK\$'000
Net foreign exchange gain	794	2,875
Increase in fair value of investment properties (Note 8)	1,074	5,821
Net fair value gain/(loss) on derivative financial instruments (Note 13)	55,690	(4,007)
Loss on disposals of property, plant and equipment	(1,940)	(253)
Gain on disposal of non-current assets held-for-sale (Note 14)	5,172	–
Gain on disposal of available-for-sale financial assets	–	889
Others	1,681	(117)
	<b>62,471</b>	5,208

### 26 Expenses by nature

	2012 HK\$'000	2011 HK\$'000
Raw materials and consumables used	1,455,995	1,182,970
Change in inventories of finished goods and work in progress	246,861	214,127
Staff costs (Note 27)	463,579	383,554
Amortisation of land use rights	3,681	3,106
Amortisation of trademarks <sup>1</sup>	219	701
Amortisation of patents <sup>1</sup>	214	214
Amortisation of development costs and others <sup>2</sup>	4,972	4,409
Depreciation of property, plant and equipment	102,846	93,311
Research and development costs	23,943	23,617
Transportation expenses	62,779	59,889
Auditor's remuneration		
– Audit services	2,762	2,650
– Non-audit services	778	450
Provision for impairment of trade receivables	8,381	3,566
Write down of inventories <sup>2</sup>	15,564	9,096
Other expenses	411,256	300,625
	<b>2,803,830</b>	2,282,285
Represented by		
Cost of sales	2,185,280	1,758,970
Selling and distribution expenses	292,737	237,471
General and administration expenses	325,813	285,844
	<b>2,803,830</b>	2,282,285

<sup>1</sup> Included in general and administration expenses

<sup>2</sup> Included in cost of sales

## Notes to the Consolidated Financial Statements (Continued)

### 27 Employees' benefits (including directors' emoluments)

	2012 HK\$'000	2011 HK\$'000
Wages and salaries	393,386	328,176
Retirement scheme contributions	36,792	25,803
Other allowances and benefits	33,401	29,575
	<b>463,579</b>	<b>383,554</b>

### 28 Directors' and senior executives' emoluments

#### (a) Directors' emoluments

The emoluments of each of the directors are as follows:

	Fees HK\$'000	Salaries and other allowances HK\$'000	Discretionary bonuses (Note 1) HK\$'000	Retirement scheme contributions HK\$'000	Share-based payments HK\$'000	Total HK\$'000
Year ended 31 March 2012						
<i>Executive directors</i>						
Chong Siw Yin	–	2,730	2,000	12	–	4,742
Cao Yang	–	1,519	2,195	147	–	3,861
Chung Yuk Ming	–	1,724	2,000	12	–	3,736
	–	5,973	6,195	171	–	12,339
<i>Non-executive director</i>						
Hu Yongmin	200	–	–	–	–	200
<i>Independent non-executive directors</i>						
Low Seow Chay	200	–	–	–	–	200
Lui Ming Wah	290	–	–	–	–	290
Tsang Yiu Keung	290	–	–	–	–	290
Chan Wah Tip	290	–	–	–	–	290
	1,070	–	–	–	–	1,070
	<b>1,270</b>	<b>5,973</b>	<b>6,195</b>	<b>171</b>	<b>–</b>	<b>13,609</b>

## Notes to the Consolidated Financial Statements (Continued)

### 28 Directors' and senior executives' emoluments (Continued)

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

	Fees HK\$'000	Salaries and other allowances HK\$'000	Discretionary bonuses (Note i) HK\$'000	Retirement scheme contributions HK\$'000	Share-based payments HK\$'000	Total HK\$'000
Year ended 31 March 2011						
<i>Executive directors</i>						
Chong Siw Yin	–	2,730	–	12	–	2,742
Cao Yang	–	3,225	–	86	–	3,311
Chung Yuk Ming	–	1,904	–	12	–	1,916
Wong Pui Chun	–	995	–	10	–	1,005
	–	8,854	–	120	–	8,974
<i>Non-executive director</i>						
Hu Yongmin	–	–	–	–	–	–
<i>Independent non-executive directors</i>						
Low Seow Chay	180	–	–	–	–	180
Lui Ming Wah	270	–	–	–	–	270
Tsang Yiu Keung	270	–	–	–	–	270
Chan Wah Tip	270	–	–	–	–	270
	990	–	–	–	–	990
	990	8,854	–	120	–	9,964

#### Notes:

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

None of the directors of the Company waived any emoluments for the year ended 31 March 2012 (2011: None).

## Notes to the Consolidated Financial Statements (Continued)

### 28 Directors' and senior executives' emoluments (Continued)

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in Note a above. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and other allowances	2,639	1,663
Discretionary bonuses	2,197	1,059
Retirement scheme contributions	252	121
	<b>5,088</b>	2,843

The emoluments fell within the following bands:

	2012	2011
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	1	–

### 29 Finance costs – net

	2012 HK\$'000	2011 HK\$'000
Finance income:		
Interest income on short-term bank deposits	(4,672)	(2,450)
Finance costs:		
Interests on bank loans and overdrafts wholly repayable within five years	62,827	46,325
Less: Capitalised in property, plant and equipment (Note i)	(3,726)	(3,394)
	<b>59,101</b>	42,931
	<b>54,429</b>	40,481

- (i) Borrowing costs capitalised during the year arose from general borrowing pool and were calculated by applying a capitalisation rate of 5.1% (2011: 4.0%) to expenditure on qualifying assets.

## Notes to the Consolidated Financial Statements (Continued)

### 30 Income tax expense

	2012 HK\$'000	2011 HK\$'000
The tax charge for the year comprises:		
Current income tax		
– PRC income tax	42,615	64,571
– Overseas tax	9,445	–
– Hong Kong profits tax	–	–
– Under-provision in prior years	7,415	8,995
	<b>59,475</b>	73,566
Deferred taxation (Note 11)	<b>(9,028)</b>	(13,268)
	<b>50,447</b>	60,298

In accordance with the applicable Corporate Income Tax Law of the PRC, certain of the Company's subsidiaries registered in the PRC are exempted from corporate income tax ("CIT") 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 CIT in the following three years. These subsidiaries are subject to CIT at rates ranging from 12.5% to 25% (2011: 12.5% to 25%) during the year.

For those subsidiaries of the Company which are still entitled to the 50% relief on income tax, the tax rate for the year is 12.5%. For those subsidiaries with expired tax holidays (other than those approved to be High and New Technology Enterprises as discussed in the next paragraph), the tax rates for the year are 25% (2011: 24%).

Certain subsidiaries in Shenzhen, Zhongshan, Ningbo and Shanghai were certified as High and New Technology Enterprises and are entitled to a concessionary tax rate of 15% for three years. They are entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

Under the Corporate Income Tax Law of the PRC, 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 withholding income tax. The implementation rules of the Corporate Income Tax Law of the PRC provide for the withholding income tax on such dividend to be at 10% unless reduced by tax treaty. Pursuant to a double tax arrangement between the PRC and Hong Kong, Hong Kong tax resident companies could enjoy a lower withholding tax rate of 5% on dividends received from China. Provision for withholding tax is included in deferred taxation.

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. No Hong Kong profits tax has been provided for the year ended 31 March 2012 as the subsidiaries in Hong Kong either have unutilised tax losses available to set off current year's estimated assessable profits or have no assessable profits for the current year. No Hong Kong profits tax has been provided for the year ended 31 March 2011 as there were no assessable profits for that year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdiction in which the Group operates.

## Notes to the Consolidated Financial Statements (Continued)

### 30 Income tax expense (Continued)

A reconciliation of the tax charge applicable to profit before income taxes using the applicable tax rates for relevant tax jurisdictions to the tax expense is as follows:

	2012 HK\$'000	2011 HK\$'000
Profit before income tax	<b>250,577</b>	319,436
Tax calculated at applicable tax rates in the respective jurisdictions	<b>57,174</b>	81,631
Effect of preferential tax rates applicable to relevant jurisdictions	<b>(19,196)</b>	(35,055)
Tax effects of:		
– Tax concession	<b>(1,533)</b>	(1,297)
– Income not subject to tax	<b>(9,721)</b>	(1,933)
– Expenses not deductible for tax purposes	<b>8,372</b>	6,622
– Changes in tax rates	<b>(107)</b>	(292)
– Undistributed profits of subsidiaries in the PRC	<b>1,803</b>	737
Utilisation of previously unrecognised tax losses	–	(2,995)
Tax effect of unrecognised tax losses	<b>6,240</b>	2,470
Write-down of unrecoverable deferred tax assets	–	928
Under-provision in prior years	<b>7,415</b>	8,995
Others	–	487
Tax charge	<b>50,447</b>	60,298

The weighted average applicable tax rate was 22.8% (2011: 25.6%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

There was no tax charge relating to components of other comprehensive income for the years ended 31 March 2012 and 2011.

### 31 Earnings per share

#### (a) Basic

The calculation of the basic earnings per share is based on the consolidated profit attributable to owners of the parent of HK\$203,773,000 (2011: HK\$259,365,000) and on the weighted average number of approximately 1,131,539,000 (2011: 1,036,168,000) ordinary shares in issue during the year.

	2012	2011
Profit attributable to owners of the parent (HK\$'000)	<b>203,773</b>	259,365
Weighted average number of ordinary shares in issue (thousands)	<b>1,131,539</b>	1,036,168
Basic earnings per share (HK cents)	<b>18.0</b>	25.0



## Notes to the Consolidated Financial Statements (Continued)

### 31 Earnings per share (Continued)

#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: perpetual convertible securities and share options. The perpetual convertible securities are assumed to have been converted into ordinary shares. Shares issuable under the share option schemes of the Company are the 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 the 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.

	2012	2011
Profit attributable to owners of the parent (HK\$'000)	<b>203,773</b>	259,365
Weighted average number of ordinary shares in issue (thousands)	<b>1,131,539</b>	1,036,168
Assumed conversion of perpetual convertible securities (thousands)	<b>58,000</b>	5,403
Adjustment for share options (thousands)	<b>1,358</b>	3,409
Weighted average number of ordinary shares of diluted earnings per share (thousands)	<b>1,190,897</b>	1,044,980
Weighted average number of ordinary shares for diluted earnings per share (HK cents)	<b>17.1</b>	24.8

The assumed conversion of potential ordinary shares arising from the warrants during the year would be anti-dilutive (2011: Same).

### 32 Dividends

	2012 HK\$'000	2011 HK\$'000
Proposed final dividend of HK5 cents per share (2011: HK5 cents)	<b>56,588</b>	56,553

At a meeting held on 29 June 2012, the directors recommended the payment of a final dividend of HK5 cents per ordinary share, totaling HK\$56,588,000. Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting of the Company on 28 August 2012. This proposed dividend is not reflected as dividends payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2013.

## Notes to the Consolidated Financial Statements (Continued)

### 33 Cash generated from operations

	2012 HK\$'000	2011 HK\$'000
Profit before income tax	250,577	319,436
Adjustments for:		
Depreciation and amortisation	111,932	101,741
Increase in fair value of investment properties	(1,074)	(5,821)
Bank interest income	(4,672)	(2,450)
Interests on bank borrowings	59,101	42,931
Provision for impairment of amount due from a jointly controlled entity	2,000	–
Provision for impairment of trade receivables	8,381	3,566
Write down of inventories	15,564	9,096
Net fair value (gain)/loss on derivative financial instruments	(55,690)	4,007
Loss on disposals of property, plant and equipment	1,940	253
Share of loss of a jointly controlled entity	1,315	–
Gain on disposal of non-current assets held-for-sale	(5,172)	–
Gain on disposal of available-for-sale financial assets	–	(889)
Operating profit before changes in working capital	384,202	471,870
Increase in inventories	(346,629)	(336,167)
Increase in trade and bills receivables	(64,431)	(301,917)
Increase in other receivables, prepayments and deposits	(33,868)	(21,150)
Increase in amount due from a jointly controlled entity	(15,483)	–
Decrease in amount due from an associate	–	340
Increase in trade and bills payables, other payables, deposits and accruals	60,493	274,048
Net settlement of derivative financial instruments	(711)	(1,345)
Decrease/(increase) in restricted bank balances	1,051	(45,906)
Cash (used in)/generated from operations	(15,376)	39,773

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Group	
	2012 HK\$'000	2011 HK\$'000
Net book amount (Note 7)	3,838	1,598
Loss on disposal of property, plant and equipment	(1,940)	(253)
Proceeds from disposal of property, plant and equipment	1,898	1,345

## Notes to the Consolidated Financial Statements (Continued)

### 34 Commitments – Group

#### (a) Capital commitments

	2012 HK\$'000	2011 HK\$'000
Capital expenditure contracted for at the end of the reporting period but not yet incurred are as follows:		
Property, plant and equipment	67,531	85,634
Land use rights	76,701	–
Other commitments	566	4,710
	<b>144,798</b>	90,344

#### (b) Operating lease commitments

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

	2012 HK\$'000	2011 HK\$'000
Leases payable:		
Within one year	12,186	13,589
In the second to fifth year inclusive	22,217	28,127
After the fifth year	4,282	7,709
	<b>38,685</b>	49,425

The Group leases a number of properties under operating leases. The leases generally run for an initial period of one to five years, and the majority of lease agreements are renewable at the end of the lease period at market rate. 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.

At the end of the reporting period, the Group had contracted with lessees under non-cancellable operating leases in respect of buildings and machinery for the following future minimum leases receivable:

	2012 HK\$'000	2011 HK\$'000
Leases receivable:		
Within one year	1,813	871
In the second to fifth year inclusive	1,459	471
	<b>3,272</b>	1,342

The Company has no lease arrangement at the end of reporting period.

## Notes to the Consolidated Financial Statements (Continued)

### 35 Financial guarantees

	Group	
	2012 HK\$'000	2011 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	279,046	193,610

The Group has provided guarantees to banks in respect of credit facilities up to the maximum amount of HK\$775,629,000 (2011: HK\$302,400,000) which are 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 18(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 Group has accounted for financial guarantees in accordance with the accounting policies as set out in Note 2.21(i).

The Company has provided guarantees in respect of banking facilities of its subsidiaries amounting to approximately HK\$863,048,000 (2011: HK\$730,146,000). The facilities utilised by the subsidiaries as at 31 March 2012 amounted to HK\$593,484,000 (2011: HK\$221,687,000).

### 36 Related party transactions

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

	2012 HK\$'000	2011 HK\$'000
Operating lease rentals paid to: Wheelfit Investment Limited	–	500

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 was a continuing connected transaction, in respect of which the Company had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

	2012 HK\$'000	2011 HK\$'000
Wages and salaries, other allowances and benefits	22,514	16,130
Retirement scheme contributions	380	309
	<b>22,894</b>	<b>16,439</b>

## Notes to the Consolidated Financial Statements (Continued)

### 36 Related party transactions (Continued)

- (c) The Group had the following amount due to its holding company, which was included in trade and bills payables, other payables, deposits and accruals in the consolidated statement of financial position as at 31 March 2012 and 2011:

	2012 HK\$'000	2011 HK\$'000
Girgio Industries Ltd.	20,000	–

The balance is unsecured, interest free and has no fixed repayment terms.

The amount due to holding company also constitutes a continuing connected transaction which is exempted from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The directors considered the above transaction and balance 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.

## Financial Summary

	<b>2012</b> <b>HK\$'000</b>	<b>Year ended 31 March</b>			
		2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue	<b>3,011,636</b>	2,602,564	1,408,364	1,192,487	1,261,972
Profit/(loss) before income tax	<b>250,577</b>	319,436	27,142	(47,898)	131,810
Income tax expense	<b>(50,447)</b>	(60,298)	(23,907)	(4,315)	(16,389)
Profit/(loss) for the year	<b>200,130</b>	259,138	3,235	(52,213)	115,421
Profit/(loss) attributable to:					
Owners of the parent	<b>203,773</b>	259,365	20,323	(43,671)	115,421
Non-controlling interests	<b>(3,643)</b>	(227)	(17,088)	(8,542)	–
	<b>200,130</b>	259,138	3,235	(52,213)	115,421

	<b>2012</b> <b>HK\$'000</b>	<b>AS at 31 March</b>			
		2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Assets and liabilities					
Total assets	<b>4,075,252</b>	3,387,648	2,520,258	2,103,281	1,685,602
Total liabilities	<b>(2,358,285)</b>	(1,867,212)	(1,631,486)	(1,235,654)	(771,304)
	<b>1,716,967</b>	1,520,436	888,772	867,627	914,298
Equity attributable to owners of the parent	<b>1,715,691</b>	1,516,997	885,329	853,231	914,298
Non-controlling interests	<b>1,276</b>	3,439	3,443	14,396	–
	<b>1,716,967</b>	1,520,436	888,772	867,627	914,298