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Leeport

LEEPORT (HOLDINGS) LIMITED

力豐(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 387)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2008

The Board of Directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) are pleased to present the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2008, together with the comparative figures for the year ended 31st December 2007. The annual results have been reviewed by the Audit Committee of the Company.

FINANCIAL PERFORMANCE

The turnover of the Group in 2008 amounted to HK\$1,037,212,000 (2007: HK\$846,236,000), representing an increase of 22.6% as compared with 2007. The profit attributable to equity holders was HK\$7,896,000 (2007: HK\$23,406,000), representing a decrease of 66.3% compared with 2007.

The basic earnings per share amounted to HK3.71 cents (2007: HK11.15 cents), representing a decrease of 66.7% compared with 2007.

In 2008, the Chinese economy maintained its previous strength until the last quarter of the year. Most of the business divisions of the Group grew well in 2008. The Japanese government’s export ban on most Mitutoyo products was lifted in January 2008, contributing to the growth in the sale of measuring instruments. The machine tool business also recorded significant growth until the last quarter of the year.

The gross profit of the Group was HK\$194,152,000 in 2008 as compared with HK\$180,185,000 in 2007. The gross profit percentage was 18.7% in 2008 as compared with 21.3% in 2007. The higher Japanese Yen in 2008 as compared with 2007 had a significant impact on the Group’s gross profit margin.

The service income of the Group was HK\$19,804,000 for the year 2008, an increase of 36.7% compared with 2007.

Selling and distribution costs increased by HK\$8,258,000 mainly due to higher service costs of the authorised service agent.

Administrative expenses increased by HK\$33,942,000 as compared with 2007. The increase was mainly due to increase in staff costs and travelling expenses. Also, the Group incurred net exchange losses of HK\$10,889,000 in the second half of 2008, resulting in a loss in the second half as compared with the first half of 2008, which recorded a profit of HK\$15,569,000.

DIVIDENDS

An interim dividend of HK5.0 cents per ordinary share was paid to the shareholders of the Company on 9th October 2008. However, the directors do not recommend a final dividend for the year ended 31st December 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Sales	2	1,037,212	846,236
Cost of goods sold	4	<u>(843,060)</u>	<u>(666,051)</u>
Gross profit		194,152	180,185
Other income and gains-net	3	28,432	21,316
Selling and distribution costs	4	(39,783)	(31,525)
Administrative expenses	4	<u>(166,245)</u>	<u>(132,303)</u>
Operating profit		16,556	37,673
Finance costs		<u>(10,550)</u>	<u>(11,042)</u>
Profit before income tax		6,006	26,631
Income tax expense	5	(85)	(3,548)
Profit for the year		<u>5,921</u>	<u>23,083</u>
Attributable to:			
Equity holders of the Company		7,896	23,406
Minority interest		<u>(1,975)</u>	<u>(323)</u>
		<u>5,921</u>	<u>23,083</u>
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic and diluted	7	<u>HK3.71cents</u>	<u>HK11.15cents</u>
Dividends	6	<u>10,772</u>	<u>18,892</u>

CONSOLIDATED BALANCE SHEET

As at 31st December 2008

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		83,779	99,577
Leasehold land		53,009	44,468
Available-for-sale financial assets		–	–
		136,788	144,045
Current assets			
Inventories		294,738	172,211
Trade receivables and bills receivables	8	188,571	196,349
Other receivables, prepayments and deposits		34,742	30,566
Derivative financial instruments	9	347	270
Tax recoverable		2,062	–
Restricted bank deposits		33,475	110,121
Cash and cash equivalents		27,194	65,700
		581,129	575,217
Total assets		717,917	719,262
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	21,544	20,992
Other reserves	10	129,155	88,193
Retained earnings			
– Proposed final dividend		–	9,446
– Others	10	126,676	127,477
		277,375	246,108
Minority interest	10	5,599	7,569
Total equity		282,974	253,677

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		<u>7,427</u>	<u>10,886</u>
Current liabilities			
Trade payables and bills payables	<i>11</i>	102,619	166,607
Other payables, accruals and deposits received		76,481	60,561
Amount due to a director		27,529	–
Current income tax liabilities		–	3,692
Derivative financial instruments	<i>9</i>	7	–
Borrowings	<i>12</i>	220,880	223,839
		<u>427,516</u>	<u>454,699</u>
Total liabilities		<u>434,943</u>	<u>465,585</u>
Total equity and liabilities		<u>717,917</u>	<u>719,262</u>
Net current assets		<u>153,613</u>	<u>120,518</u>
Total assets less current liabilities		<u>290,401</u>	<u>264,563</u>

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss 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.

During the year, the Group has adopted the following new or revised HKFRS which are relevant to the Group’s operations and are effective for accounting periods beginning on 1st January 2008:

HKAS 39 Financial Instruments: Recognition and Measurement

HK(IFRIC) Interpretation 11 HKFRS 2	–	Group and Treasury Share Transactions
HK(IFRIC) Interpretation 14 HKAS 19	–	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new or revised HKFRS had no material effect on the Group's results and financial position for the current or prior periods.

Standards and interpretations to existing standards have been issued but are not effective for the year ended 31st December 2008:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Financial Instruments: Presentation
HKAS 1 (Amendment)	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC) Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) Interpretation 15	Agreements for the Construction of Real Estates
HK(IFRIC) Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IFRIC Interpretation 17	Distributions of Non-cash Assets to Owners

HKICPA's improvements to HKFRS published in October 2008

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 2 (Amendment)	Inventories
HKAS 7 (Amendment)	Statement of Cash Flows
HKAS 16 (Amendment)	Property, Plant and Equipment
HKAS 19 (Amendment)	Employee Benefits
HKAS 20 (Amendment)	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 23 (Amendment)	Borrowing Costs
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKAS 28 (Amendment)	Investments in Associates
HKAS 29 (Amendment)	Financial Reporting in Hyperinflationary Economies
HKAS 31 (Amendment)	Interests in Joint Ventures
HKAS 36 (Amendment)	Impairment of Assets
HKAS 38 (Amendment)	Intangible Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
HKAS 40 (Amendment)	Investment Property
HKAS 41 (Amendment)	Agriculture
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations

Apart from the above, there are also a number of minor amendments to HKFRS 7 'Financial Instruments: Disclosures', HKAS8, 'Accounting Policies, Changes in Accounting Estimates and Errors', HKAS10, 'Events after the Balance Sheet Date', HKAS18, 'Revenue' and HKAS34, 'Interim Financial Reporting'.

The Group did not early adopt any of these new/revised standards, amendments to standards and interpretations to existing standards. The Group is in the process of assessing the impact of these new/revised standards, amendments to standards and interpretations to existing standards on the Group's results and financial position in the future.

2 SEGMENT INFORMATION

(a) Primary reporting format – business segments

No business segment analysis is presented as the Group has been operating in a single business segment, which is the trading and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment, throughout the year.

(b) Secondary reporting format – geographical segments

The Group is principally engaged in the trading and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment in three main geographical areas, namely the People's Republic of China (the "PRC"), Hong Kong and other locations (principally Singapore). The PRC, for the purpose of these financial statements, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

The Group principally operates in Hong Kong and the PRC. The Group's turnover and revenue by geographical location is determined by where the customer is located.

	For the year ended 31st December	
	2008 HK\$'000	2007 HK\$'000
Turnover and revenue:		
The PRC	644,971	514,917
Hong Kong	333,599	221,317
Other locations ¹	58,642	110,002
	<u>1,037,212</u>	<u>846,236</u>

Notes:

1. Other locations mainly include Taiwan, Singapore, United States, Macau, Greece, United Kingdom, Japan and Malaysia.
2. There are no sales or other transactions between the geographical segments.

Total assets are allocated based on where the assets are located.

Segment assets consist primarily of property, plant and equipment, leasehold land, inventories, receivables, derivative financial instruments, operating cash and restricted cash.

	As at 31st December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets:		
The PRC	380,363	290,402
Hong Kong	290,104	358,200
Other locations	47,450	70,660
	<hr/>	<hr/>
	717,917	719,262
	<hr/> <hr/>	<hr/> <hr/>

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

Capital expenditure comprises mainly additions to property, plant and equipment, and leasehold land.

	For the year	
	ended 31st December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure:		
The PRC	1,267	412
Hong Kong	7,518	15,889
Other locations	24	105
	<hr/>	<hr/>
	8,809	16,406
	<hr/> <hr/>	<hr/> <hr/>

3. OTHER INCOME AND GAINS – NET

	For the year	
	ended 31st December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Derivative instruments – forward contracts:		
– net fair value gain, (realized and unrealized)	70	352
Interest income	1,253	1,391
	<hr/>	<hr/>
Investment income	1,323	1,743
Service income	19,804	14,491
Commission income	5,588	2,499
Other income	1,717	2,583
	<hr/>	<hr/>
	28,432	21,316
	<hr/> <hr/>	<hr/> <hr/>

4. EXPENSE BY NATURE

Expenses included in cost of goods sold, selling and distribution costs and administrative expenses are analysed as follows:

	For the year ended 31st December	
	2008 HK\$'000	2007 HK\$'000
Auditor's remuneration	2,446	2,443
Cost of inventories sold	831,114	656,407
Depreciation of property, plant and equipment	11,699	11,046
Amortisation of leasehold land	770	546
Operating lease rentals in respect of land and buildings	8,504	7,489
Provision for slow moving inventories	4,200	2,354
Provision for impairment of trade receivables and bills receivables	1,025	1,366
Employee benefits expenses (including directors' remuneration)	88,854	79,273
Foreign exchange loss/(gain)	5,844	(7,472)
Other expenses	94,632	76,427
	<hr/>	<hr/>
Total cost of goods sold, selling and distribution costs and administrative expenses	1,049,088	829,879

5. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

On 16th March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "new EIT Law"), which is effective from 1st January 2008. Under the new EIT Law, the applicable EIT rate of subsidiaries established in the PRC will be changed from 33% to 25% since 1st January 2008.

Corporate tax in Singapore has been provided at the rate of 18% (2007: 18%) on the estimated assessable profit for the year ended 31st December 2008.

Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

	For the year ended 31st December	
	2008 HK\$'000	2007 HK\$'000
Current income tax		
– Hong Kong profits tax	892	3,098
– Overseas taxation	298	688
(Over)/under-provision in previous years		
– Hong Kong profits tax	(70)	481
– Deferred income tax	(1,035)	(719)
	<hr/>	<hr/>
	85	3,548

6. DIVIDENDS

The dividends paid during the years ended 31st December 2008 and 2007 were HK\$20,218,000 (HK4.5 cents per share for 2007 final dividends and HK5.0 cents for 2008 interim dividends) and HK\$18,892,000 (HK4.5 cents per share for 2006 final dividends and HK4.5 cents per share for 2007 interim dividends) respectively.

	For the year ended 31st December	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Interim, paid, of HK5.0 cents (2007:HK4.5 cents) per ordinary share	10,772	9,446
Final, proposed, HK nil cent (2007: HK4.5 cents) per ordinary share	–	9,446
	<u>10,772</u>	<u>18,892</u>

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of HK\$7,896,000 (2007: HK\$23,406,000)

The basic earnings per share is based on the weighted average number of ordinary shares in issue during the year of 212,680,000 (2007: 209,918,000).

The conversion of all potential ordinary share arising from share options granted by the Company would have an anti-dilutive effect on the earning per share for the years ended 31st December 2008 and 2007.

8. TRADE RECEIVABLES AND BILLS RECEIVABLES

At 31st December 2008 and 2007, the ageing analysis of trade receivables and bills receivables by due date was as follows:

	As at 31st December	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current	95,554	118,849
1 – 3 months	62,105	52,959
4 – 6 months	15,009	11,862
7 – 12 months	10,513	4,399
Over 12 months	13,869	17,066
	<u>197,050</u>	<u>205,135</u>
Less: provision for impairment of receivables	(8,479)	(8,786)
	<u>188,571</u>	<u>196,349</u>

The Group generally grants credit terms of 30 to 120 days to its customers. Longer payment terms of approximately 180 days might be granted to those customers who have good payment history and long-term business relationship with the Group.

Certain subsidiaries of the Group transferred receivables balances amounting to HK\$12,494,000 (31st December 2007: HK\$5,411,000) to certain banks in exchange for cash during the year ended 31st December 2008. These transactions have been accounted for as collateralized borrowings (Note 12).

9. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31st December Group			
	2008		2007	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Forward foreign exchange contracts – non-hedge instruments	<u>347</u>	<u>7</u>	<u>270</u>	<u>–</u>

10. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2008

	Attributable to equity holders of the Company				Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Minority interest HK\$'000	
Balance at 1st January 2007	20,992	67,053	131,095	7,888	227,028
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(1,314)	1,314	–	–
Currency translation	–	2,743	–	4	2,747
Revaluation – gross	–	23,185	–	–	23,185
Revaluation – tax	–	(3,474)	–	–	(3,474)
Net income recognised directly in equity	–	21,140	1,314	4	22,458
Profit for the year	–	–	23,406	(323)	23,083
Total recognised income in 2007	–	21,140	24,720	(319)	45,541
Dividend paid relating to 2006	–	–	(9,446)	–	(9,446)
Dividend paid relating to 2007	–	–	(9,446)	–	(9,446)
Balance at 31st December 2007	<u>20,992</u>	<u>88,193</u>	<u>136,923</u>	<u>7,569</u>	<u>253,677</u>
Balance at 1st January 2008	20,992	88,193	136,923	7,569	253,677
Issue of shares	552	6,377	–	–	6,929
Share option scheme – value of services provided	–	664	–	–	664
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(2,075)	2,075	–	–
Currency translation	–	51,837	–	5	51,842
Revaluation – gross	–	(18,898)	–	–	(18,898)
Revaluation – tax	–	3,057	–	–	3,057
Net income recognised directly in equity	552	40,962	2,075	5	43,594
Profit for the year	–	–	7,896	(1,975)	5,921
Total recognised income in 2008	552	40,962	9,971	(1,970)	49,515
Dividend paid relating to 2007	–	–	(9,446)	–	(9,446)
Dividend paid relating to 2008	–	–	(10,772)	–	(10,772)
Balance at 31st December 2008	<u>21,544</u>	<u>129,155</u>	<u>126,676</u>	<u>5,599</u>	<u>282,974</u>

11. TRADE PAYABLES AND BILLS PAYABLES

At 31st December 2008 and 2007, the ageing analysis of trade payables and bills payables was as follows:

	As at 31st December	
	Group	
	2008	2007
	HK\$'000	HK\$'000
Current	90,542	135,033
1 – 3 months	6,573	27,499
4 – 6 months	3,744	2,103
7 – 12 months	1,259	281
Over 12 months	501	1,691
	<u>102,619</u>	<u>166,607</u>

12. BORROWINGS

	As at 31st December	
	Group	
	2008	2007
	HK\$'000	HK\$'000
Current		
Bank overdrafts	9,106	–
Collateralised borrowings	12,494	5,411
Trust receipt loans	130,470	89,603
Short-term bank loans	68,810	128,825
	<u>220,880</u>	<u>223,839</u>

Certain bank facilities, are secured by the leasehold land, buildings and restricted bank deposits of the Group. Collateralised borrowings are secured by trade receivables. (Note 8).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19th May 2009 (Tuesday) to 21st May 2009 (Thursday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attending and voting at the general meeting on 21st May 2009 (Thursday), all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar at Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on 18th May 2009 (Monday).

BUSINESS REVIEW

The overall turnover in 2008 was outstanding, as the Group's business achieved 22.6% growth compared with 2007. In terms of products, the machine tool business achieved 47.9% growth compared with 2007; the measuring instrument business achieved 38.3% growth compared with 2007, and the cutting tools and engineering tools business achieved 21.3% growth compared with 2007. However, the electronic equipment business recorded a 28.3% decrease compared with 2007. In terms of geographical distribution, the business in Southern China achieved 23.7% growth; the business in Central China achieved 47.5% growth, and the business in Northern China achieved 23.7% growth. The distribution of sales moved more to Central and Northern China. In 2008, the business in Northern and Central China already represented 30.3% of the Group's business, as compared with about 25.5% in 2007. The successful exploration of markets beyond the Guangdong area of China has become more important to the Group. The business in South East Asia fell by 33.4%, because the economy in the region was weak during the year.

The impact on China of the financial tsunami did not surface until the last quarter of 2008, when contract bookings dropped considerably compared with the same period in 2007.

Business in the Guangdong area slowed sharply towards the end of the year, as most of the customers in the region were involved in export sales and their orders from Europe and the United States shrank drastically. The situation in Central and Northern China, however, was somewhat better.

Some of the Group's traditional customer base has been badly affected by the economic recession, e.g. mould-makers, machine manufacturers, automobile parts and electronic products. However, we envisage great opportunities for the industries involved in aerospace, railway transportation, wind energy and infrastructure. The Group has made good progress in working with potential customers in these fields.

As a result of the impact of the financial tsunami, the Group has had to delay the establishment of its new Beijing showroom, in order to economise on capital investment. Our development of a stronger team in Northern China, however, has continued as planned. On the other hand, the establishment of the new Metrology Solution Centre in Shanghai has effectively supported the sales activity for measuring instruments, especially large-scale measuring systems in Central China.

There was continued improvement in the service income of the Group. The aggregated service income from different divisions was HK\$19,804,000 in 2008 as compared with HK\$14,491,000 in 2007. The enhancement of service quality and the promotion of service contracts have made a bigger contribution to the business of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The cash net of bank overdrafts at the end of year were HK\$18,088,000 compared with HK\$65,700,000 in year 2007.

As at 31st December 2008, the Group had net tangible assets of approximately HK\$282,974,000, comprising non-current assets of approximately HK\$136,788,000, net current assets of approximately HK\$153,613,000, and non-current liabilities of approximately HK\$7,427,000. On the same date, the total liabilities of the Group amounted to approximately HK\$434,943,000. On the other hand, the total assets of the Group were HK\$717,917,000. The net gearing ratio of the Group was approximately 68.4% (2007: 62.3%).

The Group generally finances its operation with internally generated resources and banking facilities provided by banks. As at 31st December 2008, the Group had aggregate banking facilities of approximately HK\$713,750,000 of which approximately HK\$313,358,000 was utilized, bearing interest at prevailing market rates and secured by certain leasehold land, buildings and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK\$76,165,000 (2007: HK\$151,391,000). The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

FUTURE PLANS AND PROSPECTS

2009 will be a big challenge for industries of all kinds. It is nevertheless encouraging that the Chinese government has already implemented certain measures to stimulate the country's economic growth. The government will support ten major industries: automotive, steel, textile, equipment manufacturing, ship-building, information technology, light industry, petroleum, colour metal and logistics. It is also the government's policy to promote the economy in rural areas, which will result in a significant increase in the volume of domestic consumption. This policy includes subsidising consumers' acquisition of home appliances and small cars, in addition to investment in community infrastructure. The Chinese government will spend no less than RMB4,000 billion in the coming few years to stimulate an economic recovery. This fund will mean huge business opportunities throughout the country, involving increased demand for manufacturing equipment. The Group will certainly benefit from this government spending over the next few years.

To achieve these benefits, however, the Group must now be pro-active in tackling the immediate difficulties in the market. The invoiced sales and contract bookings in first half of 2009 will probably be weak, but an improvement has been forecast for the second half of the year.

Contract bookings in the first quarter of 2009 were 26% lower than in the same period of last year, affecting the Group's income adversely. Since the beginning of the year, several cost reduction programmes have been implemented. For example, negotiations on office rentals, stricter control of travelling expenses and the scaling back of participation in exhibitions will alleviate the burden of overheads in 2009.

Reducing the inventory level will also be a factor in improving our financial position. We forecast that the delivery of some outstanding contracts and new orders over the rest of the year will improve our inventory level. The Group also has implemented strict controls over purchases, and this is expected to improve our operational cash flow situation for the foreseeable future.

Improving the Group's internal management in areas such as credit control, cash management, purchase procedures and the promotion of cross-selling and upgrading of staff productivity will contribute to the maintenance of a strong financial position and improvements in business performance. The top management team has closely monitored the effect of the new management improvement programme.

We foresee a slowly improving market after the first quarter of 2009. We expect that our expansion into the Central and Northern China market and the exploration of customers from new industries will cover any loss of business from traditional customer base and will make a significant contribution to the Group's business. We are confident that China's economy will improve gradually and that the Group's business will improve in the second half of the year.

EMPLOYEES

As at 31st December 2008, the Group had 679 employees (2007: 605). Of these, 190 were based in Hong Kong, 459 were based in mainland China, and 30 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses.

A share option scheme was adopted by the Company on 17th June 2003 for a period of 10 years for employees and other eligible participants so as to provide incentives and rewards for their continued contributions to the Group.

SHARE CAPITAL

	As at 31st December	
	2008	2007
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
	<u> </u>	<u> </u>
Issued and fully paid:		
215,444,062 (2007: 209,917,695) ordinary shares of HK\$0.10 each	21,544	20,992
	<u> </u>	<u> </u>

	Ordinary shares at HK\$0.10 each	
	Number Of shares	
	<i>(thousands)</i>	<i>HK\$'000</i>
At 1st January 2008 and 31st December 2007	209,918	20,992
Issued as scrip dividends (Note a)	5,526	552
At 31st December 2008	215,444	21,544

(a) Scrip dividends

5,526,367 shares were issued on 30th July 2008 as 2007 final scrip dividend of which HK\$552,000 was recognised as share capital and the remaining amount of HK\$6,377,000 was recognised as share premium accordingly.

(b) Share options

On 17th June 2003, the Company approved and adopted a share option scheme (the “Scheme”). During the year, share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The closing price of the shares on 21st April 2008 (immediately before the date of grant, 22nd April 2008) was HK\$1.25 per share. Options are conditional on the employee completing one year’s service (the vesting period). The options are exercisable starting one year from the grant date. No other contractual obligation for the exercise of share options. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was HK\$0.1823 per option (2007: Nil). The significant inputs into the model were weighted average share price of HK\$1.27 (2007: Nil) at the grant date, exercise price shown below, volatility of 40% (2007: Nil), dividend yield of 7.3% (2007: Nil), an expected option life of two years, and on annual risk-free interest rate of 1.05% (2007: Nil). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. Total expense recognised in the consolidated income statement for share options granted to directors and employees amounted to HK\$664,000.

Details of the share options outstanding as at 31st December 2008 which have been granted under the Scheme are as follows:

Eligible participants	Date of Grant	Exercise Price HK\$	At 1st January 2008	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	At 31st December 2008
Directors								
Mr. LEE Sou Leung, Joseph (Mr. Lee)	22nd April 2008	1.25	–	500,000	–	–	–	500,000
Ms. TAN, Lisa Marie (Ms. Tan)	22nd April 2008	1.25	–	500,000	–	–	–	500,000
Mr. CHAN Ching Huen, Stanley (Mr. Chan)	22nd April 2008	1.25	–	500,000	–	–	–	500,000
Dr. LUI Sun Wing (Dr. Lui)	22nd April 2008	1.25	–	100,000	–	–	–	100,000
Mr. PIKE, Mark Terence (Mr. Pike)	22nd April 2008	1.25	–	100,000	–	–	–	100,000
Mr. NIMMO, Walter Gilbert Mearns (Mr. Nimmo)	22nd April 2008	1.25	–	100,000	–	–	–	100,000
Employees								
(excluding directors)	22nd April 2008	1.25	–	5,548,000	–	–	–	5,548,000
			–	7,348,000	–	–	–	7,348,000

The exercisable period of the above share options is from 22nd April 2009 to 21st April 2010 (both dates inclusive). No options are forfeited, exercised or expired during the year.

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 31st December 2008, certain leasehold land and buildings and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$76,165,000 (2007: HK\$151,391,000) were pledged to secure the banking facilities of the Group by way of a fixed charge.

CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

In 2008, the Group spent a total of HK\$8,809,000 (2007: HK\$16,406,000) in capital expenditure, which primarily consisted of property, plant and equipment and leasehold land. As at 31st December 2008, the Group had no material capital commitments and HK\$43,113,000 (2007: HK\$37,414,000) contingent liabilities in respect of letters of guarantee was given to customers.

EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group aligned the pricing of its products with the movement of foreign currency purchase against the local currency to minimize the risk of gross margin being deteriorated by exchange rate movement. In managing the Group's foreign exchange exposure of receivables, the Group may enter into foreign currency forward contracts with its bankers.

The Group is committed to the foreign currency forward contracts to buy EUR560,000 for HKD5,759,000 and buy SGD95,700 for HKD523,000 (2007: buy JPY303,600,000 for HKD21,114,000, buy SGD81,200 for HKD425,000, buy GBP430,000 for HKD6,683,000 and buy AUD300,000 for HKD1,956,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

CORPORATE GOVERNANCE

The Company has complied with code provisions of the Code on the Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the "Listing Rules") during the year ended 31st December 2008 except the following deviation:–

Further information about Chairman and Chief Executive Officer

The Board is of the view that although Mr. Lee Sou Leung, Joseph is the Chairman and the Managing Director of the Company, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting operation of the Company. The Company has no such title as the chief executive officer.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES ("MODEL CODE")

For the year ended 31st December 2008, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31st December 2008 under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Dr. LUI Sun Wing and Mr. NIMMO, Walter Gilbert Mearns, has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the consolidated financial statements for the year ended 31st December 2008 with the directors.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended 31st December 2008. The figures in respect of the result announcement of the Group's results for the year have been agreed by the Company's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year 2008. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

On behalf of the Board
Lee Sou Leung Joseph
Chairman

Hong Kong, 17th April 2009

As at the date of this announcement, the executive directors of the Company are Mr. LEE Sou Leung Joseph, Ms. TAN, Lisa Marie, Mr. CHAN Ching Huen Stanley and the independent non-executive directors are Dr. Lui Sun Wing and Mr. PIKE, Mark Terence and Mr. NIMMO, Walter Gilbert Mearns.

* *For identification purpose only*