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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr LEE Sou Leung, Joseph (*Chairman*)

Ms TAN, Lisa Marie (*Deputy Chairman*)

Mr CHAN Ching Huen, Stanley

### Independent Non-Executive Directors

Dr LUI Sun Wing

Mr PIKE, Mark Terence

## COMPANY SECRETARY

Mr CHAN Ching Huen, Stanley

## MEMBERS OF AUDIT COMMITTEE

Dr LUI Sun Wing

Mr PIKE, Mark Terence

## SOLICITORS

Stevenson, Wong & Co

Solicitors and Notaries

## AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

## PRINCIPAL BANKERS

Standard Chartered Bank

Liu Chong Hing Bank Limited

Fortis Bank Asia HK

BNP Paribas, Hong Kong Branch

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Block 1

Golden Dragon Industrial Centre

152-160 Tai Lin Pai Road

Kwai Chung

New Territories

Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## WEBSITE

[www.leeport.com.hk](http://www.leeport.com.hk)

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Leeport (Holdings) Limited (the "Company"), I am pleased to present to our shareholders the report and the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2003.

## Financial performance

There was some slowdown in business in early 2003 due to the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome ("SARS"). However, the market became active in the second half of the year. Despite the unfavourable situation in the first half of the year, the turnover of the Group was HK\$519,675,000 (2002: HK\$451,967,000), representing an increase of 15% compared with Year 2002. The profit attributable to shareholders was HK\$31,028,000 (2002: HK\$28,204,000), representing an increase of 10% compared with Year 2002. The basic earning per share was HK 17.42 cents (2002: HK 17.85 cents), representing a decrease of 2% compared with Year 2002. This was due to increase in issued shares of the Company after listing in Year 2003. The weighted average number of shares in Year 2003 (the year of listing) was 178,137,000 and the number of shares in Year 2002 was 158,000,000.

## Dividends

The Directors recommended a final dividend of HK 9 cents per ordinary share, totalling HK\$18,000,000. This recommendation is subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 6th May 2004. Upon the approval of shareholders, the final dividend will be payable on or before 10th May 2004 to shareholders of the Company whose names appear on the register of members on 6th May 2004.

## Business review

Established in 1967, Leeport has been principally engaged in the distribution of advanced manufacturing equipment and precision tools for the manufacturing industry for 37 years. Year 2003 was a new era for the Group as the Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 10th July 2003. The Group also formed a joint venture with Mitutoyo Corporation ("Mitutoyo"), the world's leading measuring-instrument manufacturer. Leeport has had a relationship with Mitutoyo for 36 years, and it is a very important strategic partner.

In terms of geographical segments, the turnover from the PRC market, which was 46% of the total turnover of the Group, exceeded the turnover from Hong Kong market, which was 44% of the total turnover of the Group. The PRC market became the most important market for the Group. The business from Eastern China continued to show significant growth, increasing by 31% in the year, compared with Year 2002.

The strong Euro and Japanese Yen against the US Dollar and the keen competition in the market affected the gross margin of the business in the year. The overall gross margin was 25.1%, compared with 27.2% in the Year 2002.

# CHAIRMAN'S STATEMENT

## Business review (Continued)

The total for "Other Revenues" was HK\$11,956,000 (2002: HK\$8,291,000), consisting of two major income streams: Service Income of HK\$4,247,000 (2002: HK\$4,342,000) and Commission Income of HK\$6,620,000 (2002: HK\$2,709,000).

The Group continued to improve its performance in inventory management and account receivables management. The provision for stock obsolescence was HK\$43,000 in the year, compared with HK\$720,000 in Year 2002. The provision for bad debts was HK\$829,000 in the year, compared with HK\$2,830,000 in Year 2002. These are attributed to the strict inventory control and credit control policy, and also to the advantage gained by the installation of a new Enterprise Resources Planning Computer System.

The Customer Relationship Management Computer System was successfully implemented by the end of 2003. The Group is able to make use of the system to enhance customer service quality and to share customer information between business divisions.

## Future plans and prospects

The position of the PRC as a "World Production Centre" is the driver for the soaring investment in manufacturing facilities in the country. More and more world-class manufacturers have moved their production operations to the PRC. Furthermore, most of the existing customers of the Group also demonstrated their aggressive plans in expanding their production operations in the PRC. Since the second half of Year 2003, we have seen the continued growth in the demand for machine tools and electronics equipment. The Group believes this growth trend will continue in Year 2004.

In order to expand our market share in the PRC market, new offices in Shenzhen, Suzhou, Wuhan and Dalian will open by the middle of Year 2004. We will probably also open one or two additional new offices later in Year 2004. The new offices will enhance our sales and marketing support and after-sales service to our customers. The Group will continue to expand its operations in Taiwan and Southeast Asia, as business in this part of the region will benefit from the recovery in the economy.

The fast-growing automobile industry in the PRC will provide enormous growth opportunities for the Group. Our wide range of product lines, including CNC machining centres and lathes, cutting tools, measuring instruments, product design and electronics equipment etc., are suitable for the making of metal parts, moulds, electronics components etc. for the automobile industry.

### **Future plans and prospects (Continued)**

The formation of strategic alliances with suppliers is our long-term direction. In addition to our joint venture with Mitutoyo in Year 2003, the world's leading measuring-instrument manufacturer, we will continue to explore other forms of co-operation with other suppliers. The Group will also explore the possibility of equipment manufacturing in co-operation with our suppliers. The advantages of equipment manufacturing in the region are that we are closer to the market, and the cost of production is lower. This will enhance the competitiveness of the products the Group represents in the region. Furthermore, the Group will continue to source new products in manufacturing technology for our customers and develop new business divisions.

The Group pursues continuous improvement in management quality. More resources will be invested in the upgrading of customer service, staff training, people development and information technology.

Given the strong economy in the region, we are confident that the Group's business will reach new heights in the coming years.

On behalf of the Board, I would like to express my appreciation to all our staff for their valuable effort during the past year. I would also like to give thanks to all our shareholders, suppliers and customers for their continuous support and encouragement.

**LEE Sou Leung, Joseph**

*Chairman*

Hong Kong, 27th March 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Liquidity and financial resources and capital structure

The Group showed a very good liquidity position. The current ratio of the Group was 1.52 in the year; compared with 1.20 in Year 2002. The cash and cash equivalents on hand at the end of year was HK\$48,987,000, compared with HK\$10,629,000 in Year 2002.

As at 31st December 2003, the Group had net tangible assets of approximately HK\$142,103,000, comprising fixed assets of approximately HK\$75,178,000, net current assets of approximately HK\$86,356,000, minority interests of approximately HK\$5,670,000 and non-current liabilities of approximately HK\$13,761,000. On the same date, the total liabilities of the Group including minority interests amounted to approximately HK\$186,460,000. Of these liabilities, the total repayable after one year amounted to approximately HK\$13,761,000. On the other hand, the total assets of the Group were HK\$328,563,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group was approximately 0.57 (2002: 0.65).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2003, the Group has aggregate banking facilities of approximately HK\$418,000,000, of which approximately HK\$175,435,000 has been utilized and bear interest at prevailing market rates. The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

## Use of proceeds

The proceeds from the Company's public offer of new shares in July 2003 after deducting the actual related issuance expenses, amounted to approximately HK\$27.1 million. The proceeds were partly applied during the period from 10th July 2003 to 31st December 2003 in accordance with the proposed applications set out in the Prospectus, as follows:-

- approximately HK\$3.7 million was used to finance the expansion of Group's operations in the PRC, Taiwan and other parts of South East Asia;
- approximately HK\$3.0 million was used to finance the diversification of its product range;
- approximately HK\$0.7 million was used to finance the forming of strategic alliances;
- approximately HK\$2.6 million was used to finance the promotion of the Group's corporate image through advertisements, exhibitions as well as organizing technical seminars;
- approximately HK\$3.0 million was used to finance the enhancement of the Group's information management system by implementation of the Enterprise Resources Planning System and Customer Relation Management System; and

### Use of proceeds (Continued)

- approximately HK\$4.1 million was used as additional working capital of the Group;

The remaining net proceeds as at 31st December 2003 of approximately HK\$10.0 million were placed on short term deposits with licensed banks in Hong Kong. They will be applied in the coming years for their intended uses as set out in the Prospectus.

### Disposals of a subsidiary

The Group disposed of its entire interest in a subsidiary, GFTZ Leeport Trading Co., Ltd. to a third party company during the year ended 31st December 2003.

### Contingent liabilities

At 31st December 2003, the Group had contingent liabilities in respect of letters of guarantees given to customers and bills of exchange discounted with recourse of approximately HK\$13,270,000 and HK\$10,257,000 respectively.

### Exposure to fluctuations in exchange rates and related hedges

A substantial portion of the Group's revenue and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign exchange received from its customers to settle payment to overseas suppliers. In the event that any material payment cannot be fully matched, the Group will enter into foreign currency forward contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks.

As at 31st December 2003, the Group has commitments for forward currency forward contracts amounting to approximately HK\$45,037,000 (2002: HK\$50,042,000).

### Pledge of assets

As at 31st December 2003, certain properties in Hong Kong and in Singapore with an aggregate carrying value of approximately HK\$55,170,000 (2002: HK\$56,574,000) and pledged bank deposits of approximately HK\$1,000,000 (2002: HK\$3,201,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

### Employees

As at 31st December 2003, the Group had 286 employees (2002: 207), of whom 161 were based in Hong Kong, 103 were based in the PRC, and the remaining 22 were based in other offices around Asia. Competitive remuneration packages were structured to 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 and share options.

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 incentive and reward for their continued contribution to the Group. During the year, options in respect of a total of 4,412,000 shares were granted to employees under the share option scheme.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive directors

Mr Lee Sou Leung, Joseph, aged 60, the founder and the managing director of the Group, and the chairman of the Board, is responsible for the strategic planning, business development and overall management of the Group. Mr Lee has 37 years' experience in the distribution of machines tools, advanced equipment and industrial products. Mr Lee graduated from Wah Yan College, Hong Kong and Hong Kong Technical College (certificate in production engineering), which was subsequently renamed the Hong Kong Polytechnic University.

Ms Tan, Lisa Marie, aged 42, is responsible for human resources, administration, strategic planning and the formulation of the internal policies of the Group. Prior to joining the Group in June 1995, Ms Tan was a product manager in the retail banking division of an international bank in Hong Kong. Ms Tan graduated from California State Polytechnic University Pomona, US with a degree of Bachelor of Science in Business Administration. Ms Tan is the wife of Mr Lee Sou Leung, Joseph.

Mr Chan Ching Huen, Stanley, aged 46, also the Company Secretary and the chief financial officer of the Group, is responsible for overseeing the Group's financial planning and control, and information management. Prior to joining the Group in October 2000, Mr Chan held various managerial positions in the finance departments of several US based multi-national operations in Hong Kong. Mr Chan has over 20 year's experience in auditing, financial and accounting management. Mr Chan is a fellow member of the Chartered Association of Certified Accountants of the United Kingdom and the Hong Kong Society of Accountants, and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr Chan graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Accountancy and he also holds a Master's degree in Business Administration from Brunel University in the United Kingdom.

## Independent non-executive directors

Dr Lui Sun Wing, aged 53, was appointed by the Group in May 2003. Dr Lui was a branch director of the Hong Kong Productivity Council, responsible for overseeing the materials and process branch. He then joined the Hong Kong Polytechnic University as a vice president in 2000, and is now responsible for partnership development. He is also the chief executive officer of the Institute of Enterprise of the Hong Kong Polytechnic University, the PolyU Technology and Consultancy Co. Ltd. and the PolyU Enterprises Limited.

Mr Pike, Mark Terence, aged 47, is an associate member of the Institute of Chartered Accountants of Australia and the Hong Kong Society of Accountants and holds a Bachelor's Degree in Economics from the University of Sydney and a Postgraduate Certificate in Education from the University of Hong Kong. Mr Pike has worked in Hong Kong in the commercial and educational fields in the last 20 years. He is currently the managing director of East Asian Educational Association, which is engaged in the provision of regional educational programmes. Mr Pike was appointed by the Group in May 2003.



## Senior management

Mr Wong Man Shun, Michael, aged 39, the general manager of the metalcutting machinery division of the Group, is responsible for sales and marketing of metalcutting machinery. Mr Wong holds a Degree of Bachelor of Science (Engineering) from the University of Hong Kong. Mr Wong is currently an executive committee member of the Hong Kong Mould & Die Council. Mr Wong joined the Group in 1986 and was promoted to the director of LEEPOT Precision Machine Tool Company Limited on 1st January 2004.

Mr Ng Man Lung, aged 48, is the general manager of the metrology and small tools division of the Group. Mr Ng has over 25 years' experience in marketing measuring instruments and cutting tools. Mr Ng joined the Group in February 1975 and was promoted to the director of LEEPOT Metrology (Hong Kong) Limited and LEEPOT Tools Limited on 1st January 2004.

Mr Sa Wai Keung, aged 42, the general manager of metalforming division of the Group, is responsible for overseeing the operation of the division. Mr Sa has over 15 years' experience in sales and marketing in respect of the sheet-metal machinery trading industry. He holds a Higher Diploma in Mechanical Engineering from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University). Mr Sa joined the Group in 1988.

Mr Chan Lai Ming, aged 45, the general manager of the advanced manufacturing technology division of the Group, is responsible for overseeing the operation of the division. Having been with the Group for more than 20 years, he has extensive experience in marketing CAD/CAM software, industrial machinery and services to various manufacturing sectors. Mr Chan is an associate member of the Hong Kong Rapid Prototyping & Manufacturing Society. Mr Chan holds a Diploma and a Higher Certificate of Production and Industrial Engineering from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) and a Master's Degree in Commerce from the University of Strathclyde in the United Kingdom. Mr Chan joined the Group in July 1979.

Mr Lam Chung Keung, aged 43, the general manager of LEEPOT Electronics Limited, is responsible for overseeing the operation of LEEPOT Electronics Limited. Mr Lam holds a Degree of Master of Science in Engineering from the University of Hong Kong. Prior to joining the Group in 2001, he was the regional manager, responsible for the PRC market, for a supplier of factory automation headquartered in the US. He has over 20 years' experience in the electronics industry.

Mr Lee Huat Eng, aged 47, the general manager of LEEPOT (Singapore) Pte. Ltd. and LEEPOT (Malaysia) Sdn. Bhd., is responsible for the marketing, management and business development in both Singapore and Malaysia. He holds a Bachelor's Degree in Commerce from Murdoch University, Western Australia and he is also an associate of the Australian Society of Certified Practising Accountants. Mr Lee joined the Group in August 1992.

Mr Wong Ming Fai, aged 52, the business manager of the Group's subsidiary in Taiwan, is responsible for overseeing its daily operations. Prior to joining the Group in January 2002, Mr Wong worked for various machine tool trading companies and has more than 25 years of machine trading experience in the Asian markets including the PRC. Mr Wong holds a Bachelor's Degree of Science in Mechanical Engineering from the University of Hong Kong.

# REPORT OF THE DIRECTORS

The directors submit their first annual report together with the audited accounts for the year ended 31st December 2003.

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The details of dividends paid and declared during the year are set out in note 8 to the accounts.

At a meeting held on 19th June 2003, the directors of a subsidiary declared a special dividend totalling HK\$8,000,000 to its then shareholders.

The directors recommend the payment of a final dividend of HK 9 cents ordinary share, totalling HK\$18,000,000.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

## Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

## Share capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

## Donations

Charitable donations made by the Group during the year amounted to HK\$9,000.

## Distributable reserves

Distributable reserves of the Company at 31st December 2003, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$109,507,000.

### **Pre-emptive rights**

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **Five year financial summary**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 61.

### **Purchase, sale or redemption of securities**

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.

### **Share Options**

Pursuant to the written resolutions passed by the then shareholders of the Company on 17th June 2003, the Company had adopted a share option scheme (the "Scheme") for the principal purpose of providing incentives and rewards to eligible participants who contribute to the growth and success of the Group. Under the Scheme, the directors of the Company may, at their absolute discretion, invite (i) any employees (whether full time or part time) of any member of the Group or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director; (ii) any non-executive director (including independent non-executive director) of any member of the Group or any Invested Entity; (iii) any consultant, adviser or agent engaged by any member of the Group or any Invested Entity, who, under the terms of relevant engagement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and (iv) any vendor, supplier of goods or services or customer of or to any member of the Group or Invested Entity who, under the terms of relevant agreement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company. The Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th July 2003 (the "Listing Date") and, unless otherwise cancelled or amended, will remain force for 10 years from the date of its adoption on 17th June 2003. There is no change to the terms of the Scheme since adoption.

The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme and any other share option scheme of the Group is 20,000,000, representing 10% of the issued shares of the Company as at the date of this annual report, and such limit is subject to renewal with shareholders' approval. The maximum number of shares issuable upon exercise of the options granted to each eligible participant under the Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval.

## REPORT OF THE DIRECTORS

### Share Options (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall require the approval of independent non-executive director. In addition, any share options granted to a substantial shareholder or an independent non-executive director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue for the time being and with an aggregate value (based on the closing price of the Company's shares as at the date of the grant) in excess of HK\$5 million, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

As an overall limit, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company shall not, in aggregate, exceed 30% of the Company's shares in issue from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the proposed grantee. The exercise period of the share options granted is determined by the directors, which shall not end on a date more than 10 years from the date on which the share option is granted or deemed to be granted in accordance with the Scheme. Unless otherwise determined by the directors, the Scheme does not require a minimum period for which the share options must be held or a performance target which must be achieved before the share options can be exercised.

The exercise price of the share options is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options were first granted under the Scheme during the year and the details of which are as follows:

Eligible participants	Date of grant	Exercise price	Number of shares issuable under share options			
			At beginning of year	Granted during the year	Exercised during the year	At end of year
a) Director						
Mr CHAN Ching Huen, Stanley	19th December 2003	HK\$0.87	–	200,000	–	200,000
b) Employees (excluding directors)	19th December 2003	HK\$0.87	–	4,212,000	–	4,212,000
			–	4,412,000	–	4,412,000

### Share Options (Continued)

The closing price of the Company's shares on 18th December 2003, immediately before the date of grant of the above share options was HK\$0.87. The exercise period of the above share options is from 19th December 2004 to 18th December 2005 (both dates inclusive).

The directors consider it inappropriate to disclose the value of share options granted under the Scheme. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. Moreover, the terms of the Scheme stipulate that the options granted should not be assigned, and no holder of the share options shall in any way sell, transfer, charge, mortgage or create any interest in favour of any third party over or in relation to any share option. The directors believe that any calculation of the value of share options as at the date of this report based on a number of speculative assumptions would not be meaningful.

### Directors

The directors during the year were:

#### Executive directors

Mr LEE Sou Leung, Joseph (Chairman)	(Appointed on 25th March 2003)
Ms TAN, Lisa Marie (Deputy Chairman)	(Appointed on 25th March 2003)
Mr CHAN Ching Huen, Stanley	(Appointed on 25th March 2003)

#### Independent non-executive directors

Dr LUI Sun Wing	(Appointed on 7th May 2003)
Mr PIKE, Mark Terence	(Appointed on 7th May 2003)

In accordance with Article 87(1) of the Company's bye-laws, one third of the directors (or if the number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting provided that no director holding office as chairman shall be subject to retirement by rotation, or be taken into account in determining the number of directors to retire. In accordance with Article 87(1), none of the remaining two executive directors (other than the chairman) is subject to retirement by rotation at the forthcoming annual general meeting.

Mr PIKE, Mark Terence and Dr LUI Sun Wing are independent non-executive directors and were appointed for a one-year term expiring on 6th May 2004. They are subject to re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## Directors' service contracts

Each of the executive director has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by each party thereto giving to the other party three months' prior notice in writing, or three months' basic salary in lieu of notice, which notice period shall not expire at any time during the first year.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## Directors' interests in contracts

A director, Mr LEE Sou Leung, Joseph, has entered into lease agreements for the lease of office premises to two of the subsidiaries of the Group, and the total rental for the year ended 31st December 2003 amounted to HK\$168,000. The directors are of the opinion that the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

Saved as disclosed herein, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 8-9.

### Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 31st December 2003, the interests and short positions of each director, chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company, were as follows:

Director	Name of Company		Number of shares	Percentage that the long/short position in shares represents to the issued share capital of the Company	Capacity
Mr LEE Sou Leung, Joseph	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Settlor/founder
		Short position	Nil	-	
Ms TAN, Lisa Marie	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Beneficiary of a trust
		Short position	Nil	-	

Note: The 133,700,000 Shares are held by Peak Power Technology Limited in its capacity as the trustee of The Lee Family Unit Trust holding the same for the benefit of holders of units issued by The Lee Family Unit Trust. Of the entire 100,000 units in issue, 99,999 units are held by HSBC International Trustee Limited in the capacity of the trustee of The LMT Trust and the remaining 1 unit is held by Ms Loretta TONG Yuk Yin (an aunt of Ms TAN, Lisa Marie). HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms TAN, Lisa Marie and Mr LEE Sou Leung, Joseph's family members. The aforesaid shares that Mr LEE Sou Leung, Joseph and Ms TAN, Lisa Marie are deemed to be interested refer to the same parcel of shares.

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

### Substantial shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

At 31st December 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

# REPORT OF THE DIRECTORS

## Management contracts

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

## Major customers and suppliers

The aggregate percentage of sales for the year attributable to the Group's five largest customers is less than 30% of total sales for the year and therefore no disclosure with regard to major customers are made. The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases	
– the largest supplier	22%
– five largest suppliers combined	62%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

## Connected transactions

Save as disclosed in the section headed "Directors' interests in contracts", the details of other connected transactions are set out as follows:

1. On 31st October 2003, the Company entered into a deed of guarantee with UFJ Bank Limited whereby the Company would guarantee in favour of UFJ Bank Limited to secure the repayment of various banking facilities granted to the Company's wholly-owned subsidiary, Leepport Machine Tool Company Limited ("LMTCL") and the Company's non-wholly-owned subsidiary, Leepport Metrology (Hong Kong) Limited ("LMHK") in the amount of HK\$30 million;
2. On 31st October 2003, the Company entered into a deed of guarantee with Dah Sing Bank Limited whereby the Company would guarantee in favour of Dah Sing Bank Limited to secure the repayment of various banking facilities granted to LMTCL and LMHK in the amount of HK\$21 million; and
3. On 12th December 2003, the Company entered into a deed of guarantee with DBS Bank (Hong Kong) Limited whereby the Company would guarantee in favour of DBS Bank (Hong Kong) Limited to secure the repayment of various banking facilities granted to LMTCL and LMHK in the amount of HK\$20 million.

The aforesaid banking facilities guaranteed by the Company will be used for general corporate purpose and as general working capital of LMTCL and LMHK (as the case may be). The directors consider that the aforesaid guarantees are provided upon normal commercial terms and are in the interest of the Company and of its shareholders as a whole.



### **Connected transactions (Continued)**

The Company indirectly holds 90% equity interests of LMHK while the other shareholder holding the remaining 10% is only a connected person of the Company by virtue of its substantial shareholding in LMHK. These guarantees provided by the Company have the effect of granting financial assistance to LMHK as a non-wholly-owned subsidiary, which constitute connected transactions for the Company under the rule 14.25(2)(a) of the Listing Rules. The Company is required by the Listing Rules to disclose the relevant details of these guarantees in this annual report.

### **Compliance with the Code of Best Practice of the Listing Rules**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time since the Listing Date.

### **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 Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr PIKE, Mark Terence and Dr Lui Sun Wing. Two meetings were held during the current financial year.

### **Subsequent events**

On 10th February 2004, the Group disposed of its investment property with carrying value of HK\$16,000,000 as at 31st December 2003 to a third party company at a consideration of HK\$18,000,000. Please refer to details set out in notes 1(d)(i) and 31 to the accounts.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**LEE Sou Leung, Joseph**

Chairman

Hong Kong, 27th March 2004

# AUDITORS' REPORT



羅兵咸永道會計師事務所

## AUDITORS' REPORT TO THE SHAREHOLDERS OF LEEPORT (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 19 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 27th March 2004

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Turnover	2	519,675	451,967
Cost of sales		(389,475)	(328,819)
Gross profit		130,200	123,148
Other revenues	2	11,956	8,291
Selling and distribution costs		(24,723)	(23,482)
Administrative expenses		(80,502)	(73,877)
Operating profit	4	36,931	34,080
Finance costs	5	(2,715)	(2,714)
Profit before taxation		34,216	31,366
Taxation	6	(2,978)	(3,162)
Profit after taxation		31,238	28,204
Minority interests	29(b)	(210)	–
Profit attributable to shareholders		31,028	28,204
Dividends	8	26,000	15,000
Basic earnings per share	9	HK 17.42 cents	HK 17.85 cents
Diluted earnings per share	9	HK 17.41 cents	HK 17.85 cents

# CONSOLIDATED BALANCE SHEET

As at 31st December 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Non-current assets			
Fixed assets	13	75,178	76,740
Investment securities	14	–	–
		<b>75,178</b>	76,740
Current assets			
Inventories	16	65,481	55,546
Amount due from a director	17	–	149
Trade receivables and bills receivable	18	128,195	104,976
Other receivables, prepayments and deposits		5,532	4,596
Pledged bank deposits	28	1,000	3,201
Cash and bank balances	19	53,177	18,766
		<b>253,385</b>	187,234
Current liabilities			
Trade payables and bills payable	20	82,753	50,140
Trust receipt loans – secured	28	44,620	59,698
Other payables, accruals and deposits received	21	33,214	36,337
Current portion of long-term liabilities	22	1,114	1,156
Taxation		1,138	335
Bank loans and overdrafts – secured	28	4,190	8,137
		<b>167,029</b>	155,803
Net current assets		<b>86,356</b>	31,431
Total assets less current liabilities		<b>161,534</b>	108,171
Share capital	23	20,000	200
Other reserves	24	25,442	14,861
Retained earnings			
Proposed final dividend	24	18,000	5,000
Others	24	78,661	73,592
Shareholders' funds		<b>142,103</b>	93,653
Minority interests	29(b)	5,670	–
Non-current liabilities			
Long-term liabilities	22	10,718	11,832
Deferred taxation	25	3,043	2,686
		<b>161,534</b>	108,171

On behalf of the Board

**LEE Sou Leung, Joseph**  
Director

**TAN, Lisa Marie**  
Director

# BALANCE SHEET

As at 31st December 2003

	Note	2003 HK\$'000
Non-current assets		
Investments in subsidiaries	15	126,852
Current assets		
Other receivables and prepayments		152
Bank balances and cash		9,916
		10,068
Current liabilities		
Other payables		80
Taxation		11
		91
Net current assets		9,977
Total assets less current liabilities		136,829
Financed by:		
Share capital	23	20,000
Other reserves	24	98,767
Retained earnings		
Proposed final dividend	24	18,000
Others	24	62
		136,829

On behalf of the Board

**LEE Sou Leung, Joseph**  
Director

**TAN, Lisa Marie**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Total equity as at 1st January, as previously reported		95,101	77,087
Effect of changes in accounting policies	1(l)	(1,448)	(1,392)
Total equity as at 1st January, as restated		93,653	75,695
Surplus/(deficit) on revaluation of an investment property	24	1,400	(400)
(Deficit)/surplus on revaluation of leasehold properties	24	(983)	2,067
Exchange differences arising on translation of the accounts of foreign subsidiaries	24	158	550
Exchange reserve realised on disposal of a foreign subsidiary	24	(9)	–
Movement of deferred taxes	24	23	248
Net gains not recognised in the consolidated profit and loss account		589	2,465
		94,242	78,160
Profit attributable to shareholders	24	31,028	28,204
Dividends	24	(13,000)	(10,000)
Issue of shares	23(c)	35,280	–
Share issuance costs	24	(5,447)	(2,711)
Total equity as at 31st December		142,103	93,653

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Net cash inflow from operating activities	29(a)	6,410	17,389
Investing activities			
Purchase of fixed assets		(5,297)	(24,961)
Disposal of a subsidiary	29(c)	953	-
Sale of fixed assets		14	5,358
Decrease in pledged bank deposits		2,201	73
Net cash outflow from investing activities		(2,129)	(19,530)
Net cash inflow/(outflow) before financing		4,281	(2,141)
Financing	29(b)		
Issue of ordinary shares		35,280	-
Share issuance costs		(5,447)	(2,711)
Repayment of capital element of finance leases		(77)	(133)
New bank loan raised		-	7,000
Repayment of bank loans		(1,079)	(840)
Capital contributions from a minority shareholder		5,460	-
Net cash inflow from financing activities		34,137	3,316
Increase in cash and cash equivalents		38,418	1,175
Cash and cash equivalents at 1st January		10,629	9,375
Effect of foreign exchange rate changes		(60)	79
Cash and cash equivalents at 31st December		48,987	10,629
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		53,177	18,766
Bank loans and overdrafts – secured		(4,190)	(8,137)
		48,987	10,629

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

- (i) The Company was incorporated in Bermuda on 21st March 2003. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th July 2003.

Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 16th June 2003. The Reorganisation involved companies under common control and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

- (ii) No balance sheet of the Company at 31st December 2002 is presented in the accounts, as the Company was not yet incorporated on that date.
- (iii) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention as modified by the revaluation of leasehold properties and investment properties.

In the current year, the Group adopted Statements of Standard Accounting Practice ("SSAP") No.12 "Income Taxes" issued by HKSA which is effective for accounting periods commencing on 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting the new accounting policy is set out in notes 1(d)(i) and 1(l) below.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power, has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.



## 1 Principal accounting policies (Continued)

### (b) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

In accordance with SSAP 30, "Business Combinations", goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### (d) Fixed assets

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (i) Investment properties (Continued)

The accounting policy adopted in the prior years was that upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to retained earnings and is shown as a movement in reserves. In the current year, the Group has adopted a change in accounting policy that upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account. This has been applied retrospectively but there was no disposal of investment property during this year and the comparatives presented above have not been restated as there was no disposal of investment property in prior years. The directors believe that the change in accounting policy reflects more meaningfully the gain or loss arising from disposal of investment properties in the profit and loss account. As detailed in note 31 to the accounts, on 10th February 2004, the Group disposed of its investment property with carrying amount of HK\$16,000,000 as at 31st December 2003 to a third party company at a consideration of HK\$18,000,000. The total gain on disposal recognised in the profit and loss account for the year ending 31st December 2004 will be HK\$4,668,000, comprising of HK\$2,668,000 which will be released from the investment property revaluation reserve and HK\$2,000,000 which is the difference between the net sales proceeds and the carrying amount of the investment property as at the date of disposal.

Had the Group not changed the accounting policy, HK\$2,000,000 will be recognised as the gain on disposal of investment property in the profit and loss account for the year ending 31st December 2004, whereas HK\$2,668,000 will be released from the investment property revaluation reserve to retained earnings and will be shown as a movement in reserves.

#### (ii) Leasehold properties

Leasehold properties are interests in land and buildings other than investment properties and are stated at valuation, being open market value for existing use at the date of revaluation, less accumulated amortisation or depreciation. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Amortisation of leasehold land is calculated to write off its carrying cost over the unexpired periods of the leases on a straight-line basis.

Depreciation of leasehold buildings is calculated to write off on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 4% per annum.

## 1 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciation at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	10%
Plant, machinery, furniture and equipment	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (e) Assets under leases

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (e) Assets under leases (Continued)

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (f) Investments securities

Investment securities held for long-term purpose are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all direct costs of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, bank loans which are within three months of maturity when acquired and bank overdrafts which are repayable on demand.

### (j) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a warranty provision for repairs or replacement of products still under warranty at the balance sheet date. The provision is calculated based on past history of the level of repairs and replacements.

## 1 Principal accounting policies (Continued)

### (k) Contingent liabilities and contingent assets

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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 24 to the accounts, opening retained earnings at 1st January 2002 and 2003 have been reduced by HK\$423,000 and HK\$727,000 respectively and opening other properties revaluation reserve at 1st January 2002 and 2003 have been reduced by HK\$969,000 and HK\$721,000 respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in and deferred tax liabilities at 31st December 2002 by HK\$1,448,000. The profit for the year ended 31st December 2002 has been reduced by HK\$304,000 and the amount credited to equity for the year ended 31st December 2002 has been increased by HK\$248,000 respectively.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (m) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Bonus

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) Pension obligations

The Group participates in a number of defined contribution plans which are available to all qualified employees, the assets of which are generally held in separate trustee administered funds. The pension plans are funded by payments from employees and by relevant Group companies. Contributions to the schemes by the Group are charged to the profit and loss account as incurred.

### (n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income under service agreements is recognised on a straight-line basis over the life of the agreement. Other service income is recognised when the services are rendered.

## 1 Principal accounting policies (Continued)

### (p) Revenue recognition (Continued)

Commission income is recognised when the services are rendered.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (q) Dividends

Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

### (r) Segmental reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, trade receivables and bills receivables, other receivables, prepayments and deposits, pledged bank deposits and cash and bank balances, and mainly exclude amount due from a director and other prepayments for investment in a subsidiary. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, current portion of long-term liabilities, minority interests and long-term liabilities. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

## NOTES TO THE ACCOUNTS

### 2 Turnover and revenues

The Group is principally engaged in the trading, installation and after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment. Revenues recognised during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Sale of goods, net of returns and discounts	<b>519,675</b>	451,967
Other revenues		
Service income	<b>4,247</b>	4,342
Commission income	<b>6,620</b>	2,709
Rental income	<b>732</b>	738
Interest income	<b>262</b>	427
Other income	<b>95</b>	75
	<b>11,956</b>	8,291
Total revenues	<b>531,631</b>	460,258



### 3 Segment information

#### (a) Primary reporting format – geographical segments

The Group is principally engaged in the trading, installation and 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 Southeast Asia and other countries (principally Singapore). The PRC, for the purpose of these accounts, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

	2003			Total HK\$'000
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	
Turnover	236,762	228,606	54,307	519,675
Segment results	11,510	23,990	1,431	36,931
Finance costs				(2,715)
Profit before taxation				34,216
Taxation				(2,978)
Profit after taxation				31,238
Minority interests				(210)
Profit attributable to shareholders				31,028
Segment assets	95,946	189,211	43,406	328,563
Segment liabilities	75,847	69,524	19,406	164,777
Unallocated liabilities				16,013
Minority interests				5,670
				186,460
Capital expenditure	2,224	2,412	661	5,297
Depreciation	1,837	4,114	518	6,469

## NOTES TO THE ACCOUNTS

### 3 Segment information (Continued)

#### (a) Primary reporting format – geographical segments (Continued)

	2002			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	188,002	226,846	37,119	451,967
Segment results	8,960	23,584	1,536	34,080
Finance costs				(2,714)
Profit before taxation				31,366
Taxation				(3,162)
Profit attributable to shareholders				28,204
Segment assets	75,667	166,223	21,544	263,434
Unallocated assets				540
				263,974
Segment liabilities	65,892	78,521	9,899	154,312
Unallocated liabilities				16,009
Minority interests				–
				170,321
Capital expenditure	4,387	20,365	209	24,961
Depreciation	1,124	3,422	323	4,869

#### (b) Secondary 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 of machines, tools, accessories and measuring instruments, throughout the year.

## 4 Operating profit

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Gain on disposal of a subsidiary	186	–
Gain on disposal of fixed assets	–	25
Charging		
Auditors' remuneration	964	437
Cost of inventories sold	386,001	325,319
Deficit on revaluation of leasehold properties	802	–
Depreciation:		
Owned fixed assets	6,425	4,780
Leased fixed assets	44	89
Exchange loss	78	94
Operating lease rentals in respect of land and buildings	2,445	3,209
Provision for slow moving inventories	43	720
Provision for bad and doubtful debts	829	2,830
Staff costs (including directors' remuneration) (note 10)	49,344	46,232

## 5 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings:		
Wholly repayable within five years	2,297	2,350
Not wholly repayable within five years	405	337
Interest element of finance leases	13	27
	<b>2,715</b>	2,714

## NOTES TO THE ACCOUNTS

### 6 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– Current	2,819	2,500
– Overprovision in previous years	(314)	(574)
	<b>2,505</b>	1,926
Overseas taxation		
– Current	120	373
– Overprovision in previous years	(23)	(20)
	<b>97</b>	353
Deferred taxation relating to the origination and reversal of temporary differences (note 25)	197	883
Deferred taxation resulting from an increase in tax rate (note 25)	179	–
	<b>376</b>	883
	<b>2,978</b>	3,162

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

Overseas taxation is mainly attributable to the subsidiary operating in Singapore. Singapore profits tax has been provided at the rate of 22% (2002: 22%) respectively on the estimated profit for the year.

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.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	34,216	31,366
Calculated at a taxation rate of 17.5% (2002: 16%)	5,988	5,019
Effect of different taxation rates in other countries	(508)	99
Income not subject to taxation	(8,233)	(8,289)
Expenses not deductible for taxation purposes	6,639	6,983
Tax losses not recognised	10	415
Utilisation of previously unrecognised tax losses	(760)	(471)
Overprovision of profits tax in prior years	(337)	(594)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	179	–
Taxation charge	<b>2,978</b>	3,162

## 7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$18,062,000.

## 8 Dividends

	2003 HK\$'000	2002 HK\$'000
Dividends paid or declared by a subsidiary to its then shareholders before the Reorganisation (note (a)):		
Interim, paid		10,000
Final, proposed	-	5,000
Special, paid	8,000	-
Dividends declared by the Company (note (b)):		
Final, proposed, of HK 9 cents (2002: Nil) per ordinary share	18,000	-
	<b>26,000</b>	15,000

Note:

- (a) The dividend rates and the number of shares ranking for the dividends mentioned above are not presented as such information is not considered meaningful for the purpose of these accounts.
- (b) At a board meeting held on 27th March 2004, the directors proposed a final dividend of HK 9 cents per ordinary share for the year ended 31st December 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

## 9 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$31,028,000 (2002: HK\$28,204,000).

The basic earnings per share is based on the weighted average number of 178,137,000 (2002: 158,000,000) ordinary shares in issue during the year. The diluted earnings per share is based on 178,172,000 (2002: 158,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 35,000 (2002: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 10 Staff costs (including directors' remuneration)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	46,758	43,695
Unutilised annual leave	148	422
Retirement benefit costs (note 12)	2,438	2,115
	<b>49,344</b>	46,232

# NOTES TO THE ACCOUNTS

## 11 Emoluments for directors and highest paid individuals

### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Executive		
Fee	–	–
Other emoluments	2,897	2,832
Discretionary bonuses	200	1,110
Retirement benefit scheme contributions	96	95
Non-executive		
Fee	130	–
	<b>3,323</b>	4,037

Apart from the emoluments paid by the Group as above, two of the leasehold properties of the Group in Hong Kong have been provided to two of the directors as their residency forming part of their emoluments.

None of the directors of the Company waived any emoluments paid by the Group during the year (2002: Nil).

The emoluments of the directors of the Company fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	–	1
	<b>3</b>	3

## 11 Emoluments for directors and highest paid individuals (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two directors (2002: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,880	2,463
Discretionary bonuses	2,278	967
Retirement benefit scheme contributions	76	89
	<b>4,234</b>	3,519

The emoluments of the remaining three individuals fell within the following bands:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	2	3
HK\$1,500,001 to HK\$2,000,000	1	–
	<b>3</b>	3

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

## 12 Retirement benefit costs

The Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified employees, including executive directors of the Company, in Hong Kong prior to 1st December 2000. The cost charged to the profit and loss account represents contributions payable or paid to the funds by the Group at the rate of 5% of the salary with a ceiling of HK\$1,000 per month for general staff and there is no ceiling for managerial staff. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effect from 1st December 2000, a Mandatory Provident Fund scheme (the "MPF scheme") has been set up for employees in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance. Commencing on 1st December 2000, the existing employees in Hong Kong may elect to join the MPF scheme, and all new employees in Hong Kong are required to join the MPF scheme. Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The MPF contributions charged to the profit and loss account represent the contributions payable to the funds by the Group.

## NOTES TO THE ACCOUNTS

### 12 Retirement benefit costs (Continued)

Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes operated by the local municipal governments. The retirement schemes for employees of the Group's overseas subsidiaries follow the local statutory requirements of the respective countries. Contributions are made to the schemes based on a certain percentage of the applicable employee payroll.

The details of pension scheme contributions for the directors and employees, net of forfeited contributions, which have been dealt with in the consolidated profit and loss account of the Group for the year, are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Gross scheme contributions	<b>2,438</b>	2,115
Less: Forfeited contributions utilised to offset contributions for the year	-	-
Net scheme contributions	<b>2,438</b>	2,115



## 13 Fixed assets

	Group					
	Investment properties	Leasehold properties	Leasehold improvements	Plant, machinery furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1st January 2003	14,600	43,673	9,887	19,776	1,839	89,775
Exchange adjustments	-	70	4	12	1	87
Additions	-	-	181	5,116	-	5,297
Revaluation	1,400	(2,873)	-	-	-	(1,473)
Disposal of a subsidiary	-	-	-	(219)	-	(219)
Other disposals	-	-	(57)	(1,852)	(464)	(2,373)
At 31st December 2003	16,000	40,870	10,015	22,833	1,376	91,094
Accumulated depreciation						
At 1st January 2003	-	807	2,733	8,303	1,192	13,035
Exchange adjustments	-	2	1	5	-	8
Charge for the year	-	1,080	1,592	3,620	177	6,469
Revaluation	-	(1,088)	-	-	-	(1,088)
Disposals of a subsidiary	-	-	-	(149)	-	(149)
Other disposals	-	-	(57)	(1,838)	(464)	(2,359)
At 31st December 2003	-	801	4,269	9,941	905	15,916
Net book value						
At 31st December 2003	16,000	40,069	5,746	12,892	471	75,178
At 31st December 2002	14,600	42,866	7,154	11,473	647	76,740
The analysis of cost or valuation at 31st December 2003 of the above assets is as follows:						
At cost	-	-	10,015	22,833	1,376	34,224
At 31st March 2003 professional valuation	-	40,870	-	-	-	40,870
At 31st December 2003 professional valuation	16,000	-	-	-	-	16,000
	16,000	40,870	10,015	22,833	1,376	91,094

# NOTES TO THE ACCOUNTS

## 13 Fixed assets (Continued)

The analysis of cost or valuation at 31st December 2002 of the above assets is as follows:

	Group					Total HK\$'000
	Investment properties	Leasehold properties	Leasehold improvements	Plant, machinery furniture and equipment	Motor vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At cost	-	3,791	9,887	19,776	1,839	35,293
At 30th November 2001 professional valuation	-	5,852	-	-	-	5,852
At 31st December 2001 professional valuation	-	19,630	-	-	-	19,630
At 31st December 2002 professional valuation	14,600	14,400	-	-	-	29,000
	14,600	43,673	9,887	19,776	1,839	89,775

Net book value of leased assets:

At 31st December 2003	-	-	-	-	-	-
At 31st December 2002	-	-	-	178	-	178

The Group's interests in leasehold land and buildings at their net book value are analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	43,303	43,838
Leases of between 10 to 50 years	7,813	8,084
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	4,953	5,544
	56,069	57,466

(a) Investment properties of the Group were revalued at 31st December 2003 on the basis of their open market value by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The revaluation surplus was credited to investment properties revaluation reserve in shareholders' equity (note 24).

(b) Leasehold properties of the Group were revalued as at 31st March 2003 on the basis of their open market values by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. In the opinion of the directors, the carrying amount of leasehold properties of the Group stated at revalued amount as at 31st March 2003 were not materially different from their open market value as at 31st December 2003.

The total revaluation deficit of the above leasehold properties for the year ended 31st December 2003 amounted to HK\$1,785,000, HK\$983,000 has been taken to other properties revaluation reserve (note 24) to set off previous valuation, whereas the remaining HK\$802,000 has been charged to the profit and loss account. The effect of applicable deferred income taxes arising from the revaluation deficit has resulted in an increase in other properties revaluation reserve at 31st December 2003 by HK\$23,000 (note 24).

(c) The carrying amount of leasehold properties of the Group would have been HK\$38,792,000, at 31st December 2003 (2002: HK\$39,848,000) had they been stated at cost less accumulated depreciation.

(d) Certain properties of the Group with an aggregate net book value of approximately HK\$55,170,000 at 31st December 2003 (2002: HK\$56,574,000) have been pledged to banks to secure banking facilities granted to the Group (note 28).

## 14 Investment securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost	1,172	1,172
Less: Provision for impairment losses	(1,172)	(1,172)
	-	-

## 15 Investments in subsidiaries

### (a) Investments in subsidiaries

	Company
	2003 HK\$'000
Unlisted shares, at cost	91,645
Amounts due from subsidiaries (note (b))	35,207
	126,852

The following is a list of the subsidiaries at 31st December 2003:

Name	Principal activities and place of operation	Place of incorporation/ establishment	Issued/registered and fully paid capital	Interest held
Leeport Group Limited (note(i))	Investment holding in Hong Kong	British Virgin Islands	50,000 ordinary shares of US\$1 each	*100%
Formtek Machinery Company Limited(note (i))	Trading of machine tools in Taiwan	Taiwan	800,000 ordinary shares of NT\$10 each	100%
Leeda Machinery Limited	Inactive	Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Leeport Electronics Limited	Trading of electronics equipment in Hong Kong	Hong Kong	200,000 ordinary shares of HK\$10 each	100%
Leeport Machine Tool Company Limited	Trading of machines, tools, accessories and measuring instruments in Hong Kong	Hong Kong	1,000,000 ordinary shares of HK\$10 each	100%
Leeport Macao Commercial Offshore Limited (note (i))	Trading of machines, tools, accessories and measuring instruments in Macau	Macau	1 ordinary share of MOP100,000 each	100%

# NOTES TO THE ACCOUNTS

## 15 Investments in subsidiaries (Continued)

### (a) Investments in subsidiaries (Continued)

Name	Principal activities and place of operation	Place of incorporation/ establishment	Issued/registered and fully paid capital	Interest held
Leeport (Malaysia) Sdn. Bhd. (note (i))	Distribution and repair of machine tools and accessories in Malaysia	Malaysia	350,000 ordinary shares of RM1 each	100%
Leeport Machine Tool (Shenzhen) Company Limited (note (i))	Trading of machines, tools and measuring instruments in the PRC	The PRC, wholly owned foreign enterprise	Registered and fully paid capital of HK\$2,000,000	100%
Leeport (Singapore) Pte. Ltd. (note (i))	Trading of machine tools and related products in Singapore	Singapore	1,000,000 ordinary shares of S\$1 each	100%
Leeport Machinery (Shanghai) Company Limited (note (i))	Trading of machines, tools and measuring instruments in the PRC	The PRC, wholly owned foreign enterprise	Registered and fully paid capital of US\$250,000	100%
Leeport Metalforming Machinery Limited	Inactive	Hong Kong	50,000 ordinary shares of HK\$10 each	100%
Leeport Metrology Corporation	Investment holding in Hong Kong	British Virgin Islands	7,000,000 ordinary shares of US\$1 each	90%
Leeport Metrology (Hong Kong) Limited (formerly known as Leeport Metrology Limited)	Trading of measuring instruments in Hong Kong	Hong Kong	2 ordinary shares of HK\$10 each	90%
Leeport Technology Limited	Inactive	Hong Kong	2 ordinary shares of HK\$10 each	100%
Leeport Tools Limited	Inactive	Hong Kong	10,000 ordinary shares of HK\$100 each	100%
Rapman Limited	Inactive	Hong Kong	2 ordinary shares of HK\$10 each	100%
Leeport Precision Machine Tool Company Limited	Inactive	Hong Kong	2 ordinary shares of HK\$1 each	100%

\* Shares held directly by the Company

Note:

- (i) PricewaterhouseCoopers Hong Kong is not the statutory auditors of these companies. The aggregate net assets of these subsidiaries amounted to approximately 9% of the Group's net assets.

### (b) Amounts due from subsidiaries

The amounts are unsecured, interest-free and have no fixed terms of repayment.

## 16 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Merchandise	65,481	55,546

At 31st December 2003, the carrying amount of inventories held by the Group carried at net realisable value amounted to HK\$1,861,000 (2002: HK\$2,119,000).

## 17 Amount due from a director

The amount due is of non-trade nature and is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the amount due from a director are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Mr LEE Sou Leung, Joseph	-	149

Maximum amount outstanding during the year is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Mr LEE Sou Leung, Joseph	149	149

## 18 Trade receivables and bills receivable

At 31st December 2003, the ageing analysis of trade receivables and bills receivable is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	80,365	63,761
1 – 3 months	36,649	26,651
4 – 6 months	8,791	5,729
7 – 12 months	2,387	8,527
Over 12 months	13,638	13,288
	<b>141,830</b>	117,956
Less: provision	<b>(13,635)</b>	(12,980)
	<b>128,195</b>	104,976

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.

## NOTES TO THE ACCOUNTS

### 19 Cash and bank balances

	Group	
	2003 HK\$'000	2002 HK\$'000
Restricted balances (note (a))	4,524	1,421
Unrestricted balances	48,653	17,345
Bank balances and cash	<b>53,177</b>	18,766

(a) These bank balances are denominated in Renminbi and placed with certain banks in the PRC. The remittance of these is subject to the foreign exchange control restrictions imposed by the PRC government.

### 20 Trade payables and bills payable

At 31st December 2003, the ageing analysis of trade payables and bills payable is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	72,552	38,181
1 – 3 months	9,097	8,033
4 – 6 months	809	3,239
7 – 12 months	103	687
Over 12 months	192	–
	<b>82,753</b>	50,140

### 21 Other payables, accruals and deposits received

Included in other payables, accruals and deposits received is a warranty provision for repairs or replacement of products still under warranty at the balance sheet date. The Group normally provides one-year warranties on certain products and undertakes to repair items that fail to perform satisfactorily.

Movements in warranty provision are set out below:

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1st January	3,486	2,454
Additional provision	6,315	5,966
Less: Amounts utilised	(5,640)	(4,934)
At 31st December	<b>4,161</b>	3,486

## 22 Long-term liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
Obligations under finance leases		
Wholly repayable within five years (note (a))	-	77
Bank loans – secured		
Not wholly repayable within five years (note (b))	11,832	12,911
	<b>11,832</b>	12,988
Current portion of long-term liabilities		
Obligations under finance leases	-	(77)
Bank loans – secured	(1,114)	(1,079)
	<b>(1,114)</b>	(1,156)
Long-term liabilities	<b>10,718</b>	11,832

- (a) The Group's obligations under finance leases in respect of plant, machineries, furniture and equipment are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	-	89
Future finance charges on finance leases	-	89
Present value of finance lease liabilities	-	(12)
	-	77
The present value of finance lease liabilities is as follows:		
Within one year	-	77

- (b) The Group's bank loans are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,114	1,079
In the second year	1,148	1,114
In the third to fifth year	3,672	3,558
After the fifth year	5,898	7,160
	<b>11,832</b>	12,911

The long-term bank loans bear interest at prevailing market rates. Details of securities for banking facilities are set out in note 28 below.

# NOTES TO THE ACCOUNTS

## 23 Share capital

	Ordinary shares at HK\$0.1 each	
	No. of shares	HK\$'000
Authorised:		
At the date of incorporation (note (a))	1,000,000	100
Increase in authorised ordinary share capital (note (b)(i))	999,000,000	99,900
At 31st December 2003	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At the date of incorporation (note (a))	–	–
Issue of shares arising from the Reorganisation (note (a) and (b) (ii))	2,000,000	200
Issue of shares by placing and public offer (note (c))	42,000,000	4,200
Capitalisation issue (note (d))	156,000,000	15,600
At 31st December 2003	<u>200,000,000</u>	<u>20,000</u>

Details of the changes in the Company's share capital for the year ended 31st December 2003 are as follows:

- (a) The Company was incorporated on 21st March 2003 with an authorised capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. 1,000,000 shares were allotted and issued nil paid to Mr LEE Sou Leung, Joseph on 25th March 2003.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company on 16th June 2003,
  - (i) the authorised share capital for the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares; and
  - (ii) the Company issued 1,000,000 new ordinary shares which, together with the 1,000,000 shares issued to Mr Lee Sou Leung, Joseph on 25th March 2003, were credited as fully paid as consideration for the acquisition of subsidiaries pursuant to the Reorganisation as set out in note 1(a)(i).
- (c) On 7th July 2003, 42,000,000 shares of HK\$0.1 each were issued to the public at a price of HK\$0.84 per share (the "New Issue") for cash consideration of HK\$35,280,000. The excess of HK\$31,080,000 over the par value of the shares issued was credited to the share premium account.
- (d) Also on 7th July 2003, 156,000,000 shares of HK\$0.1 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 17th June 2003 by debiting an amount of HK\$15,600,000 of the share premium account of the Company arising from the New Issue.
- (e) The share capital presented in the consolidated balance sheet as at 31st December 2002 represented the share capital of the Company, arising from the transactions as described in notes (a) and (b)(ii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as set out in note 1(a)(i).



## 23 Share capital (Continued)

- (f) Pursuant to the written resolution passed by all the then shareholders of the Company on 17th June 2003, the Company had adopted a share option scheme. The movements in the number of share options outstanding during the year are as follows:

Date of grant	Exercise price	Number of share options			At end of year	Exercise period
		At beginning of year	Granted during the year	Exercised during the year		
19th December 2003	HK\$0.87	-	4,412,000	-	4,412,000	19th December 2004 to 18th December 2005

Each option entitles the holder to subscribe for one share of HK\$0.1 each in the Company at the predetermined exercise price.

No share options were lapsed or cancelled during the year.

# NOTES TO THE ACCOUNTS

## 24 Reserves

	Group						Total HK\$'000
	Share issuance costs HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	
	At 1st January 2002, as previously reported	-	1,668	7,470	(754)	11,310	
Changes in accounting policy - provision of net deferred tax liabilities (note 1(l))	-	-	(969)	-	-	(423)	(1,392)
At 1st January 2002, as restated	-	1,668	6,501	(754)	11,310	56,770	75,495
Share issuance costs	(2,711)	-	-	-	-	-	(2,711)
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	-	-	154	(154)	-	-	-
Exchange differences on translation of accounts of foreign subsidiaries	-	-	-	550	-	-	550
Transfer of revaluation reserve realised through disposal of a leasehold property	-	-	(3,516)	-	-	3,516	-
Revaluation deficit of an investment property	-	(400)	-	-	-	-	(400)
Revaluation surplus of leasehold properties	-	-	2,067	-	-	-	2,067
Transfer of revaluation reserve realised through depreciation to retained profits	-	-	(102)	-	-	102	-
Movements of deferred taxes	-	-	248	-	-	-	248
Profit attributable to shareholders	-	-	-	-	-	28,204	28,204
2002 interim dividend paid	-	-	-	-	-	(10,000)	(10,000)
At 31st December 2002	(2,711)	1,268	5,352	(358)	11,310	78,592	93,453
Representing:							
2002 final dividend proposed						5,000	
Others						73,592	
Retained earnings as at 31st December 2002						78,592	

## 24 Reserves (Continued)

	Group							Total HK\$'000		
	Share premium HK\$'000	Share issuance costs HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000			
	At 1st January 2003, as previously reported	-	(2,711)	1,268	6,073	(358)	11,310		79,319	94,901
	Changes in accounting policy - provision of net deferred tax liabilities (note 1(l))	-	-	-	(721)	-	-		(727)	(1,448)
At 1st January 2003, as restated	-	(2,711)	1,268	5,352	(358)	11,310	78,592	93,453		
Issue of shares (note 23(c))	31,080	-	-	-	-	-	-	31,080		
Capitalisation issue (note 23(d))	(15,600)	-	-	-	-	-	-	(15,600)		
Share issuance costs	-	(5,447)	-	-	-	-	-	(5,447)		
Transfer	(8,158)	8,158	-	-	-	-	-	-		
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	-	-	-	32	(32)	-	-	-		
Exchange differences on translation of accounts of foreign subsidiaries	-	-	-	-	158	-	-	158		
Disposal of a subsidiary	-	-	-	-	(9)	-	-	(9)		
Revaluation surplus of an investment property	-	-	1,400	-	-	-	-	1,400		
Revaluation deficit of leasehold properties	-	-	-	(983)	-	-	-	(983)		
Transfer of revaluation reserve realised through depreciation to retained profits	-	-	-	(41)	-	-	41	-		
Movement of deferred taxes	-	-	-	23	-	-	-	23		
Profit attributable to shareholders	-	-	-	-	-	-	31,028	31,028		
Dividends paid	-	-	-	-	-	-	(13,000)	(13,000)		
At 31st December 2003	7,322	-	2,668	4,383	(241)	11,310	96,661	122,103		
Representing:										
2003 final dividend proposed							18,000			
Others							78,661			
Retained earnings as at 31st December 2003							96,661			

# NOTES TO THE ACCOUNTS

## 24 Reserves (Continued)

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000 (note (a))	Retained earnings HK\$'000	
At 1st January 2003	–	–	–	–
Issue of shares (note 23(c))	31,080	–	–	31,080
Capitalisation issue (note 23(d))	(15,600)	–	–	(15,600)
Contributed surplus arising on the Reorganisation (note 1(a)(i))	–	91,445	–	91,445
Share issuance costs	(8,158)	–	–	(8,158)
Profit attributable to shareholders (note 7)	–	–	18,062	18,062
At 31st December 2003	7,322	91,445	18,062	116,829

Representing:

2003 final dividend proposed  
Others

18,000  
62

Retained earnings as at 31st December 2003

18,062

Notes:

- (a) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Reorganisation. Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.
- (b) Distributable reserves of the Company at 31st December 2003 amounted to HK\$109,507,000 (2002: Nil).

## 25 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities account is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1st January	2,686	2,048
Exchange differences	4	3
Deferred taxation charged to consolidated profit and loss account (note 6)	376	883
Taxation credited from equity	(23)	(248)
At 31st December	<b>3,043</b>	2,686

The deferred taxation credited from equity during the year is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fair value reserves in shareholders' equity – properties (note 24)	(23)	(248)

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$31,923,000 (2002 :HK\$35,018,000) to carry forward against future taxable income.

## NOTES TO THE ACCOUNTS

### 25 Deferred taxation (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	<b>Accelerated tax depreciation and total</b>	
	<b>2003</b>	2002
<b>Deferred tax liabilities</b>	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>2,686</b>	2,048
Charged to consolidated profit and loss account	<b>376</b>	883
Credited from equity	<b>(23)</b>	(248)
Exchange differences	<b>4</b>	3
As at 31 December	<b>3,043</b>	2,686

	<b>Tax losses and total</b>	
	<b>2003</b>	2002
<b>Deferred tax assets</b>	<b>HK\$'000</b>	HK\$'000
At 1st January	-	-
Charged to consolidated profit and loss account	-	-
Credited from equity	-	-
Exchange differences	-	-
As at 31 December	-	-

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Deferred tax assets	-	-
Deferred tax liabilities	<b>3,043</b>	2,686
	<b>3,043</b>	2,686
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	-	-
Deferred tax liabilities to be settled after more than 12 months	<b>3,043</b>	2,686

## 26 Commitments

### (a) Capital commitments

- (i) Commitments for investment securities:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted obligations for investment securities	775	775

- (ii) Commitments for investment in a subsidiary:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted obligations for investment in a subsidiary in the PRC	-	1,700

### (b) Commitments under operating leases

- (i) As lessor

At 31st December 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	712	732
Later than one year but not later than five years	-	712
	<b>712</b>	<b>1,444</b>

- (ii) As lessee

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,220	1,917
Later than one year but not later than five years	108	740
	<b>1,328</b>	<b>2,657</b>

## NOTES TO THE ACCOUNTS

### 26 Commitments (Continued)

#### (c) Commitments for foreign currency forward contracts

	Group	
	2003 HK\$'000	2002 HK\$'000
Commitments for foreign currency forward contracts	<b>45,037</b>	50,042

### 27 Contingent liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
Letters of guarantee given to customers	<b>13,270</b>	5,797
Bills of exchange discounted with recourse	<b>10,257</b>	12,380
	<b>23,527</b>	18,177

### 28 Banking facilities

As at 31st December 2003, the Group's banking facilities totalling approximately HK\$418 million (2002: HK\$285 million) were secured by the following:

- (a) fixed deposits of the Group amounting to HK\$1,000,000 (2002:HK\$3,201,000);
- (b) certain properties held by the Group with net book value of approximately HK\$55,170,000 (2002: HK\$56,574,000) (note 13(d)); and
- (c) corporate guarantees given by the Company.



## 29 Notes to consolidated cash flow statements

### (a) Reconciliation of profit before taxation to net cash inflow from operating activities

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	34,216	31,366
Depreciation of fixed assets	6,469	4,869
Deficit on revaluation of leasehold properties	802	–
Gain on disposal of fixed assets	–	(25)
Gain on disposal of a subsidiary	(186)	–
Interest income	(262)	(427)
Interest expense	2,715	2,714
Effect of foreign exchange rates	149	154
Operating profit before working capital changes	43,903	38,651
Increase in inventories	(10,258)	(12,227)
Increase in trade receivables and bills receivable, other receivables, prepayments and deposits	(25,612)	(10,052)
Increase in trade payables and bills payable, trust receipt loans, other payables, accruals and deposits received	15,486	21,596
Movement in amount due from a director	149	(4,257)
Cash generated from operations	23,668	33,711
Interest received	262	427
Interest paid	(2,702)	(2,687)
Interest element of finance leases	(13)	(27)
Dividends paid	(13,000)	(10,000)
Hong Kong profits tax paid	(1,359)	(3,788)
Overseas taxation paid	(446)	(247)
Net cash inflow from operating activities	6,410	17,389

## NOTES TO THE ACCOUNTS

### 29 Notes to consolidated cash flow statements (Continued)

#### (b) Analysis of changes in financing during the year

	Share capital including share premium HK\$'000	Share issuance costs HK\$'000	Minority interests HK\$'000	Bank loans HK\$'000	Obligation under finance leases HK\$'000
At 1st January 2002	200	–	–	6,751	210
Cash inflows/(outflows) from financing, net	–	(2,711)	–	6,160	(133)
At 31st December 2002	200	(2,711)	–	12,911	77
At 1st January 2003	200	(2,711)	–	12,911	77
Minority interest's share of profits	–	–	210	–	–
Cash inflows/(outflows) from financing, net	35,280	(5,447)	5,460	(1,079)	(77)
Transfers	(8,158)	8,158	–	–	–
At 31st December 2003	27,322	–	5,670	11,832	–

#### (c) Disposal of a subsidiary

On 28th February 2003, the Group disposed of its entire interest in GFTZ Leeport Trading Co., Ltd. to a third party company at a consideration of HK\$1,600,000.

The assets and liabilities disposed of are as follows:

	HK\$'000
Fixed assets	70
Inventories	323
Trade receivables, other receivables, prepayments and deposits	1,457
Cash and bank balances	647
Other payables and accruals	(1,074)
Exchange reserve (note 24)	(9)
Net assets disposed of	1,414
Gain on disposal of a subsidiary (note 4)	186
Sale proceeds	1,600
Less: cash and cash equivalents of the subsidiary disposed of	(647)
Net cash inflow in respect of the disposal of a subsidiary	953

### 30 Related party transactions

Other than those as disclosed in other notes to the accounts, the Group has entered into the following significant transactions with related parties during the year:

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	168	790
Sales to a related company, 東莞市力豐機械有限公司 (Leeport Dongguan (translated but not the registered name))	(b)	-	995
Purchase of a property from a director, Mr LEE Sou Leung, Joseph	(c)	-	3,700
Sale of a property to a director, Mr LEE Sou Leung, Joseph and related parties, Ms SO LEE Yee Wan, Maria and Mr LEE Sou Fai, Paul	(c)	-	5,350

- (a) Two of the subsidiaries of the Group have entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces. In the opinion of the directors, the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.
- (b) Mr LEE Sou Leung, Joseph and Mr LEE Yik Sun, a brother of Mr LEE Sou Leung, Joseph had beneficial interests in Leeport Dongguan. The transactions were charged based on terms mutually agreed between relevant parties. Mr LEE Sou Leung, Joseph and Mr LEE Yik Sun have disposed of all their beneficial interest in Leeport Dongguan to independent third parties on 9th August 2002. The total of approximately HK\$995,000 for the year ended 31st December 2002 represented transactions which occurred up to 9th August 2002.
- (c) One of the subsidiaries of the Group has purchased a leasehold property from a director, Mr LEE Sou Leung, Joseph during the year ended 31st December 2002. That subsidiary of the Group has also sold a leasehold property to a director, Mr LEE Sou Leung, Joseph and related parties, Ms SO LEE Yee Wan, Maria and Mr LEE Sou Fai, Paul during the year ended 31st December 2002. Both transactions were entered into based on open market valuation at the time of the transactions.
- (d) At 31st December 2003, the Company has entered into deeds of guarantee with several banks whereby the Company guarantees in favour of these banks to secure the repayment of various banking facilities granted to the Company's wholly-owned subsidiary, Leeport Machine Tool Company Limited ("LMTCL") and the Company's non-wholly-owned subsidiary, Leeport Metrology (Hong Kong) Limited ("LMHK") in the total amount of HK\$71 million (2002: Nil). The Company holds 90% equity interests indirectly in LMHK while the remaining 10% equity interests are held by a third party minority shareholder. These guarantees provided by the Company have the effect of granting financial assistance to LMHK as a non-wholly owned subsidiary and the minority shareholder of LMHK has not provided guarantees in proportion to its equity interests in LMHK. The aforesaid banking facilities guaranteed by the Company will be used for general corporate purpose and as general working capital of LMTCL and LMHK (as the case may be). The directors consider that the aforesaid guarantees are provided upon normal commercial terms and are in the interest of the Company and of its shareholders as a whole.

# NOTES TO THE ACCOUNTS

## 31 Subsequent events

On 10th February 2004, the Group disposed of its investment property with carrying value of HK\$16,000,000 as at 31st December 2003 to a third party company at a consideration of HK\$18,000,000 (Note 1(d)(i)).

## 32 Approval of accounts

The accounts were approved by the board of directors on 27th March 2004.

## FIVE YEAR FINANCIAL SUMMARY

The following table summarises the consolidated results, assets and liabilities of the Group for the five years ended 31st December:

	<b>2003</b> <b>HK\$'000</b>	As restated 2002 HK\$'000	As restated 2001 HK\$'000	As restated 2000 HK\$'000	As restated 1999 HK\$'000
<b>Results</b>					
Turnover	<b>519,675</b>	451,967	424,729	443,525	288,882
Profit before taxation	<b>34,216</b>	31,366	29,342	26,945	11,334
Taxation	<b>(2,978)</b>	(3,162)	(4,194)	(5,089)	(1,875)
Minority interests	<b>(210)</b>	–	–	–	(377)
Profit attributable to shareholders	<b>31,028</b>	28,204	25,148	21,856	9,082
<b>Assets</b>					
Fixed assets	<b>75,178</b>	76,740	57,912	42,225	44,428
Investment securities	<b>–</b>	–	–	–	1,172
Current assets	<b>253,385</b>	187,234	160,186	207,405	161,355
Total assets	<b>328,563</b>	263,974	218,098	249,630	206,955
<b>Liabilities</b>					
Current liabilities	<b>167,029</b>	155,803	133,969	155,384	133,110
Non-current liabilities	<b>13,761</b>	14,518	8,434	8,676	9,841
Total liabilities	<b>180,790</b>	170,321	142,403	164,060	142,951
Minority interests	<b>5,670</b>	–	–	–	–
Net assets	<b>142,103</b>	93,653	75,695	85,570	64,004

Notes:

- (1) The results, assets and liabilities of the Group for each of the five years ended 31st December have been prepared on the basis of merger accounting as if the Group, at the time when the Reorganisation in June 2003 was completed, had been in existence throughout the years presented.
- (2) Following the adoption of new SSAP12, issued by the HKSA which is effective on 1st January 2003, certain comparative figures have been restated to conform to the new policy.
- (3) For the financial year 1999, the accounts were not audited by PricewaterhouseCoopers Hong Kong.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of members of Leeport (Holdings) Limited (the "Company") will be held at Chater Room II, Function Room Level, The RITZ Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong on 6th May, 2004 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st December, 2003;
2. To declare a final dividend for the year ended 31st December, 2003;
3. To elect directors and to authorise the board of directors to fix directors' remuneration;
4. To appoint auditors and to authorise the board of directors to fix their remuneration;
5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares ("Shares") in the capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:
  - (i) a Rights Issue (as defined below); or
  - (ii) the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or

- (iii) the exercise of any option under the share option scheme or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares of the Company; or
- (iv) scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; and
- (v) a specific authority granted by the shareholders of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;

- (d) for the purpose of this resolution:

“Relevant Period” means the period from (and including) the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or by any applicable laws to be held; or
- (iii) the date on which the authority set out in this resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of Shares of the Company or issue of options, warrants or other securities giving the right to subscribe for Shares of the Company open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer on the relevant register) on a fixed record date in proportion to their then holdings of such Shares or, where appropriate, such other securities as at that date (subject in all cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any jurisdiction or territory applicable to the Company).”

## NOTICE OF ANNUAL GENERAL MEETING

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company (“Directors”) during the Relevant Period (as defined below) of all the powers of the Company to purchase shares (“Shares”) in the capital of the Company or securities convertible into Shares on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognised Stock Exchange”), subject to and in accordance with the Companies Act 1981 of Bermuda, all other applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares and securities convertible into Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the approval pursuant to paragraph (a) of this resolution shall be limited accordingly;
- (c) for the purpose of this resolution, “Relevant Period” means the period from (and including) the date of the passing of this resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; or
  - (iii) the date on which the authority set out in this resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting.”

7. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT subject to the passing of the resolutions numbered 5 and 6 as set out in the notice (the “Notice”) convening this meeting, the general mandate granted to the directors of the Company (“Directors”) to exercise the powers of the Company to allot, issue and otherwise deal with shares (“Shares”) in the capital of the Company



pursuant to the resolution numbered 5 as set out in the Notice be and the same is hereby extended (as regards the aggregate nominal amount of share capital thereby limited) by adding thereto of the aggregate nominal amount of the share capital of the Company as purchased by the Company under the authority granted pursuant to the resolution numbered 6 as set out in the Notice provided that such additional amount shall not exceed the 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution.”

8. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

“THAT the existing bye-laws of the Company be and are hereby amended in the following manner:–

- (a) By adding the following new definition in the existing Bye-law 1 after the definition of “Act”:

““associate” the meaning attributed to it in the rules of the Designated Stock Exchange”

- (b) By re-numbering the existing Bye-law 76 as Bye-law 76(1) and adding the following new Bye-law 76(2) thereafter:

“(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

- (c) By deleting the words “not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting” from 6th to 8th line in the existing Bye-law 88 and substituting therefor the following:–

“provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgement of such Notices(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting”.

- (d) By deleting the existing Bye-law 103 in its entirety and substituting therefor the following:–

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

## NOTICE OF ANNUAL GENERAL MEETING

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest and/or that of any of his associates is derived) ; or
  - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors (or their associate(s)) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s), (either directly or indirectly) are the holder(s) of or beneficially interested in five (5)

per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

By order of the Board  
**Leeport (Holdings) Limited**

**Lee Sou Leung, Joseph**  
*Chairman*

Hong Kong, 27th March 2004

# NOTICE OF ANNUAL GENERAL MEETING

*Head office and principal place of business in Hong Kong:*

1st Floor, Block 1

Golden Dragon Industrial Centre

152-160 Tai Lin Pai Road

Kwai Chung

New Territories

Hong Kong

*Notes:*

- (1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one proxy or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting.
- (4) The register of members will be closed from 4th May 2004 to 6th May 2004 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and for attending and voting at the aforesaid meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Tricor Investor Services Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 3rd May 2004.
- (5) An explanatory statement containing further details regarding the proposed resolution nos. 5 to 7 above will be sent to shareholders shortly together with the 2003 annual report containing this notice of meeting.
- (6) The proposed resolution no. 8 above is made to reflect the corresponding changes in the Company's existing Bye-laws required by the amendments to the Appendix 3 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with effect from 31st March, 2004.
- (7) The Chinese translation of this notice (including the contents of the proposed resolutions set out therein) is for reference only. In case of inconsistency, the English version shall prevail.