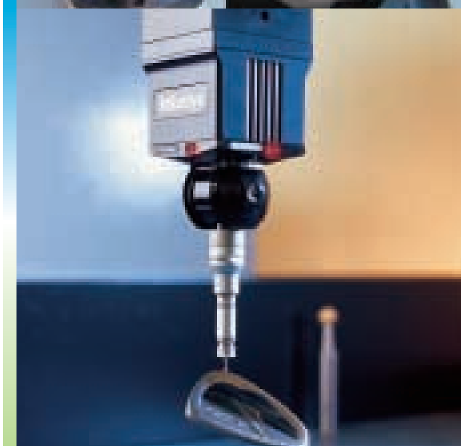
力豐（集團）有限公司

LEEPORT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0387)

2005 Annual Report



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Contents

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
Mr NIMMO, Walter Gilbert Mearns

COMPANY SECRETARY

Mr CHAN Ching Huen, Stanley

MEMBERS OF AUDIT COMMITTEE

Dr LUI Sun Wing
Mr PIKE, Mark Terence
Mr NIMMO, Walter Gilbert Mearns

SOLICITORS

Stevenson, Wong & Co
Solicitors and Notaries

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Standard Chartered Bank
Liu Chong Hing Bank Limited
BNP Paribas, Hong Kong Branch
KBC Bank NV
The Bank of Tokyo – Mitsubishi UFJ, Ltd.

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 Service Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

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 and consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2005.

FINANCIAL PERFORMANCE

In Year 2005, the business of the Group continued to grow steadily. The sales of the Group was HK$800,213,000 (2004: HK$661,266,000), representing an increase of 21.0% as compared with 2004. The profit attributable to equity holders was HK$51,118,000 (2004: HK$43,451,000), representing an increase of 17.6% as compared with 2004. The profit attributable to equity holders included an excess of fair value of net assets acquired over cost of acquisition of a subsidiary in Dongguan, i.e. HK$2,087,000, while the profit attributable to equity holders in 2004 included a gain on disposal of an investment property, i.e. HK$4,668,000. Excluding these two exceptional income items in year 2005 and year 2004, the profit attributable to equity holders actually increased by 26.4%. The basic earnings per share was HK25.17 cents (2004: HK21.73 cents) representing an increase of 15.8% as compared with year 2004.

DIVIDENDS

An interim dividend of HK7 cents per ordinary share was paid to the shareholders of the Company on 7th October 2005.

The Directors recommended a final dividend of HK9 cents per ordinary share, totalling HK$18,349,000 (2004: HK7 cents per ordinary share). This recommendation is subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 26th May 2006. Upon the approval of shareholders, the final dividend warrant will be payable on or before 2nd June 2006 to shareholders of the Company whose names appear on the register of members on 26 May 2006. This proposed final dividend, together with the interim dividend paid by the Company, will make a total dividend of HK16 cents per ordinary share for the year ended 31st December 2005 (2004: HK13 cents per ordinary share).

BUSINESS REVIEW

The economic situation in China in 2005 continued to be strong. The growth rate for GDP in 2005 was 9.9%; for industrial production it was 11.4%, and for exports it was 28.4%. The GDP growth rate in Hong Kong in 2005 was 7.3%. As 91.8% of the Group's sales came from the Hong Kong and China market, we benefited from the strong economy of these two areas. The sales from China grew by 19.8%; from Hong Kong it grew by 17.6%, and from South East Asia it grew by 52.7%.

The machine tool consumption for China in 2005 was US$10.9 billion, an increase of 15% compared with 2004. China continued to be the biggest consumer and importer of machine tools in the world. In fact, more than one-fifth of the world's production for machine tools was consumed by China. In 2005, the import value of machine tools for China was US$6.7 billion, an increase of 13% compared with 2004.

Chairman's Statement

In some segments of the manufacturing industry, China occupies an extremely important position in the world. For example, China has become the third-largest automobile producer in the world, producing 5.6 million units in 2005. China is also the third-largest in mould-making, with an estimated production value in 2005 of US$5.8 billion. Both the mould-making and automobile manufacturing industries create a strong demand for machine tools, measuring instruments, cutting tools and related products.

In 2005, the machine tool business of the Group grew by 17.5%; measuring instruments grew by 32%, and cutting tools grew by 42%. The biggest customer group was from the electronics industry, representing 27.7% of the Group's sales. The second-biggest was the mould-making industry, representing 19% of the Group's total sales. Other significant sales came from manufacturers of industrial machinery, automobiles, metal parts, home appliances and switch gear.

In 2005, in addition to our new 4,000-square-meter Shenzhen Advanced Manufacturing Technology Centre, we also opened offices in Chengdu, Ningbo and Nanjing in China. A new licensed business, supplying more than 40,000 kinds of engineering tools to the manufacturing industry in China, made a promising start. Five thousand Chinese-language catalogues were printed, and a team of professional sales engineers was recruited. To expand our Southeast Asian markets, we also established offices in Vietnam and Indonesia.

FUTURE PLANS AND PROSPECTS

The progress of industrialisation and urbanisation in China will continue to drive the growth of the economy in 2006. However, the government's austerity measures since 2004 have continued to cause a slowdown in investment in some overheated industries. In 2006, the growth rate for GDP is forecast to be 9.2%; for industrial production it is forecast at 15%, and for export it is forecast at 16%. As for Hong Kong, the growth rate for GDP is forecast to be 5.5%.

The manufacturing industry in China will continue to be very strong, and there is a big demand for high-technology machinery and equipment. The 2008 Beijing Olympics will stimulate the economy and create demand for many products. Automobile manufacturing is a very important industry in China, and currently the production capacity is 8 million units per year. Sales of cars are expected to grow by at least 10% annually until 2010. The machine tools market in China is forecast to achieve 15% growth in 2006. China will therefore remain the most important market for the Group's business.

Our new 4,000-square-meter Advanced Manufacturing Technology Centre in Shenzhen provides a one-stop-shop service to customers. It is a permanent exhibition space, where customers can see a comprehensive display of equipment and tools. Furthermore, we organise regular technical seminars and application training for customers. At the centre, a measuring service is also available, providing an additional value-added service. It is expected that the centre will attract more customers, particularly from the southern part of China.

Chairman's Statement

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

We will expand our market in Southeast Asian countries. Apart from our European metalforming machinery supplier, Finn-Power, for which we have exclusive sales rights in Singapore, Malaysia, Vietnam and Indonesia, we will take up more product lines.

In 2006, we expect to achieve significant growth in both China and Southeast Asian countries. We will continue to look for business opportunities in taking up new product lines and in joint ventures with suitable partners.

On behalf of the board, I would like to express my gratitude to our shareholders, suppliers, customers and business associates for their trust and support. I also thank our staff for their dedication and efforts during the year.

LEE Sou Leung, Joseph
Chairman

Hong Kong, 25th April 2006

Management's Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to show a very good liquidity position. The current ratio of the Group was 1.27 at the year ended 2005; compared with 1.49 at the year ended 2004. The cash and bank overdrafts at the end of year were HK$31,827,000, compared with HK$74,496,000 in year 2004.

As at 31st December 2005, the Group had net tangible assets of approximately HK$211,149,000, comprising non-current assets of approximately HK$109,019,000, net current assets of approximately $109,317,000, and non-current liabilities of approximately HK$7,187,000. On the same date, the total liabilities of the Group amounted to approximately HK$407,270,000. Of these liabilities, the total repayable after one year amounted to approximately HK$7,187,000. On the other hand, the total assets of the Group were HK$618,419,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, was approximately 0.66 (2004: 0.55).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$798,464,000, of which approximately HK$366,411,000 has been utilised, bearing interest at prevailing market rates. The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

CONTINGENT LIABILITIES

At 31st December 2005, the Group had contingent liabilities in respect of letters of guarantees given to customers of approximately HK$8,850,000 (2004: HK$11,934,000) and there were no bills of exchange discounted with recourse (2004: HK$8,657,000).

EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group 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 minimise the Group's exposure to foreign exchange rate risks.

As at 31st December 2005, the Group had commitments for foreign currency forward contracts amounting to approximately HK$98,922,000 (2004: HK$38,420,000).

Management's Discussion and Analysis

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 31st December 2005, certain leasehold land, buildings and pledged bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK$90,929,000 (2004: HK$16,000,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

EMPLOYEES

As at 31st December 2005, the Group had 482 employees (2004: 341). Of these, 182 were based in Hong Kong, 274 were based in mainland China, and 26 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medial 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 incentives and rewards for their continued contributions to the Group.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Lee Sou Leung, Joseph, aged 62, 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 39 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 44, 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 Bachelor of Science Degree in Business Administration. Ms Tan is the wife of Mr Lee Sou Leung, Joseph.

Mr Chan Ching Huen, Stanley, aged 48, 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 Institute of Certified Public 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 55, 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 49, is an associate member of the Institute of Chartered Accountants of Australia and the Hong Kong Institute of Certified Public 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 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr Nimmo, Walter Gilbert Mearns, aged 59, was an executive director of China Northern Enterprises Investment Fund Ltd, securities of which are listed on The Stock Exchange of Hong Kong Limited, during the period from 10th September 2003 to 2nd December 2004. Mr Nimmo has more than 30 years' professional experience in the areas of financial management, fund management and investment. He has obtained a degree in Economics in Cambridge University, UK and is a member of the Institute of Chartered Accountants of Scotland.

SENIOR MANAGEMENT

Mr Wong Man Shun, Michael, aged 41, the general manager of the metalcutting machinery division of the Group, is responsible for sales and marketing of metalcutting machinery. Mr Wong holds a Bachelor of Science Degree in 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 as director of Leeport Precision Machine Tool Company Limited on 1st January 2004. He was also appointed as director of Leeport Technology Limited on 20th December 2004 and responsible for sales and marketing of rapid prototyping and plastic injection machinery.

Mr Ng Man Lung, aged 50, is the general manager of the metrology and small tools division of the Group. Mr Ng has over 28 years' experience in marketing measuring instruments and cutting tools. Mr Ng joined the Group in February 1975 and was promoted as director of Leeport Metrology (Hong Kong) Limited and Leeport Tools Limited on 1st January 2004.

Mr Sa Wai Keung, aged 44, the general manager of metalforming division of the Group, is responsible for overseeing the operation of the division. Mr Sa has over 18 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 47, 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT (CONTINUED)

Mr Lam Chung Keung, aged 45, the general manager of Leeport Electronics Limited, is responsible for overseeing the operation of Leeport 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 49, the general manager of Leeport (Singapore) Pte. Ltd. and Leeport (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 54, 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 27 years of machine trading experience in the Asian markets including the PRC. Mr Wong holds a Bachelor of Science Degree in Mechanical Engineering from the University of Hong Kong.

Mr Chan Wo Yum, aged 53, was promoted as general manager of Leeport Tools Limited on 1st April 2004. Mr Chan has over 27 years' experience in sales and marketing of cutting tools. He holds a Bachelor's Degree in Commerce from Curtin University of Technology in Australia. He joined the Group in 1977.

Mr. Lau Yiu Man, Simon, aged 45, the general manager of Hoffmann division of the Group. Mr. Lau graduated from The Chinese University of Hong Kong and holds a Bachelor of Science degree followed by a Master of Business Administration degree from Hong Kong Polytechnic University. He has 22 years of sales and marketing experience substantially in industrial consumables along with consumer products mainly of the global brands.

Report of The Directors

The directors submit their report together with the audited financial statements for the year ended 31st December 2005.

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 8 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 34.

The details of dividends paid and declared during the year are set out in note 29 to the financial statements.

The directors recommend the payment of a final dividend of HK9 cents per ordinary share, totaling HK$18,349,000.

RESERVES

Movements in retained earnings of the Group during the year are set out on page 35.

Movements in other reserves of the Group and of the Company during the year are set out in note 16 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$22,000.

PROPERTY, PLANT AND EQUIPMENT

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

LEASEHOLD LAND

Details of the movements in leasehold land of the Group are set out in note 6 to the financial statements.

Report of The Directors

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 15 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2005, calculated under the Companies Act 1981 of Bermuda, amounted to HK$112,053,000.

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 88.

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.

BORROWINGS

The Group's borrowings, including secured bank loans, collaterialised borrowings, trust receipt loans and overdrafts as at 31st December 2005 are repayable over the following periods:

	HK$'000
Within one year	232,037
In the second year	–
In the third to fifth year	–
	232,037

Report of The Directors

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 in 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 20,388,000, 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.

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 the independent non-executive directors. 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.

Report of The Directors

SHARE OPTIONS (Continued)

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.

Details of the share options outstanding as at 31st December 2005 which have been granted under the Scheme are as follow:

			Number of shares issuable under share options				Company's share price	
Eligible Participants	**Date of grant**	**Exercise Price** HK$	**At beginning of year**	**Granted/ (lapsed) during the year**	**Exercised during the year**	**At end of year**	**At date of grant** HK$	**At date of exercise** HK$
Director								
Mr CHAN Ching Huen, Stanley	19th December 03	0.87	200,000	–	(200,000)	–	0.87	1.37
Employees (excluding directors)	19th December 03	0.87	3,860,000	(464,000)	(3,396,000)	–	0.87	1.41
			4,060,000	(464,000)	(3,596,000)	–		

The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised. The exercise period of the above share options is from 19th December 2004 to 18th December 2005 (both dates inclusive).

Report of The Directors

SHARE OPTIONS (Continued)

Summary of details of the Company's share option schemes are also set out in note 15 to the financial statements.

All share options granted on 19th December 2003 were vested prior to 1st January 2005 and no valuation has been made for these share options. No new share option has been granted during the year.

DIRECTORS

The directors during the year were:

Executive directors

Mr LEE Sou Leung, Joseph *(Chairman)*
Ms TAN, Lisa Marie *(Deputy Chairman)*
Mr CHAN Ching Huen, Stanley

Independent non-executive directors

Mr PIKE, Mark Terence
Dr LUI Sun Wing
Mr NIMMO, Walter Gilbert Mearns

In accordance with Bye-Law 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. Ms. Tan, Lisa Marie, the executive director is subject to re-election at the forthcoming annual general meeting.

Report of The Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors 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 one of the subsidiaries of the Group for the year amounted to HK$144,000. 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 to 10.

Report of The Directors

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 2005, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations and their associates (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:

		Number of ordinary shares of HK$0.10 each held				
Director		**Personal interests**	**Family interests**	**Other Interests**	**Total**	**Percentage**
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	2,868,000 shares	816,000 shares (Note (b))	133,700,000 shares (Note (a))	137,384,000 shares	67.38%
	Short position	Nil	Nil	Nil	Nil	–
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	816,000 shares	2,868,000 shares (Note (c))	133,700,000 shares (Note (a))	137,384,000 shares	67.38%
	Short position	Nil	Nil	Nil	Nil	–
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	200,000 shares	100,000 shares (Note (d))	Nil	300,000 shares	0.15%
	Short position	Nil	Nil	Nil	Nil	–
Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo")	Long position	Nil	148,000 shares (Note (e))	Nil	148,000 shares	0.07%
	Short position	Nil	Nil	Nil	Nil	–

Report of The Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

(a) 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 its capacity as the trustee of The LMT Trust and the remaining 1 unit is held by Ms. Loretta Tong Yuk Yin (an aunt of Ms. Tan). HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms. Tan and Mr. Lee's family members. The aforesaid shares that Mr. Lee and Ms. Tan are deemed to be interested refer to the same parcel of shares.

(b) Mr. Lee is the husband of Ms. Tan. The personal interests of Ms. Tan above are also disclosed as the family interests of Mr. Lee.

(c) The personal interests of Mr. Lee above are disclosed as the family interest of Ms. Tan.

(d) The 100,000 shares are beneficially owned by Mr. Chan's spouse.

(e) The 148,000 shares are beneficially owned by Mr. Nimmo's spouse.

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, UNDERLYING SHARES OF THE COMPANY

At 31st December 2005, 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.

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.

Report of The Directors

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	26%
– five largest suppliers combined	73%

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 TRANSACTION

During the year under review, the Group entered into the following connected transaction which fell under the Rule 14A.45 to 14A.47 which is only subject to the reporting and announcement requirements.

On 25th May 2005, Leeport Metrology Corporation, a non wholly-owned subsidiary, entered into an equity transfer agreement with Good Winners Limited (which is the connected person of the Company under the Listing Rule) for the acquisition of 100% equity interest in Mitutoyo Metrology (Dongguan) Limited at the consideration of US$154,500 (equivalent to approximately HK$1,205,000). The directors consider that the acquisition enables the Group to provide better services to the customers in Southern China and also to reinforce the links with the existing business partner.

Good Winners Limited is a non wholly-owned subsidiary of Mitutoyo Corporation, which is also a substantial shareholder of the Company's non wholly-owned subsidiary.

In the opinion of the directors (including the independent non-executive directors), the above connected transaction was carried (i) on normal commercial terms at which the transaction is on an arm's length basis; (ii) in the ordinary and usual course of business of the Group' and (iii) under the terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. The Board also confirms that the Company has complied with the disclosure requirements as required by the Listing Rules in relation to the aforementioned connected transaction.

Report of The Directors

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December 2005 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rule") with certain deviations. For details discussion, please refer to the Corporate Governance Report of this Annual Report.

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

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

AUDIT COMMITTEE

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

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

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the percentage of the ordinary shares in public hands exceed 25% as at 25th April 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to rule 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors. The Company confirms that it has received from each of the independent non-executive directors a confirmation of his independence pursuant to rule 3.13 and the Company still considers all the existing independent non-executive directors to be independent.

Report of The Directors

PENSION SCHEME ARRANGEMENTS

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 income statement 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 income statement represent the contributions payable to the funds by the Group.

Employees in the Company's subsidiaries in the People's Republic of China (the "PRC") are required to participate in defined contribution retirement schemes operated by the local municipal governments. The retirement schemes for employees of the Company'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.

PENSION SCHEME ARRANGEMENTS

Details of the pension scheme contributions of the Group for the year ended 31st December 2005 are set out in note 23 to the financial statements.

AUDITORS

The financial statements 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, 25th April 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1st January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except for certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

DIRECTORS

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

Board of Directors

The Board comprises:

Executive Directors	Mr. LEE Sou Leung, Joseph Ms. TAN, Lisa Marie Mr. CHAN Ching Huen, Stanley
Independent Non-executive Director	Dr. LUI Sun Wing Mr. PIKE, Mark Terence Mr. NIMMO, Walter Gilbert Mearns

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

Corporate Governance Report

During the financial year ended 31st December 2005, 4 full Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31st December 2005	Attendance rate
Mr. LEE Sou Leung, Joseph	4	100%
Ms. TAN Lisa Marie	4	100%
Mr. CHAN Ching Huen, Stanley	4	100%
Mr. PIKE, Mark Terence	2	50%
Dr. LUI Sun Wing	2	50%
Mr. NIMMO, Walter Gilbert Mearns	3	75%

The Board is responsible for these types of decision:

– formulation of operational goals for the strategic direction of the Company;

– monitoring the financial performance of the Company;

– overseeing the performance of the management;

– ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed;

– setting the Company's values and standards.

while the daily operations and administration are delegated to the management.

The Board held meetings from time to time whenever necessary. The company secretary assists in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting.

Corporate Governance Report

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lee Sou Leung, Joseph ("Mr. Lee") is the Chairman and the Managing Director of the Company. Mr. Lee has extensive experience in the industry which is beneficial and of great value to the overall development of the Company.

The Board is of the view of that although the Chairman is also the Managing Director, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meets from time to time to discuss issues affecting operation of the Company.

Ms. Tan Lisa Marie is the wife of Mr. Lee.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive director has entered into a service contract with the Company for a term of three years. All independent non-executive directors are appointed for a specific term which may be renewed as each director and the Company may agree in writing. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Bye-laws of the Company (the "Bye-laws").

According to the Bye-laws, one third of the directors (or if the number is not 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 and chairman shall not be subject to retirement by rotation and any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A4.2 of the Code which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 10th September 2005 comprising 3 independent non-executive directors. Dr. LUI Sun Wing is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

(1) To make recommendations to the Board on the Company's policy and structure for all remuneration of directors of the Company and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

(2) To have the delegated responsibility to determine the specific remuneration package for all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations.

(3) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

(4) To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

(5) To review and approve compensation arrangement relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

(6) To ensure that no director or any of his associate is involved in deciding his own remuneration.

Corporate Governance Report

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2005 and various issues concerning the terms of reference of the Committee were discussed. The attendance of each member is set out as follows:

Name of director	Number of Committee meetings attended in the financial year ended 31st December 2005	Attendance rate
Mr. LEE Sou Leung, Joseph	1	100%
Ms. TAN Lisa Marie	1	100%
Dr. LUI Sun Wing	1	100%
Mr. NIMMO, Walter Gilbert Mearns	1	100%
Mr. PIKE, Mark Terence	0	0%

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report.

The accounts and financial statements are prepared by the directors of the Company, which are prepared and presented to enable a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. The directors are responsible for overseeing the preparation of accounts and financial statements of each financial period.

The management of the Company reports regularly to the Board on the financial position and prospects of the business of the Company to enable the Board to make an informed assessment of the financial and other performance of the Company.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effective and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of materials assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31st December 2005 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 17th June 2003 and now comprises of three independent non-executive directors. Two members have appropriate professional qualifications or accounting or related financial management expertise. Mr. Mearns Nimmo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

Corporate Governance Report

The existing terms of reference of the Audit Committee are modeled on "A Guide for Effective Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The Board is considering of adopting revised terms of reference to conform to and to implement the principles set out in the Code. According to the existing terms of reference of the Audit Committee, its major roles and functions are as follows:

1. Appointment, reappointment and removal of the external auditor.

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services.

4. To monitor integrity of financial statements of an issuer and the issuer's annual report, financial statements and half-year report, and to review significant financial reporting judgments contained in them.

5. Oversight of the issuer's financial reporting system and internal control procedures.

Meeting of the Audit Committee shall be held at least twice a year. Two meetings were held in 2005. The attendance of each member is set out as follows:

Name of director	**Number of Committee meetings attended in the financial year ended 31st December 2005**	**Attendance rate**
Mr. NIMMO, Walter Gilbert Mearns	2	100%
Mr. PIKE, Mark Terence	1	50%
Dr. LUI Sun Wing	2	100%

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included:

– To review and supervise the financial reporting process and internal control system of the Company and its subsidiaries.

– Review the financial statements for the relevant period with reference to the scope of the terms of reference.

– Appointment of external auditors.

Corporate Governance Report

AUDITORS' REMUNERATION

The amount of fees charged by the Company's auditors in respect of their audit and non-audit services are disclosed in Note 22 to the financial statements of the Company. The Audit Committee is responsible for reviewing the remuneration and terms of engagement of the external auditors and for making recommendation to the Board regarding any non-audit services to be provided to the Company by the external auditors.

For the year ended 31st December 2005, the fees paid and payable to the Company's auditors were primarily for audit services as there were no material non-audit service assignments undertaken by them.

Auditors' Report

PRICEWATERHOUSECOOPERS

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 financial statements on pages 31 to 87 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 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, 25th April 2006

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**74,557**	51,292
Leasehold land	6	**34,462**	29,213
Available-for-sale financial assets	9	**–**	–
Investment securities	10	**–**	–
		109,019	80,505
Current assets			
Inventories	13	**162,308**	78,038
Trade receivables and bills receivables	12	**219,617**	140,457
Other receivables, prepayments and deposits	12	**23,803**	21,801
Derivative financial instruments	11	**691**	–
Pledged bank deposits	30	**70,725**	–
Cash and cash equivalents	14	**32,256**	79,226
		509,400	319,522
Total assets		**618,419**	400,027
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**20,388**	20,028
Other reserves	16	**50,449**	41,752
Retained earnings			
– Proposed final dividend	29	**18,349**	14,020
– Others		**114,456**	96,130
		203,642	171,930
Minority interest		**7,507**	6,848
Total equity		**211,149**	178,778
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	**7,187**	6,320
		7,187	6,320

Consolidated Balance Sheet

As at 31st December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
Current liabilities			
Trade payables and bills payables	17	**116,233**	59,197
Other payables, accruals and deposits received	17, 20	**49,682**	42,930
Current income tax liabilities		**1,763**	1,246
Derivative financial instruments	11	**368**	–
Borrowings	18	**232,037**	111,556
		400,083	214,929
Total liabilities		**407,270**	221,249
Total equity and liabilities		**618,419**	400,027
Net current assets		**109,317**	104,593
Total assets less current liabilities		**218,336**	185,098

On behalf of the Board

LEE Sou Leung, Joseph
Director

TAN, Lisa Marie
Director

The notes on pages 37 to 87 are an intergral part of these consolidated financial statements.

Balance Sheet

As at 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8	**91,645**	91,645
Current assets			
Amounts due from subsidiaries	8	**50,680**	41,869
Other receivables and prepayments	12	**360**	129
Cash and cash equivalents	14	**275**	1,484
		51,315	43,482
Total assets		**142,960**	135,127
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	**20,388**	20,028
Other reserves	16	**101,755**	98,986
Retained earnings			
– Proposed final dividend	29	**18,349**	14,020
– Others		**2,259**	2,050
Total equity		**142,751**	135,084
LIABILITIES			
Current liabilities			
Other payables	17	**200**	43
Current income tax liabilities		**9**	–
Total liabilities		**209**	43
Total equity and liabilities		**142,960**	135,127

On behalf of the Board

LEE Sou Leung, Joseph
Director

TAN, Lisa Marie
Director

The notes on pages 37 to 87 are an intergral part of this financial statements.

Consolidated Income Statement

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Sales	5	**800,213**	661,266
Cost of goods sold	22	**(613,194)**	(510,223)
Gross profit		**187,019**	151,043
Other gains-net	21	**18,555**	13,877
Gain on disposal of an investment property		**–**	4,668
Excess of fair value of net assets acquired over cost of acquisition of a subsidiary	34	**2,087**	–
Selling and distribution costs	22	**(28,658)**	(25,120)
Administrative expenses	22	**(113,586)**	(94,286)
Operating profit		**65,417**	50,182
Finance costs	24	**(7,647)**	(2,336)
Profit before income tax		**57,770**	47,846
Income tax expense	25	**(5,393)**	(3,217)
Profit for the year		**52,377**	44,629
Attributable to:			
Equity holders of the Company	27	**51,118**	43,451
Minority interest		**1,259**	1,178
		52,377	44,629
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	28	**HK25.17 cents**	HK21.73 cents
– diluted	28	**HK25.15 cents**	HK21.71 cents
Dividends	29	**32,837**	26,020

The notes on pages 37 to 87 are an intergral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company				
		Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Minority interest HK$'000	Total HK$'000
Balance at 1st January 2004, as previously reported as equity		20,000	25,442	96,661	–	142,103
Balance at 1st January 2004, as previously separately reported as minority interest		–	–	–	5,670	5,670
Balance at 1st January 2004, as restated		20,000	25,442	96,661	5,670	147,773
Depreciation transfer on buildings	16	–	(38)	38	–	–
Currency translation differences	16	–	560	–	–	560
Disposal of an investment property	16	–	(2,668)	–	–	(2,668)
Revaluation surplus of buildings, net of tax	16	–	18,237	–	–	18,237
Net income recognised directly in equity		–	16,091	38	–	16,129
Profit for the year		–	–	43,451	1,178	44,629
Total recognised income in 2004		–	16,091	43,489	1,178	60,758
Issue of shares	15	28	219	–	–	247
Dividend paid relating to 2003	29	–	–	(18,000)	–	(18,000)
Dividend paid relating to 2004	29	–	–	(12,000)	–	(12,000)
Balance at 31st December 2004, as restated		20,028	41,752	110,150	6,848	178,778
Balance at 1st January 2005 as per above		20,028	41,752	110,150	6,848	178,778
Opening adjustment for the adoption of HKAS 39	2.1	–	–	(18)	–	(18)
Balance at 1st January 2005, as restated		20,028	41,752	110,132	6,848	178,760
Depreciation transfer on buildings	16	–	(63)	63	–	–
Currency translation differences	16	–	(139)	–	–	(139)
Revaluation surplus of buildings, net of tax	16	–	6,130	–	–	6,130
Net income recognised directly in equity		–	5,928	63	–	5,991
Profit for the year		–	–	51,118	1,259	52,377
Total recognised income in 2005		–	5,928	51,181	1,259	58,368
Issue of shares	15	360	2,769	–	–	3,129
Dividend paid relating to 2004	29	–	–	(14,020)	(600)	(14,620)
Dividend paid relating to 2005	29	–	–	(14,488)	–	(14,488)
Balance at 31st December 2005		20,388	50,449	132,805	7,507	211,149

The notes on pages 37 to 87 are an intergral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Cash generated from operations	31	**17,352**	59,210
Interest paid		**(7,647)**	(2,336)
Income tax paid		**(5,108)**	(3,692)
Net cash generated from operating activities		**4,597**	53,182
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	34	**(407)**	–
Purchase of property, plant and equipment	7	**(20,965)**	(5,602)
Purchase of leasehold land	6	**(5,737)**	–
Proceeds from sale of property, plant and equipment	31	**3**	33
Proceeds from sales of investment property	31	**–**	18,000
Interest received		**782**	471
(Increase)/decrease in pledged bank deposits		**(70,725)**	1,000
Net cash (used in)/generated from investing activities		**(97,049)**	13,902
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	15, 16	**3,129**	247
Proceeds from/(repayments of) borrowings	18	**75,762**	(11,832)
Dividends paid to Company's shareholders	29	**(28,508)**	(30,000)
Dividends paid to minority interests		**(600)**	–
Net cash generated from /(used in) financing activities		**49,783**	(41,585)
Net (decrease)/increase in cash and bank overdrafts		**(42,669)**	25,499
Cash and bank overdrafts at beginning of the year		**74,496**	48,987
Exchange gains on cash and bank overdrafts		**–**	10
Cash and bank overdrafts at end of the year		**31,827**	74,496

The notes on pages 37 to 87 are an intergral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Leeport (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the trading, installation and after-sales service of metalworking machinery, measuring instruments, cutting tools and electronic equipment.

The Company is a limited liability company incorporated in Bermuda and domiciled in Hong Kong. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 25th April 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36, 38, 40 and HKAS-Int 21 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, 38, 40 and HKAS-Int 21 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods. The Group did not recognise any prior year adjustment for the adoption of HKFRS 2 as all of its share options granted after 7th November 2002 had vested prior to 1st January 2005 and there was no new share options granted during the year.

The adoption of HKFRS 3 results in a change in the accounting policy for business combination and goodwill. Until 31st December 2004, goodwill was:

– Amortised on a straight line basis over its estimated useful life of not more than 20 years;

– Assessed for an indication of impairment at each balance sheet date; and

– Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1st January 2005;

– Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and

– If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

- HKFRS 3 – prospectively after 1st January 2005.

The adoption of revised HKAS 17 resulted in reclassification of leasehold land from property, plant and equipment:

	2005 HK$'000	2004 HK$'000
Decrease in property, plant and equipment	**34,462**	29,213
Increase in leasehold land	**34,462**	29,213

The adoption of HKASs 32 and 39 resulted in a decrease in opening reserves at 1st January 2005 by HK$18,000 and the details of the adjustments to the consolidated balance sheet at 31st December 2005 and for the year then ended are as follows:

	2005 HK$'000
Increase in derivative financial instruments (assets)	**691**
Increase in derivative financial instruments (liabilities)	**368**
Increase in retained earnings	**323**

There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 2 and HKFRS 3.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective has been made. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains A Lease

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Buildings comprise mainly offices, warehouse, showrooms and directors' quarters. Buildings are shown at fair value, based on periodic , but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	4%
Leasehold improvements	10%
Plant, machinery, furniture and equipment	20%
Motor vehicles	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business in which the goodwill arose.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, as investment securities held for long term purpose and are stated at cost less any provision for impairment losses.

From 1st January 2005 onwards:

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other gains-net' in the period in which they arise. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Accounting for derivative financial instruments

From 1st January 2004 to 31st December 2004:

There is no accounting policy for derivative financial instruments.

From 1st January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group does not designate any derivative as a hedging instrument.

Changes in the fair value of all derivative instruments are recognised immediately in the income statement.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, is determined using the weighted average basis, comprises all direct costs of purchase. Net realisable value is the estimated selling expenses in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivable

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.15 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.16 Employee benefits

(a) 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 or paternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Employee benefits (Continued)

(b) Bonus plans

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.

(c) Pension obligations

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

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

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

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 at the level of repairs and replacements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

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.

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

2.19 Operating leases

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

2.20 Dividend distribution

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

2.21 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 of more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Contingent liabilities and contingent assets (Continued)

A contingent asset is a possible asset 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 Company.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements, where necessary, when an inflow of economic benefit is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department (the "Finance Department") led by the Chief Financial Officer of the Group. The Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units to cope with overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

Foreign exchange risk

The Group operates in different countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Finance Department is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history or made in cash.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Finance Department aims to maintain flexibility in funding by keeping committed credit lines available.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contract is determined using quoted forward exchange rates at the balance sheet date.

The nominal values less impairment provision of trade receivables and bills receivables, other receivables, prepayments and deposits, trade payables and bills payables, other payables, accruals and deposits received are assumed to approximate their fair values.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimate will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of the potential tax liability due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Provision for impairment of trade and other receivables

Significant judgement is exercised in the assessment of the collectibility of trade and other receivables from customers. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customers' payment trend including subsequent payments and customers' financial position.

(c) Warranty provision

The Group generally offers one year warranty for its products sold. Management estimates the related provision for warranty based on historical warranty claims information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated warranty claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

(d) Fair value of derivatives instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Notes to the Consolidated Financial Statements

5 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 electronic 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 financial statements, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

	2005			
	The PRC HK$'000	Hong Kong HK$'000	Southeast Asia and other countries HK$'000	Total HK$'000
Sales	409,149	325,175	65,889	800,213
Segment results	33,623	28,269	3,525	65,417
Finance costs				(7,647)
Profit before income tax				57,770
Income tax expense				(5,393)
Profit for the year				52,377
Segment assets	236,459	340,323	41,637	618,419
Segment liabilities	159,237	211,710	27,373	398,320
Unallocated liabilities				8,950
				407,270
Capital expenditure	19,342	7,181	179	26,702
Depreciation	1,137	5,316	248	6,701

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

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

	2004			
	The PRC HK$'000	Hong Kong HK$'000	Southeast Asia and other countries HK$'000	Total HK$'000
Sales	341,514	276,597	43,155	661,266
Segment results	27,572	20,983	1,627	50,182
Finance costs				(2,336)
Profit before income tax				47,846
Income tax expense				(3,217)
Profit for the year				44,629
Segment assets	139,790	221,838	38,399	400,027
Segment liabilities	108,236	91,324	14,123	213,683
Unallocated liabilities				7,566
				221,249
Capital expenditure	2,654	2,629	319	5,602
Depreciation	2,107	3,852	420	6,379

(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.

Notes to the Consolidated Financial Statements

6 LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2005 **HK$'000**	2004 HK$'000
In Hong Kong, held on:		
Leases of over 50 years	**24,783**	24,980
Leases of between 10 to 50 years	**1,908**	1,953
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**7,771**	2,280
	34,462	29,213

Bank borrowings are secured on leasehold land for the carrying amount of HK$3,950,000 (2004: HK$ 4,058,000) (Note 18).

	Group	
	2005 **HK$'000**	2004 HK$'000
Opening	**29,213**	29,366
Additions	**5,737**	–
Exchange differences	**(44)**	90
Amortisation of prepaid operating lease payment	**(444)**	(243)
	34,462	29,213

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Investment properties HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st January 2004						
Cost or valuation	16,000	11,055	10,015	22,833	1,376	61,279
Accumulated depreciation	–	(352)	(4,269)	(9,941)	(905)	(15,467)
Net book amount	16,000	10,703	5,746	12,892	471	45,812
Year ended 31st December 2004						
Opening net book amount	16,000	10,703	5,746	12,892	471	45,812
Exchange differences	–	121	6	33	–	160
Revaluation surplus (Note 16)	–	22,097	–	–	–	22,097
Additions	–	–	62	4,692	848	5,602
Disposals (Note 31)	(16,000)	–	–	–	–	(16,000)
Depreciation	–	(833)	(894)	(4,387)	(265)	(6,379)
Closing net book amount	–	32,088	4,920	13,230	1,054	51,292
At 31st December 2004						
Cost or valuation	–	32,088	10,088	27,463	1,731	71,370
Accumulated depreciation	–	–	(5,168)	(14,233)	(677)	(20,078)
Net book amount	–	32,088	4,920	13,230	1,054	51,292
Year ended 31st December 2005						
Opening net book amount	**–**	**32,088**	**4,920**	**13,230**	**1,054**	**51,292**
Exchange differences	**–**	**(76)**	**18**	**14**	**1**	**(43)**
Revaluation surplus (Note 16)	**–**	**7,229**	**–**	**–**	**–**	**7,229**
Acquisition of a subsidiary (Note 34)	**–**	**–**	**–**	**1,841**	**–**	**1,841**
Additions	**–**	**3,798**	**8,808**	**8,359**	**–**	**20,965**
Disposals (Note 31)	**–**	**–**	**–**	**(26)**	**–**	**(26)**
Depreciation	**–**	**(876)**	**(642)**	**(4,851)**	**(332)**	**(6,701)**
Closing net book amount	**–**	**42,163**	**13,104**	**18,567**	**723**	**74,557**
At 31st December 2005						
Cost or valuation	**–**	**42,163**	**18,921**	**37,542**	**1,733**	**100,359**
Accumulated depreciation	**–**	**–**	**(5,817)**	**(18,975)**	**(1,010)**	**(25,802)**
Net book amount	**–**	**42,163**	**13,104**	**18,567**	**723**	**74,557**

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's buildings in Hong Kong and the PRC were revalued at 31st December 2005. Valuations were made on the basis of open market value by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The buildings of the Group outside Hong Kong and the PRC were revalued as at 31st December 2005 on the basis of their open market value by Dickson Property Consultant Pte Ltd., an independent firm of professional valuers. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 16).

Depreciation expense of HK$6,701,000 (2004: HK$6,379,000) has been expensed in administrative expenses.

If buildings were stated on the historical cost basis, the amounts would be as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Cost	**17,649**	13,851
Accumulated depreciation	**(6,733)**	(6,059)
Net book amount	**10,916**	7,792

Bank borrowings are secured on buildings for the carrying amount of HK$16,254,000 (2004: HK$11,942,000) (Note 18).

The analysis of cost or valuation at 31st December 2005 of the above assets is as follows:

	Group				
	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	18,921	37,542	1,733	58,196
At 31st December 2005 professional valuation	42,163	–	–	–	42,163
	42,163	18,921	37,542	1,733	100,359

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of cost or valuation at 31st December 2004 of the above assets is as follows:

	Group				
	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	10,088	27,463	1,731	39,282
At 31st December 2004 professional valuation	32,088	–	–	–	32,088
	32,088	10,088	27,463	1,731	71,370

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2005 HK$'000	2004 HK$'000
Non-current		
Unlisted shares, at cost	**91,645**	91,645
Current		
Amounts due from subsidiaries (note (b))	**50,680**	41,869
	142,325	133,514

The following is a list of the subsidiaries at 31st December 2005:

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	[1]100%
Formtek Machinery Company Limited (note (i))	Trading of metalforming machines and tools in Taiwan	Taiwan	800,000 ordinary shares of NT$10 each	100%

Notes to the Consolidated Financial Statements

8 INVESTMENTS IN AND AMOUNTS DUE FROM 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
Leeda Machinery Limited	Trading of machines in Hong Kong	Hong Kong	10,000 ordinary shares of HK$1 each	100%
Leeport Cutting Tools Corporation (note (i))	Inactive	British Virgin Islands	10,000 ordinary shares of US$1 each	100%
Leeport Electronics Limited	Trading of electronic equipment in Hong Kong	Hong Kong	200,000 ordinary shares of HK$10 each	100%
Leeport Machine Tool Company Limited	Investment holding 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%
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 capital of HK$10,000,000 and paid capital HK$5,200,000	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	Registered and fully paid capital of US$1,000,000	98%
Leeport Metalforming Machinery Limited	Trading of metalforming machines in Hong Kong	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	Trading of measuring instruments in Hong Kong	Hong Kong	1,000,000 ordinary shares of HK$10 each	90%
Leeport Precision Machine Tool Company Limited	Trading of metalcutting machines in Hong Kong	Hong Kong	5,000,000 ordinary shares of HK$1 each	100%

Notes to the Consolidated Financial Statements

8 INVESTMENTS IN AND AMOUNTS DUE FROM 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 Technology Limited	Trading of rapid prototyping equipment and plastic injection machines in Hong Kong	Hong Kong	100,000 ordinary shares of HK$10 each	100%
Leeport Tools Limited	Trading of cutting tools in Hong Kong	Hong Kong	10,000 ordinary shares of HK$100 each	100%
Mitutoyo Metrology (Dongguan) Limited (note (i))	Provision of metrology maintenance service in the PRC	The PRC	Registered and fully paid capital of US$483,000	90%
Rapman Limited	Manufacturing of rapid prototypes	Hong Kong	100,000 ordinary shares of HK$10 each	100%
Rapman (Dongguan) Limited (note (i))	Manufacturing of rapid prototypes	The PRC, wholly owned foreign enterprise	Registered and paid capital of HK$3,500,000	100%
World Leader Limited	Property holding in the PRC	Hong Kong	1 ordinary share of HK$1 each	100%

[1] 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 25% of the Group's net assets.

(b) Amounts due from subsidiaries

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

9 AVAILABLE-FOR-SALES FINANCIAL ASSETS

	Group 2005 HK$'000
Unlisted shares	1,172
Less: provision for impairment losses	(1,172)
	–

Notes to the Consolidated Financial Statements

10 INVESTMENT SECURITIES

	Group 2004 HK$'000
Unlisted shares	1,172
Less: provision for impairment losses	(1,172)
	–

11 DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2005	
	Assets HK$'000	Liabilities HK$'000
Forward foreign exchange contracts – non-hedge instruments	**691**	(368)

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trade receivables and bills receivables	**225,749**	151,248	–	–
Less: provision for impairment of receivables	**(6,132)**	(10,791)	–	–
Trade receivables and bills receivables – net	**219,617**	140,457	–	–
Other receivables, prepayments and deposits	**23,803**	21,801	**360**	129
	243,420	162,258	**360**	129

The carrying amounts of trade receivables and bills receivables – net, other receivable, prepayments and deposits, approximate their fair value.

Notes to the Consolidated Financial Statements

12 TRADE AND OTHER RECEIVABLES (Continued)

At 31st December 2005 and 2004, the ageing analysis of trade receivables and bills receivables is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Current	**119,318**	70,588
1 – 3 months	**68,675**	49,970
4 – 6 months	**11,621**	7,380
7 – 12 months	**17,707**	4,806
Over 12 months	**8,428**	18,504
	225,749	151,248
Less: provision for impairment of receivables	**(6,132)**	(10,791)
	219,617	140,457

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

Certain subsidiaries of the Group transferred receivables balances amounting to HK$12,449,000 to certain banks in exchange for cash during the year ended 31st December 2005. The transactions have been accounted for as collateralised borrowings (Note 18).

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has recognised a loss of HK$104,000 (2004: HK$403,000) for the impairment of its trade receivables and bills receivables during the year ended 31st December 2005. The loss has been included in administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

13 INVENTORIES

	Group	
	2005 HK$'000	2004 HK$'000
Merchandise	**162,308**	78,038

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$607,664,000 (2004: HK$503,785,000).

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Cash at bank and in hand	**29,387**	72,135	**275**	1,484
Short-term bank deposits	**2,869**	7,091	**–**	–
	32,256	79,226	**275**	1,484
Analysed as follows:				
Restricted balances (note (a))	**7,395**	5,811	**–**	–
Unrestricted balances	**24,861**	73,415	**275**	1,484
	32,256	79,226	**275**	1,484

(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.

The effective interest rate on short-term bank deposits was 3.95% (2004: 2.66%); these deposits have an average maturity of 7 days (2004:18 days).

Cash and bank overdrafts include the following for the purposes of the consolidated cash flow statement:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Cash and cash equivalents	**32,256**	79,226	**275**	1,484
Bank overdrafts (Note 18)	**(429)**	(4,730)	**–**	–
	31,827	74,496	**275**	1,484

Notes to the Consolidated Financial Statements

15 SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
203,880,000 (2004: 200,284,000) ordinary shares of HK$0.10 each	**20,388**	20,028

	Number of shares (thousands)	**Ordinary shares** HK$'000
At 1st January 2004	200,000	20,000
Share option scheme		
– proceeds from shares issued	284	28
At 31st December 2004	200,284	20,028
Share option scheme		
– proceeds from shares issued	3,596	360
At 31st December 2005	203,880	20,388

Share options

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 share option scheme. Unless otherwise determined by the directors, the share option 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.

Notes to the Consolidated Financial Statements

15 SHARE CAPITAL (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**0.87**	**4,060**	0.87	4,412
Exercised	**0.87**	**(3,596)**	0.87	(284)
Lapsed	**–**	**(464)**	–	(68)
At 31 December		**–**	0.87	4,060

Options exercised in 2005 resulted in 3,596,000 shares (2004: 284,000 shares) being issued at HK$0.87 each (2004: HK$0.87 each). The related weighted average share price at the time of exercise was HK$1.41 (2004: HK$1.04) per share.

Notes to the Consolidated Financial Statements

16 RESERVES

	Group					
	Share premium HK$'000	Investment properties revaluation reserve HK$'000	Buildings revaluation reserve HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000	Total HK$'000
Balance at 1st January 2004	7,322	2,668	4,383	(241)	11,310	25,442
Issue of shares	219	–	–	–	–	219
Currency translation differences	–	–	5	555	–	560
Disposal of an investment property	–	(2,668)	–	–	–	(2,668)
Revaluation surplus of buildings	–	–	22,097	–	–	22,097
Revaluation-tax	–	–	(3,860)	–	–	(3,860)
Depreciation transfer on buildings	–	–	(38)	–	–	(38)
Balance at 31st December 2004	7,541	–	22,587	314	11,310	41,752
Balance at 1st January 2005	7,541	–	22,587	314	11,310	41,752
Issue of shares	2,769	–	–	–	–	2,769
Currency translation differences	–	–	(20)	(119)	–	(139)
Revaluation surplus of buildings	–	–	7,229	–	–	7,229
Revaluation-tax	–	–	(1,099)	–	–	(1,099)
Depreciation transfer on buildings	–	–	(63)	–	–	(63)
Balance at 31st December 2005	10,310	–	28,634	195	11,310	50,449

Notes to the Consolidated Financial Statements

16 RESERVES (Continued)

	Share premium HK$'000	Company Contributed surplus HK$'000 (note (a))	Total HK$'000
Balance at 1st January 2004	7,322	91,445	98,767
Issue of shares	219	–	219
Balance at 31st December 2004	7,541	91,445	98,986
Balance at 1st January 2005	7,541	91,445	98,986
Issue of shares	2,769	–	2,769
Balance at 31st December 2005	10,310	91,445	101,755

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 Group's reorganisation. Under the Companies Act 1981 of Bermuda, 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 2005 amounted to HK$112,053,000 (2004: HK$107,515,000).

17 TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trade payables and bills payables	**116,233**	59,197	**–**	–
Other payables, accruals and deposits received	**49,682**	42,930	**200**	43
	165,915	102,127	**200**	43

The carrying amounts of trade payables and bills payables, other payables, accruals and deposits received approximate their fair value.

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER PAYABLES (Continued)

At 31st December 2005 and 2004, the ageing analysis of trade payables and bills payables is as follows:

	Group	
	2005 **HK$'000**	2004 HK$'000
Current	**82,536**	50,920
1 – 3 months	**29,676**	5,961
4 – 6 months	**3,352**	787
7 – 12 months	**–**	1,187
Over 12 months	**669**	342
	116,233	59,197

18 BORROWINGS

	Group	
	2005 **HK$'000**	2004 HK$'000
Current		
Bank overdrafts (Note 14)	**429**	4,730
Collateralised borrowings (Note 12)	**12,449**	–
Trust receipts loans	**155,846**	106,826
Bank loans	**63,313**	–
Total borrowings	**232,037**	111,556

Total borrowings include secured liabilities (bank overdrafts, collateralised borrowings, trust receipt loans and bank loans) of HK$232,037,000 (2004: HK$111,556,000). Bank overdrafts, trust receipt loans and bank loans are secured by the leasehold land (Note 6), buildings (Notes 7) and pledged bank deposits (Note 30) of the Group. Collateralised borrowings are secured by trade receivables (Note 12).

As at 31st December 2005, the Group has no non-current borrowing (2004: Nil).

The maturity of all borrowings is within one year (2004: one year).

Notes to the Consolidated Financial Statements

18 BORROWINGS (Continued)

The effective interest rates at the balance sheet date were as follows:

	2005				2004			
	HK$	US$	EUR	JPY	HK$	US$	EUR	JPY
Bank overdrafts	7.42%	–	–	–	5.90%	–	–	–
Collateralised borrowings	7.87%	6.29%	4.27%	1.89%	–	–	–	–
Trust receipts loans	8.25%	6.76%	5.33%	1.64%	–	5.35%	3.15%	1.84%
Bank loans	5.15%	–	–	–	–	–	–	–

The carrying amounts of the borrowings approximate their fair value.

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

	Group	
	2005 HK$'000	2004 HK$'000
Hong Kong dollar	65,376	4,730
US dollar	26,305	13,986
EURO	13,035	15,906
Japanese Yen	127,321	76,934
	232,037	111,556

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

Notes to the Consolidated Financial Statements

19 DEFERRED INCOME TAX

Deferred income tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	Group	
	2005 HK$'000	2004 HK$'000
At 1st January	**6,320**	3,043
Exchange differences	**–**	3
Deferred taxation credited from consolidated income statement (note 25)	**(232)**	(586)
Taxation charged to equity (note 16)	**1,099**	3,860
At 31st December	**7,187**	6,320

The deferred income tax charged to equity during the year is as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Fair value reserves in shareholders' equity – buildings (note 16)	**1,099**	3,860

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$11,940,000 (2004: HK$18,414,000) to carry forward against future taxable income.

Notes to the Consolidated Financial Statements

19 DEFERRED INCOME TAX (Continued)

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

	Accelerated tax depreciation	
Deferred income tax liabilities	**2005 HK$'000**	2004 HK$'000
At 1st January	**6,320**	3,043
Credited from consolidated income statement	**(232)**	(586)
Charged to equity	**1,099**	3,860
Exchange differences	**–**	3
As at 31 December	**7,187**	6,320

Deferred income 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:

	2005 HK$'000	2004 HK$'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**7,187**	6,320
	7,187	6,320
The amounts shown in the consolidated balance sheet include the following:		
Deferred income tax assets to be recovered after more than 12 months	**–**	–
Deferred income tax liabilities to be settled after more than 12 months	**7,187**	6,320

Notes to the Consolidated Financial Statements

20 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

Included in other payables, accruals and deposit 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	
	2005	2004
	HK$'000	HK$'000
At 1st January	**4,654**	4,161
Expensed in the consolidated income statement:		
– Additional provisions	**10,003**	9,798
– Used during the year	**(10,183)**	(9,305)
As at 31st December	**4,474**	4,654

Analysis of total provisions:

	Group	
	2005	2004
	HK$'000	HK$'000
Non-current	**–**	–
Current	**4,474**	4,654
	4,474	4,654

Notes to the Consolidated Financial Statements

21 OTHER GAINS-NET

	2005 HK$'000	2004 HK$'000
Derivative instruments - forward contacts:		
- Net fair value gain (realised and unrealised)	**341**	–
Interest income	**782**	471
Investment income	**1,123**	471
Service income	**8,582**	5,258
Commission income	**8,290**	7,929
Rental income	**–**	114
Other income	**560**	105
	18,555	13,877

22 EXPENSES BY NATURE

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

	2005 HK$'000	2004 HK$'000
Auditors' remuneration	**1,577**	1,094
Cost of inventories sold	**607,664**	503,785
Depreciation on property, plant and equipment	**6,701**	6,379
Amortisation on leasehold land	**444**	243
Operating lease rentals in respect of land and buildings	**4,339**	2,460
Provision for slow moving inventories	**2,106**	1,327
Provision for bad and doubtful debts	**104**	403
Employee benefit expenses (including directors' remuneration) (note 23)	**69,157**	56,457

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES

	2005 HK$'000	2004 HK$'000
Wages and salaries, including directors' emolument	**64,463**	53,527
Unutilised annual leave	**128**	–
Pension costs – defined contribution plans (Note a)	**4,566**	2,930
	69,157	56,457

(a) Pensions – defined contribution plans

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 income statement 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 income statement represent the contributions payable to the funds by the Group.

Employees in the Company'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 Company'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.

There is no forfeited contributions utilised during the year (2004: Nil), leaving nil balance available at the year-end (2004: Nil) to reduce future contributions.

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Director								
Lee Sou Leung, Joseph	–	1,300	300	–	185	60	–	1,845
Lisa Marie Tan	–	549	–	–	–	25	–	574
Chan Ching Huen, Stanley	–	898	150	–	265	12	–	1,325
Lui Sun Wing	100	–	–	–	–	–	–	100
Pike Mark Terence	100	–	–	–	–	–	–	100
Nimmo, Walter Gilbert Mearns	100	–	–	–	–	–	–	100

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Director								
Lee Sou Leung, Joseph	–	1,300	120	–	188	60	–	1,668
Lisa Marie Tan	–	520	–	–	–	24	–	544
Chan Ching Huen, Stanley	–	856	120	–	264	12	–	1,252
Lui Sun Wing	100	–	–	–	–	–	–	100
Pike Mark Terence	100	–	–	–	–	–	–	100
Nimmo, Walter Gilbert Mearns	25	–	–	–	–	–	–	25

Notes:

(a) Other benefits mainly comprise housing and other allowances. Apart from the emoluments paid by the Group as above, two of the buildings of the Group in Hong Kong have been provided to two of the executive directors as their residency forming part of their emoluments.

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,942**	2,424
Discretionary bonuses	**2,534**	2,268
Pension costs - defined contribution plans	**87**	81
	4,563	4,773

The emoluments fell within the following bands:

	Number of individuals	
	2005 HK$'000	2004 HK$'000
Emolument bands		
Nil to HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**1**	1

24 FINANCE COSTS

	Group	
	2005 HK$'000	2004 HK$'000
Interest expense:		
– bank borrowings: bank overdrafts, collateralised borrowings, trust receipt loans and bank loans wholly repayable within five years	**7,647**	2,336

Notes to the Consolidated Financial Statements

25 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated income statement represents:

	Group	
	2005 HK$'000	2004 HK$'000
Current income tax		
– Hong Kong profits tax	**4,675**	3,610
– Overseas taxation	**492**	193
Under-provision in previous years		
– Hong Kong profits tax	**455**	–
– Overseas taxation	**3**	–
Deferred income tax (Note 19)	**(232)**	(586)
	5,393	3,217

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable 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.

Notes to the Consolidated Financial Statements

25 INCOME TAX EXPENSE (Continued)

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

	Group	
	2005	2004
	HK$'000	HK$'000
Profit before income tax	**57,770**	47,846
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**10,110**	8,373
Effect of different taxation rates in other countries	**(217)**	(1,283)
Income not subject to taxation	**(5,420)**	(4,644)
Expenses not deductible for taxation purposes	**1,595**	2,935
Tax losses not recognised	**339**	311
Utilisation of previously unrecognised tax losses	**(1,472)**	(2,675)
Under-provision of income tax in prior years	**458**	211
Decrease in opening net deferred tax liabilities resulting from a decrease in tax rate	**–**	(11)
Income tax expense	**5,393**	3,217

26 NET FOREIGN EXCHANGE (GAINS)/LOSSES

The exchange differences recognised in the consolidated income statement are included as follows:

	2005	2004
	HK$'000	HK$'000
Administrative expenses	**(4,865)**	437

27 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$33,046,000 (2004: HK$28,008,000).

Notes to the Consolidated Financial Statements

28 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company (HK$'000)	**51,118**	43,451
Weighted average number of ordinary shares in issue in thousands	**203,088**	200,001
Basic earnings per share (HK cents per share)	**25.17**	21.73

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
Profit attributable to equity holders of the Company used to determine diluted earnings per share (HK$'000)	**51,118**	43,451
Weighted average number of ordinary shares in issue in thousands	**203,088**	200,001
Adjustment for		
– share options in thousands	**204**	131
Weighted average number of ordinary shares for diluted earnings per share in thousands	**203,292**	200,132
Diluted earnings per share (HK cents per share)	**25.15**	21.71

Notes to the Consolidated Financial Statements

29 DIVIDENDS

The dividends paid during the years ended 31st December 2005 and 2004 were HK$28,508,000 (HK7 cents per share for 2004 final dividends and HK7 cents for 2005 interim dividends) and HK$30,000,000 (HK9 cents per share for 2003 final dividends and HK6 cents per share for 2004 interim dividends) respectively. A dividend in respect of 2005 of HK9 cents per share, amounting to a total dividend of HK$18,349,000 was proposed at the board meeting held on 25th April 2006. These financial statements do not reflect this dividend payable, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2005.

	2005 HK$'000	2004 HK$'000
Interim, paid, of HK7 cents (2004: HK6 cents) per ordinary share	**14,488**	12,000
Final, proposed, of HK9 cents (2004: HK7 cents) per ordinary share	**18,349**	14,020
	32,837	26,020

30 PLEDGE OF ASSETS

Approximately HK$20,204,000 (2004: HK$16,000,000) of leasehold land and buildings, HK$70,725,000 (2004: Nil) of bank deposit have been pledged as securities for the general banking facilities amounting to HK$798 million (2004: HK$465 million) granted to the Group. At the balance sheet date, the amount so utilised amounted to HK$366 million (2004: HK$193 million).

Notes to the Consolidated Financial Statements

31 CASH GENERATED FROM OPERATIONS

	Group	
	2005 **HK$'000**	2004 HK$'000
Profit for the year	**52,377**	44,629
Adjustments for:		
– Income tax expense (Note 25)	**5,393**	3,217
– Depreciation (Note 7)	**6,701**	6,379
– Amortisation on leasehold land (Note 6)	**444**	243
– Loss/(profit) on sale of property, plant and equipment (see Note (a) below)	**23**	(33)
– Gain on disposal of an investment property (see Note (b) below)	**–**	(4,668)
– Excess of fair value of net assets acquired over cost of acquisition of a subsidiary (Note 34)	**(2,087)**	–
– Fair value gains on derivative financial instruments (Note 21)	**(341)**	–
– Interest income (Note 21)	**(782)**	(471)
– Interest expense (Note 24)	**7,647**	2,336
– Effect of foreign exchange rate	**(52)**	300
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Increase in inventories	**(83,872)**	(12,557)
– Increase in trade receivables and bills receivables, other receivables, prepayments and deposits	**(80,892)**	(28,531)
– Increase in trade payables and bills payables, trust receipt loans, other payables, accruals and deposits received	**112,793**	48,366
Cash generated from operations	**17,352**	59,210

Notes:

(a) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Group	
	2005 **HK$'000**	2004 HK$'000
Net book amount (Note 7)	**26**	–
(Loss)/profit on sale of property, plant and equipment	**(23)**	33
Proceeds from sale of property, plant and equipment	**3**	33

Notes to the Consolidated Financial Statements

31 CASH GENERATED FROM OPERATIONS (Continued)

Notes: (Continued)

(b) On 10th February 2004, the Group disposed of its investment property with carrying amount of HK$16,000,000 as at the date of disposal to a third party company at a consideration of HK$18,000,000. The total gain on disposal recognised in the consolidated income statement for the year ended 31st December 2004 is HK$4,668,000 comprising of HK$2,668,000 which is 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.

32 CONTINGENT LIABILITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Letters of guarantee given to customers	**8,850**	11,934
Bills of exchange discounted with recourse	**–**	8,657
	8,850	20,591

33 COMMITMENTS

(a) Capital commitments

(i) Commitments for investment securities:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted obligations for		
– available-for-sale financial assets	**775**	–
– investment securities	**–**	775
	775	775

(ii) Commitments for investment in subsidiaries:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted obligations for investment in subsidiaries in the PRC	**10,542**	3,370

Notes to the Consolidated Financial Statements

33 COMMITMENTS (Continued)

(b) Commitments under operating leases

(i) As lessee

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2005 **HK$'000**	2004 HK$'000
Not later than one year	**4,388**	2,603
Later than one year but not later than five years	**3,670**	3,034
	8,058	5,637

(c) Commitments for foreign currency forward contracts

	Group	
	2005 **HK$'000**	2004 HK$'000
Commitments for foreign currency forward contracts	**98,922**	38,420

Notes to the Consolidated Financial Statements

34 BUSINESS COMBINATIONS

On 25th May 2005, the Group acquired from Good Winners Limited, a non wholly-owned subsidiary of Mitutoyo Corporation which is a minority shareholder of the Company's non wholly-owned subsidiary, 100% equity interest in Mitutoyo Metrology (Dongguan) Limited ("MMD") at the consideration of approximately HK$1,205,000. MMD was established as wholly owned foreign enterprise in Dongguan, the PRC in 2001, and is principally engaged in running a repair service centre for providing after-sales services to the customers of Mitutoyo Corporation in Southern China. The acquisition of an established repair service centre from the existing supplier could enable the Group to provide better services to the customers in Southern China and also to reinforce the links with the existing business partner. The acquired business contributed sales of HK$258,000 and net loss of HK$425,000 to the Group for the period from 26th May 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, Group's sales would have been HK$800,985,000 and profit for the year would have been HK$51,845,000.

	HK$'000
Details of net assets acquired and the excess of fair value of net assets acquired over cost of acquisition of a subsidiary are as follows:	
Purchase consideration in cash	1,205
Fair value of net assets acquired – shown as below	3,292
Excess of fair value of net assets acquired over cost of acquisition of a subsidiary	2,087

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and cash equivalents	798	798
Property, plant and equipment (Note 7)	1,841	2,561
Other non-current assets	–	60
Inventories	398	398
Receivables	270	270
Payables	(15)	(5)
Net assets acquired	3,292	4,082
Purchase consideration settled in cash		1,205
Cash and cash equivalents in subsidiary acquired		(798)
Cash outflow on acquisition		407

There were no acquisitions in the year ended 31st December 2004.

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS

The Group is controlled by Peak Power Technology Limited (incorporated in British Virgin Island), which owns 65.58% of the Company's shares. The remaining 34.42% of the shares are widely held.

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

		Group	
	Note	**2005** **HK$'000**	2004 HK$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	**144**	144

(a) One of the subsidiaries of the Group have entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces for the year ended 31st December 2005 amounted to HK$144,000. In the opinion of the directors, such 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) Key management compensation

	Group	
	2005 **HK$'000**	2004 HK$'000
Salaries and other short-term employee benefits	**12,725**	11,468
Pension costs – defined contribution plans	**321**	307
	13,046	11,775

(c) The Company has entered into a deed of guarantee with UFJ Bank Limited, DBS Bank (Hong Kong) Limited and Dah Sing Bank, Limited on 26th September 2005, 24th March 2005 and 1st February 2005 respectively whereby the Company guarantees 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$99 million. 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.

Five Year Financial Summary

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

	2005 **HK$'000**	(Restated) 2004 HK$'000	(Restated) 2003 HK$'000	(Restated) 2002 HK$'000	(Restated) 2001 HK$'000
Results					
Sales	**800,213**	661,266	519,675	451,967	424,729
Profit before income tax	**57,770**	47,846	34,216	31,366	29,342
Income tax expense	**(5,393)**	(3,217)	(2,978)	(3,162)	(4,194)
Profit for the year	**52,377**	44,629	31,238	28,204	25,148
Profit attributable to Equity shareholders	**51,118**	43,451	31,028	28,204	25,148
Minority Interest	**1,259**	1,178	210	–	–
Assets					
Property, plant and equipment	**74,557**	51,292	45,812	47,241	41,369
Leasehold land	**34,462**	29,213	29,366	29,499	16,543
Current assets	**509,400**	319,522	253,385	187,234	160,186
Total assets	**618,419**	400,027	328,563	263,974	218,098
Liabilities					
Current liabilities	**400,083**	214,929	167,029	155,803	133,969
Non-current liabilities	**7,187**	6,320	13,761	14,518	8,434
Total liabilities	**407,270**	221,249	180,790	170,321	142,403
Net assets	**203,642**	171,930	142,103	93,653	75,695

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 Salon 1-2, Level 3, JW Marriot Ballroom, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 26th May 2006 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, 2005;

2. To declare a final dividend for the year ended 31st December, 2005;

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

Notice of Annual General Meeting

(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 paragraphs (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."; and

Notice of Annual 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 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 inserting the words "voting by way of a poll is required by the rules of the Designated Stock Exchange or" after the words "a show of hands unless" in the third sentence of Bye-law 66; and by deleting the full stop at the end of Bye-law 66(d) and replacing it with a semi-colon and inserting the word "or" after the semi-colon.

   Then by inserting the following wording after Bye-law 66(d):

   "(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting."

   (b) by deleting the second sentence of Bye-law 68 in its entirety and substituting therefor the following:

   "The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange."

   (c) by deleting the word "following annual" in the second sentence of the existing Bye-laws 86(2);

   (d) by deleting the word "special" in the first sentence of the existing Bye-laws 86(4) and substituting therefor the word "ordinary";

Notice of Annual General Meeting

(e) by deleting the word "greater" in the 3rd line of the existing Bye-laws 87(1) and substituting therefor the word "less" and deleting the words "notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year" at the end of the existing Bye-law 87(1) and substituting therefor the following:–

"every Director (including those appointed for a specified term or holding office as Chairman, Deputy Chairman, Managing Director or other office) shall be subject to retirement by rotation at least once every three years."

By order of the Board
Leeport (Holdings) Limited
Lee Sou Leung, Joseph
Chairman

Hong Kong, 28th April 2006

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 26th Floor, Tesbury Centre, 28 Queen's Road East, 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, and in such event, the form of proxy shall be deemed to be revoked.

(4) The register of members will be closed from 24th May 2006 (Wednesday) to 26th May 2006 (Friday) (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 transfer forms 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 23rd May 2006 (Tuesday).

Notice of Annual General Meeting

(5) An explanatory statement containing further details regarding the proposed resolution nos. 5 to 7 above will be sent to members together with the 2005 annual report containing this notice of meeting.

(6) Concerning the special resolution set out in item 8 of the above notice, approval is being sought to amend the Company's Bye-laws in order to comply with Appendix 3 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the certain provisions of the new Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

(7) The Chinese translation of this notice (including the contents of the proposed resolutions set out herein) is for reference only. In case of inconsistency, the English version shall prevail.

As at the date of this announcement, the board of directors comprises, 3 executive directors, namely Mr. Lee Sou Leung, Joseph, Ms. Tan, Lisa Marie and Mr. Chan Ching Huen, Stanley and 3 independent non-executive directors, namely Dr. Lui Sun Wing, Mr. Pike, Mark Terence and Mr. Nimmo, Walter Gilbert Mearns.