# Leeport

力豐（集團）有限公司

LEEPORT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 0387)

ISO 9001 : 2000
CERTIFICATE NO. FS 84667

2006

Annual Report

# 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

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

## PRINCIPAL BANKERS

Standard Chartered Bank
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 consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2006.

## FINANCIAL PERFORMANCE

The turnover of the Group in 2006 amounted to HK$881,172,000 (2005: HK$800,213,000), representing an increase of 10.1% as compared with 2005. The profit attributable to equity holders was HK$30,858,000 (2005: HK$51,118,000), representing a decrease of 39.6% compared with 2005.

The basic earnings per share amounted to HK15.03 cents (2005: HK25.17 cents) representing a decrease of 40.3% compared with 2005.

Turnover in 2006 was higher than in 2005, indicating that the overall market for the Group's business was good. However, in the last quarter of 2006, the Japanese Government imposed a temporary ban on the export of measuring instruments produced by one of our main suppliers in Japan, Mitutoyo Corporation, due to its non-compliance with the Japanese Government's export regulations. Because of this unexpected event, the Group lost about 6% of the turnover in the year. The turnover would have been better if the export ban on Mitutoyo's products had not occurred.

Overall, the profit attributable to equity holders was lower than in 2005, mainly because of the lower average gross margin and the higher depreciation charges and finance costs. The reduction of business for measuring instruments also adversely affected the Group's results. The depreciation charges were HK$11,767,000, representing an increase of HK$5,066,000 compared with 2005. This mainly reflected the capital spending for the establishment of a showroom in Shenzhen, and the expansion of offices in Hong Kong and China in the previous years. Due to the increase in the interest rate, the finance costs were HK$10,806,000, representing an increase of HK$3,159,000 compared with 2005.

On the other hand, the Group successfully reduced its inventory from HK$162,308,000 as at 31st December 2005 to HK$147,793,000 as at 31st December 2006. Even though overall turnover was higher, the trade receivables and bills receivables balances were reduced from HK$219,617,000 as at 31st December 2005 to HK$179,084,000 as at 31st December 2006. The Group showed its improvement in the liquidity position. The current ratio was 1.32 at the year ended 2006; compared with 1.27 at the year ended 2005.

## DIVIDENDS

An interim dividend of HK7.5 cents per ordinary share was paid to the shareholders of the Company on 20th November 2006.

The Directors recommended a final dividend of HK4.5 cents per ordinary share, totalling HK$9,446,000 (2005: HK9 cents per ordinary share). This recommendation is subject to the approval by shareholders at the forthcoming Annual General Meeting to be held on 30th May 2007. Upon the approval by shareholders, the final dividend will be payable on or before 6th June 2007 to shareholders of the Company whose names appear on the register of members on 30th May 2007. This proposed final dividend, together with the interim dividend paid by the Company, will make a total dividend of HK12 cents per ordinary share for the year ended 31st December 2006 (2005: HK16 cents per ordinary share).

## BUSINESS REVIEW

Despite the austerity measures in 2006, China continued to demonstrate a strong economic momentum. The growth rate in the GDP in 2006 was 10.7%. The value of industrial production increased by 12.5% and the value of exports increased by 27.2% compared with 2005. The growth rate in Hong Kong's GDP in 2006 was 6.8%.

China retained its position as the world's number-one consumer of machine tools in 2006. One out of every five machines made in the world ended up in China. The value of machine tools consumed in China in 2006 was US$12.9 billion, representing an increase of 20.0% compared with 2005. The import value of machine tools in China was US$7.1 billion. The growth rate in the value of imports was 9.0%, which was lower than the growth rate of 13.0% in 2005 due to the higher consumption of locally made machines, especially the local assembly of foreign brands. However, in terms of value, imported machine tools still represented 55.0% of the consumption in China. China also relied heavily on the importation of electronics manufacturing equipment, carbide cutting tools and high-precision measuring instruments.

A number of related industries in China showed strong growth in 2006. The production volume of automobiles in 2006 was 7.28 million units, representing an increase of 27.6% compared with 2005. China has become the second-largest automobile market in the world. The production of mobile phones grew by 58.2% and the production of computers grew by 15.5%.

The machine tools business of the Group grew by 5.2% in 2006, the cutting tools business grew by 27.5% and the electronics equipment business grew by 87.0%. However, the measuring instruments business decreased by 12.6% in 2006.

In terms of geographical segments, sales from China continued to grow, representing 58.2% of the Group's turnover (2005: 51.1%); sales from Hong Kong represented 31.9% of the Group's turnover (2005: 40.6%), and sales from Southeast Asia represented 9.9% of the Group's turnover (2005: 8.3%). The Group's sales from China increased by 25.4% compared with 2005. The Group's sales from Hong Kong decreased by 13.5% compared with 2005. The Southeast Asia region achieved a growth rate of 31.7% compared with 2005.

## FUTURE PLANS AND PROSPECTS

Economic growth for China in 2007 is generally predicted to be slightly lower than 2006. China's GDP growth rate is forecast to be 10.0%; the growth rate in the value of industrial production is forecast to be 11.0%, and the growth rate in the value of exports is forecast to be 18.0%. The GDP growth rate for Hong Kong in 2007 is forecast to be 4.1%.

The Chinese Government is attempting to encourage domestic spending as an economic driver for the country, and many industries are likely to benefit from the Government's policy. Sales of automobiles in 2007 are expected to grow by at least 15.0%. Exporting of automobile parts is also encouraged by the Government, and is moving at a rapid pace. It is believed that China will achieve 10.0% of the global export value of automobile parts within 10 years.

In China, machine tools are mainly used for the manufacturing of automobiles and parts, industrial machinery, moulds and dies, and also in the telecommunications and aerospace industries. These related industries to our Group's business are growing quickly. The consumption of machine tools in China is expected to increase by at least 15.0% in 2007.

We expect that the market for machine tools, cutting tools, measuring instruments and electronics equipment will continue to grow steadily in 2007.

In response to the Japanese Government's temporary ban on the export of precision co-ordinate measuring machines produced by Mitutoyo, the Group took immediate action to build up a business relationship with a European supplier of measuring equipment and systems. We therefore expect that the business of measuring instruments will grow again in 2007.

The Group has also started to devote more effort to building its service income, which represented only about 3.0% of the Group's turnover in 2006. Process re-engineering will be carried out for the service operation. Training of our engineers, building up our spare parts inventory and marketing of our service contracts will be the major targets in 2007. The Group expects that service income will become a significant portion of total turnover within a few years.

Finance costs and depreciation charges, which increased significantly in 2006, will become stable in 2007. In view of the positive economic trends in Asia (China in particular), we believe the Group will perform better in 2007.

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 all our shareholders, suppliers and customers for their support. Also, I would like to thank our staff for their efforts and dedication in 2006.

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

Hong Kong, 26th April 2007

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The cash and cash equivalents net of bank overdrafts at the end of year were HK$65,093,000 compared with HK$31,827,000 in year 2005.

As at 31st December 2006, the Group had net tangible assets of approximately HK$227,028,000, comprising non-current assets of approximately HK$115,355,000, net current assets of approximately HK$119,832,000, and non-current liabilities of approximately HK$8,159,000. On the same date, the total liabilities of the Group amounted to approximately HK$380,789,000. On the other hand, the total assets of the Group were HK$607,817,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, was approximately 0.63 (2005: 0.66).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2006, the Group had aggregate banking facilities of approximately HK$674,553,000 of which approximately HK$254,721,000 was utilised, bearing interest at prevailing market rates and were secured by certain leasehold land, buildings and restricted bank deposits of the Group in Hong Kong and Singapore with an aggregate carrying amount of HK$95,504,000 (2005: HK$90,929,000). The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

## CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

In 2006, the Group spent a total of HK$11,140,000 (2005: HK$26,702,000) in capital expenditure, which primarily consisted of property, plant and equipment. As at 31st December 2006, the Group had no material capital commitments and HK$9,962,000 (2005: HK$8,850,000) contingent liabilities in respect of letters of guarantee was given to customers.

## EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group 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 2006, the Group had commitments for foreign currency forward contracts amounting to approximately HK$25,927,000 (2005: HK$98,922,000).

## DETAILS OF THE CHARGE ON THE GROUP'S ASSETS

As at 31st December 2006, certain leasehold land, buildings and bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK$95,504,000 (2005: HK$90,929,000) were pledged to secure the banking facilities of the Group by way of a fixed charge.

## EMPLOYEES

As at 31st December 2006, the Group had 541 employees (2005:482). Of these, 191 were based in Hong Kong, 316 were based in mainland China, and 34 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies and discretionary performance bonuses.

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

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

Mr Lee Sou Leung, Joseph, aged 63, 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 40 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 as the Hong Kong Polytechnic University.

Ms Tan, Lisa Marie, aged 45, is responsible for human resources, administration, strategic planning and formulation of 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 49, 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 corporations in Hong Kong. Mr Chan has many 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 as 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 56, 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 50, 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.

Mr Nimmo, Walter Gilbert Mearns, aged 60, 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 42, 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 51, is the general manager of the metrology and small tools division of the Group. Mr Ng has over 29 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 45, the general manager of metalforming division of the Group, is responsible for overseeing the operation of the division. Mr Sa has over 19 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 48, the general manager of the advanced manufacturing technology division of the Group, is responsible for overseeing the operation of the division. Having been with the Group for more than 20 years, he has extensive experience in marketing CAD/CAM software, industrial machinery and services to various manufacturing sectors. Mr Chan is an associate member of the Hong Kong Rapid Prototyping & Manufacturing Society. Mr Chan holds a Diploma and a Higher Certificate of Production and Industrial Engineering from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) and a Master's Degree in Commerce from the University of Strathclyde in the United Kingdom. Mr Chan joined the Group in July 1979.

Mr Lam Chung Keung, aged 46, 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 50, 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 55, 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 28 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 54, was promoted as general manager of Leeport Tools Limited on 1st April 2004. Mr Chan has over 28 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 46, 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 23 years of sales and marketing experience substantially in industrial consumables along with consumer products mainly of the global brands.

The directors submit their report together with the audited financial statements for the year ended 31st December 2006.

## 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 31.

The details of dividends paid and declared during the year are set out in note 28 to the financial statements.

The directors recommend the payment of a final dividend of HK4.5 cents (2005: HK9 cents) per ordinary share, totaling HK$9,446,000 (2005: HK$18,349,000).

## RESERVES

Movements in retained earnings of the Group during the year are set out on page 32.

Movements in other reserves of the Group and of the Company during the year are set out in note 15 to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$10,000 (2005: 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.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 14 to the financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2006, calculated under the Companies Act 1981 of Bermuda, amounted to HK$103,424,000 (2005: 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 78.

## 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, collateralised borrowings, trust receipt loans and overdrafts as at 31st December 2006 of HK$189,692,000 are repayable within one year.

## SHARE OPTIONS

Pursuant to the written resolutions passed by the 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.

All share options granted under the share option scheme of the Company have been exercised and lapsed in year 2005, details of which have been disclosed in 2005 annual report. During the year, no option has been granted under the share option scheme.

## 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 less than one third) will retire from office by rotation at each annual general meeting.

Mr Lee Sou Leung, Joseph and Dr Lui Sun Wing are subject to re-election at the forthcoming annual general meeting.

## 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 page 8 to 10.

## 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 2006, 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)) | 139,523,170 shares (Note (a)) | 143,207,170 shares | 68.22% |
| | Short position | Nil | Nil | Nil | Nil | – |
| Ms. TAN, Lisa Marie ("Ms. Tan") | Long position | 816,000 shares | 2,868,000 shares (Note (c)) | 139,523,170 shares (Note (a)) | 143,207,170 shares | 68.22% |
| | Short position | Nil | Nil | Nil | Nil | – |
| Mr. CHAN Ching Huen ("Mr. Chan") | Long position | 200,000 shares | Nil | Nil | 200,000 shares | 0.10% |
| | Short position | Nil | Nil | Nil | Nil | – |
| Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo") | Long position | Nil | 154,445 shares (Note (d)) | Nil | 154,445 shares | 0.07% |
| | Short position | Nil | Nil | Nil | Nil | – |

(a) The 139,523,170 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. 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 154,445 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 2006, 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.

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | |
|---|---|
| Purchases | |
| – the largest supplier | 22% |
| – five largest suppliers combined | 71% |

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.

## CORPORATE GOVERNANCE

The Company has complied with all code provisions of 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 Rules") throughout the financial year ended 31st December 2006 except for Code Provision A.2 as Mr. Lee Sou Leung, Joseph is the Chairman and the Managing Director of the Company but the daily operation and management of the Company is monitored by the executive directors as well as the senior management to ensure the balance of power and authority.

Further information is set out in the Corporate Governance Report contained in this annual report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31st December 2006.

## 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 auditor 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. Four 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 26th April 2007.

## 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.

## 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 or paid 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.

Details of the pension scheme contributions of the Group for the year ended 31st December 2006 are set out in note 22 to the financial statements.

## AUDITOR

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, 26th April 2007

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to implementing effective corporate governance policies to ensure that all decisions are made in good faith and in accordance with the principles of transparency, fairness and integrity. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company has applied the principal 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 save and except certain deviations as more specifically described below.

## 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<br>Ms. TAN, Lisa Marie<br>Mr. CHAN Ching Huen, Stanley |
| Independent Non-executive Directors | Dr. LUI Sun Wing<br>Mr. PIKE, Mark Terence<br>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.

During the financial year ended 31st December 2006, 5 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 2006 | Attendance rate |
|---|---|---|
| Mr. LEE Sou Leung, Joseph | 5 | 100% |
| Ms. TAN Lisa Marie | 5 | 100% |
| Mr. CHAN Ching Huen, Stanley | 5 | 100% |
| Mr. PIKE, Mark Terence | 2 | 40% |
| Dr. LUI Sun Wing | 2 | 40% |
| Mr. NIMMO, Walter Gilbert Mearns | 2 | 40% |

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.

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 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").

The Company has amended the Bye-laws in the 2006 annual general meeting in order to comply with the Code, especially the director retirement requirements under the Code.

## 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.

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2006 and during the meeting the remuneration policy for the top management and the general staff were discussed.

The attendance of each member is set out as follows:

| Name of director | Number of Committee meeting attended in the financial year ended 31st December 2006 | 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 AUDITOR'S 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 auditor's responsibilities are set out in the Independent Auditor's 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.

## INTERNAL CONTROL AND RISK MANAGEMENT

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

To facilitate the effectiveness 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 2006 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.

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 judgements 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. Four meetings were held in 2006. 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 2006 | Attendance rate |
|---|---|---|
| Mr. NIMMO, Walter Gilbert Mearns | 3 | 75% |
| Mr. PIKE, Mark Terence | 4 | 100% |
| Dr. LUI Sun Wing | 4 | 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.

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

– To appoint external auditors.

## AUDITOR'S REMUNERATION

The amount of fees charged by the Company's auditor in respect of their audit and non-audit services are disclosed in Note 21 to the financial statements of the Company. The Audit Committee is responsible for reviewing the remuneration and terms of engagement of the external auditor and for making recommendation to the Board regarding any non-audit services to be provided to the Company by the external auditor.

For the year ended 31st December 2006, the fees paid and payable to the Company's auditor were primarily for audit services as there were no material non-audit service assignments undertaken by them.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone: (852) 2289 8888
Facsimile: (852) 2810 9888
www.pwchk.com

**TO THE SHAREHOLDERS OF LEEPORT (HOLDINGS) LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Leeport (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 77, which comprise the consolidated and Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

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

## AUDITOR'S RESPONSIBILITY (Continued)

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 26th April 2007

# Consolidated Balance Sheet

As at 31st December 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **81,164** | 74,557 |
| Leasehold land | 6 | **34,191** | 34,462 |
| Available-for-sale financial assets | 9 | **–** | – |
| | | **115,355** | 109,019 |
| **Current assets** | | | |
| Inventories | 12 | **147,793** | 162,308 |
| Trade receivables and bills receivables | 11 | **179,084** | 219,617 |
| Other receivables, prepayments and deposits | 11 | **27,513** | 23,803 |
| Derivative financial instruments | 10 | **145** | 691 |
| Restricted bank deposits | 13 | **72,464** | 70,725 |
| Cash and cash equivalents | 13 | **65,463** | 32,256 |
| | | **492,462** | 509,400 |
| **Total assets** | | **607,817** | 618,419 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 14 | **20,992** | 20,388 |
| Other reserves | 15 | **67,053** | 50,449 |
| Retained earnings | | | |
| – Proposed final dividend | 28 | **9,446** | 18,349 |
| – Others | | **121,649** | 114,456 |
| | | **219,140** | 203,642 |
| **Minority interest** | | **7,888** | 7,507 |
| **Total equity** | | **227,028** | 211,149 |

The notes on pages 34 to 77 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet (Continued)

As at 31st December 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 18 | **8,159** | 7,187 |
| **Current liabilities** | | | |
| Trade payables and bills payables | 16 | **127,757** | 116,233 |
| Other payables, accruals and deposits received | 16, 19 | **52,291** | 49,682 |
| Current income tax liabilities | | **2,663** | 1,763 |
| Derivative financial instruments | 10 | **227** | 368 |
| Borrowings, secured | 17 | **189,692** | 232,037 |
| | | **372,630** | 400,083 |
| **Total liabilities** | | **380,789** | 407,270 |
| **Total equity and liabilities** | | **607,817** | 618,419 |
| **Net current assets** | | **119,832** | 109,317 |
| **Total assets less current liabilities** | | **235,187** | 218,336 |

On behalf of the Board

**LEE Sou Leung, Joseph**
*Director*

**TAN, Lisa Marie**
*Director*

The notes on pages 34 to 77 are an integral part of these consolidated financial statements.

# Balance Sheet

As at 31st December 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 8 | **91,645** | 91,645 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 8 | **52,510** | 50,680 |
| Other receivables and prepayments | 11 | **390** | 360 |
| Current income tax assets | | **4** | – |
| Cash and cash equivalents | 13 | **6** | 275 |
| | | **52,910** | 51,315 |
| **Total assets** | | **144,555** | 142,960 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 14 | **20,992** | 20,388 |
| Other reserves | 15 | **111,548** | 101,755 |
| Retained earnings | | | |
| – Proposed final dividend | 28 | **9,446** | 18,349 |
| – Others | | **2,533** | 2,259 |
| **Total equity** | | **144,519** | 142,751 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables | 16 | **36** | 200 |
| Current income tax liabilities | | **–** | 9 |
| **Total liabilities** | | **36** | 209 |
| **Total equity and liabilities** | | **144,555** | 142,960 |

On behalf of the Board

**LEE Sou Leung, Joseph**
*Director*

**TAN, Lisa Marie**
*Director*

The notes on pages 34 to 77 are an integral part of this financial statements.

# Consolidated Income Statement

For the Year Ended 31st December 2006

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Sales | 5 | **881,172** | 800,213 |
| Cost of goods sold | 21 | **(691,899)** | (613,194) |
| **Gross profit** | | **189,273** | 187,019 |
| Other gains - net | 20 | **15,550** | 18,555 |
| Excess of fair value of net assets acquired over cost of acquisition of a subsidiary | | **–** | 2,087 |
| Selling and distribution costs | 21 | **(35,775)** | (28,658) |
| Administrative expenses | 21 | **(122,627)** | (113,586) |
| **Operating profit** | | **46,421** | 65,417 |
| Finance costs | 23 | **(10,806)** | (7,647) |
| **Profit before income tax** | | **35,615** | 57,770 |
| Income tax expense | 24 | **(4,376)** | (5,393) |
| **Profit for the year** | | **31,239** | 52,377 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **30,858** | 51,118 |
| Minority interest | | **381** | 1,259 |
| | | **31,239** | 52,377 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)** | | | |
| – basic | 27 | **HK15.03 cents** | HK25.17 cents |
| – diluted | 27 | **N/A** | HK25.15 cents |
| **Dividends** | 28 | **24,737** | 32,837 |

The notes on pages 34 to 77 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes In Equity

For the Year Ended 31st December 2006

| | Note | Attributable to equity holders of the Company<br>Share capital<br>HK$'000 | <br>Other reserves<br>HK$'000 | <br>Retained earnings<br>HK$'000 | Minority interest<br><br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| Balance at 1st January 2005 | | 20,028 | 41,752 | 110,132 | 6,848 | 178,760 |
| Depreciation transfer on buildings | 15 | – | (63) | 63 | – | – |
| Currency translation | 15 | – | (139) | – | – | (139) |
| Revaluation surplus of buildings, net of tax | 15 | – | 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 | 14 | 360 | 2,769 | – | – | 3,129 |
| Dividend paid relating to 2004 | 28 | – | – | (14,020) | (600) | (14,620) |
| Dividend paid relating to 2005 | 28 | – | – | (14,488) | – | (14,488) |
| Balance at 31st December 2005 | | 20,388 | 50,449 | 132,805 | 7,507 | 211,149 |
| Balance at 1st January 2006 | | 20,388 | 50,449 | 132,805 | 7,507 | 211,149 |
| Depreciation transfer on buildings | 15 | – | (1,072) | 1,072 | – | – |
| Currency translation | 15 | – | 2,033 | – | – | 2,033 |
| Revaluation surplus of buildings, net of tax | 15 | – | 5,850 | – | – | 5,850 |
| Net income recognised directly in equity | | – | 6,811 | 1,072 | – | 7,883 |
| Profit for the year | | – | – | 30,858 | 381 | 31,239 |
| Total recognised income in 2006 | | – | 6,811 | 31,930 | 381 | 39,122 |
| Issue of shares | 14 | 604 | 9,793 | – | – | 10,397 |
| Dividend paid relating to 2005 | 28 | – | – | (18,349) | – | (18,349) |
| Dividend paid relating to 2006 | 28 | – | – | (15,291) | – | (15,291) |
| Balance at 31st December 2006 | | 20,992 | 67,053 | 131,095 | 7,888 | 227,028 |

The notes on pages 34 to 77 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the Year Ended 31st December 2006

| | Note | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 29 | **51,266** | 17,352 |
| Interest paid | | **(10,806)** | (7,647) |
| Income tax paid | | **(3,148)** | (5,108) |
| Net cash generated from operating activities | | **37,312** | 4,597 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | **–** | (407) |
| Purchase of property, plant and equipment | 7 | **(11,140)** | (20,965) |
| Purchase of leasehold land | 6 | **–** | (5,737) |
| Proceeds from sale of property, plant and equipment | 29 | **268** | 3 |
| Interest received | | **1,136** | 782 |
| Increase in restricted bank deposits | | **(1,739)** | (70,725) |
| Net cash used in investing activities | | **(11,475)** | (97,049) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | | **–** | 3,129 |
| Proceeds from collateralised borrowings and short-term bank loans | | **30,672** | 75,762 |
| Dividends paid to the Company's shareholders | | **(23,243)** | (28,508) |
| Dividends paid to minority interests | | **–** | (600) |
| Net cash generated from financing activities | | **7,429** | 49,783 |
| **Net increase/(decrease) in cash and bank overdrafts** | | **33,266** | (42,669) |
| Cash and bank overdrafts at beginning of the year | | **31,827** | 74,496 |
| **Cash and bank overdrafts at end of the year** | 13 | **65,093** | 31,827 |

The notes on pages 34 to 77 are an integral part of these 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 provision of 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 is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26th April 2007.

## 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, 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 Group'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.

(i) The following standards, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1st January 2006 which are relevant to the Group's operations but did not result in substantial changes to the accounting policies of the Group.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 39 and HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKFRS-Int 4 | Determining whether an Arrangement contains a Lease |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

(ii) The following standards, amendments and interpretations to existing standards have been published but are not effective for 2006 and have not been early adopted:

| | |
|---|---|
| HKAS 1 Amendment | Presentation of Financial Statements: Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 - Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |

The Group has already commenced an assessment of the impact of the new standards, amendments and interpretations to existing standards but is not yet in a position to state whether these new standards, amendments and interpretations to existing standards would have a significant impact to its results of operation and financial position.

### 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 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.

## 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 unless the transaction provides evidence 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 Segment 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.

## 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Foreign currency translation (Continued)

*(c) Group companies (Continued)*

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.

### 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 for buildings. 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. The carrying amount of replaced part is derecognised. All other repairs and maintenance are charged 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 charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to 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 their costs 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Property, plant and equipment (Continued)

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 and are recognised within administrative expenses. When revalued assets are sold, the amounts included in fair value reserves are transferred to retained earnings.

### 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. Separately recognised 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 combination in which the goodwill arose.

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Financial assets

The Group classifies its financial assets as available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial assets (Continued)

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets 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. Available-for-sale financial assets are subsequently carried at fair value.

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 and losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in 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 as 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 profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

### 2.9 Accounting for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair 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 within other gains – net.

### 2.10 Inventories

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Trade and other receivables

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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs 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.

### 2.14 Trade payables

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

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 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.

### 2.17 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.

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Employee benefits (Continued)

*(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 vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. 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.

### 2.18 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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 historical experience of the level of repairs and replacements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of 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.

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.

### 2.20 Leases (as the lessee for operating leases)

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

### 2.21 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.

### 2.22 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one 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.

## 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 and cash flow and fair value interest rate risk.

Risk management is carried out by the executive Directors. The executive Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

(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 executive Directors are 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.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history or made in cash. Collection of outstanding receivable balances and authorisation of credit limits to individual customers are closely monitored on an ongoing basis.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash 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 executive Directors aim to maintain flexibility in funding by keeping committed credit lines available.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

(d) *Cash flow and fair value interest rate risk*

As the Group had no significant interest-bearing assets, the income and operating cash flows of the Group were substantially independent of changes in market interest rates.

The interest rate risk of the Group arose from borrowings. Borrowings issued at variable rates exposed the Group to cash flow interest rate risk. Borrowings at fixed rates exposed the Group to fair value interest rate risk. During the year end, the borrowings of the Group at variable rates were denominated in foreign currencies and no borrowings were at fixed rate. The Group endeavoured to maintain the borrowings on a relatively short term basis which would be refinanced when considered as appropriate.

### 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 contracts is determined by using quoted forward exchange rates at the balance sheet date.

The nominal values less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 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 judgement 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.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (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.

## 5 SEGMENT INFORMATION

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

The Group is principally engaged in the trading, installation and provision of 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.

| | 2006 | | | |
|---|---|---|---|---|
| | The PRC HK$'000 | Hong Kong HK$'000 | Southeast Asia and other countries HK$'000 | Total HK$'000 |
| Sales | 513,065 | 281,330 | 86,777 | 881,172 |
| Segment results | 28,020 | 13,796 | 4,605 | 46,421 |
| Finance costs | | | | (10,806) |
| Profit before income tax | | | | 35,615 |
| Income tax expense | | | | (4,376) |
| Profit for the year | | | | 31,239 |
| Segment assets | 244,248 | 324,135 | 39,434 | 607,817 |
| Segment liabilities | 152,196 | 198,406 | 19,365 | 369,967 |
| Unallocated liabilities | | | | 10,822 |
| | | | | 380,789 |
| Capital expenditure | 5,910 | 5,184 | 46 | 11,140 |
| Depreciation of property, plant and equipment | 3,693 | 7,698 | 376 | 11,767 |
| Amortisation of leasehold land | 149 | 243 | 64 | 456 |

## 5 SEGMENT INFORMATION (CONTINUED)

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

| | 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 of property, plant and equipment | 1,137 | 5,316 | 248 | 6,701 |
| Amortisation of leasehold land | 137 | 243 | 64 | 444 |

### (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, installation and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronic equipment, throughout the year.

## 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 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases of over 50 years | **24,586** | 24,783 |
| Leases of between 10 to 50 years | **1,862** | 1,908 |
| Outside Hong Kong, held on: | | |
| Leases of between 10 to 50 years | **7,743** | 7,771 |
| | **34,191** | 34,462 |

Bank borrowings are secured on leasehold land for the carrying amount of HK$3,841,000 (2005: HK$3,950,000) (Note 17).

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Opening | **34,462** | 29,213 |
| Additions | **–** | 5,737 |
| Exchange differences | **185** | (44) |
| Amortisation | **(456)** | (444) |
| | **34,191** | 34,462 |

## 7 PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Buildings HK$'000 | Leasehold improve-ments HK$'000 | Plant, machinery, furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 1st January 2005** | | | | | |
| 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 15) | 7,229 | – | – | – | 7,229 |
| Acquisition of a subsidiary | – | – | 1,841 | – | 1,841 |
| Additions | 3,798 | 8,808 | 8,359 | – | 20,965 |
| Disposals (Note 29) | – | – | (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 |
| **Year ended 31st December 2006** | | | | | |
| Opening net book amount | 42,163 | 13,104 | 18,567 | 723 | 74,557 |
| Exchange differences | 405 | 343 | 235 | 8 | 991 |
| Revaluation surplus (Note 15) | 6,504 | – | – | – | 6,504 |
| Additions | – | 1,863 | 8,998 | 279 | 11,140 |
| Disposals (Note 29) | – | – | (261) | – | (261) |
| Depreciation | (1,663) | (2,474) | (7,312) | (318) | (11,767) |
| Closing net book amount | 47,409 | 12,836 | 20,227 | 692 | 81,164 |
| **At 31st December 2006** | | | | | |
| Cost or valuation | 47,409 | 21,175 | 46,381 | 2,022 | 116,987 |
| Accumulated depreciation | – | (8,339) | (26,154) | (1,330) | (35,823) |
| Net book amount | 47,409 | 12,836 | 20,227 | 692 | 81,164 |

## 7 PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

The Group's buildings located in Hong Kong and the PRC were revalued as at 31st December 2006 on the basis of their open market values by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The Group's buildings located outside Hong Kong and the PRC were revalued as at 31st December 2006 on the basis of their open market values 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 15).

Depreciation expense of HK$11,767,000 (2005: HK$6,701,000) has been charged in administrative expenses.

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Cost | **17,649** | 17,649 |
| Accumulated depreciation | **(7,324)** | (6,733) |
| Net book amount | **10,325** | 10,916 |

Bank borrowings are secured on buildings for the carrying amount of HK$19,199,000 (2005: HK$16,254,000) (Note 17).

The analysis of cost or valuation at 31st December 2006 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 | **–** | **21,175** | **46,381** | **2,022** | **69,578** |
| At 31st December 2006 professional valuation | **47,409** | **–** | **–** | **–** | **47,409** |
| | **47,409** | **21,175** | **46,381** | **2,022** | **116,987** |

## 7 PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

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

| | | | Group | | |
|---|---|---|---|---|---|
| | Buildings HK$'000 | Leasehold improve-ments HK$'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 |

## 8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 |
| Non-current | | |
| Unlisted shares, at cost | **91,645** | 91,645 |
| Current | | |
| Amounts due from subsidiaries (note (b)) | **52,510** | 50,680 |
| | **144,155** | 142,325 |

## 8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

### (a) Investments in subsidiaries

The following is a list of the subsidiaries at 31st December 2006:

| Name | Place of incorporation/ establishment and type of legal entity | Principal activities and place of operation | Issued/registered and fully paid capital | Interest held |
|---|---|---|---|---|
| Leeport Group Limited (note (i)) | The British Virgin Islands, limited liability company | Investment holding in Hong Kong | 50,000 ordinary shares of US$1 each | [1]100% |
| Formtek Machinery Company Limited (note (i)) | Taiwan, limited liability company | Trading of metalforming machines and tools in Taiwan | 800,000 ordinary shares of NT$10 each | 100% |
| Leeda Machinery Limited | Hong Kong, limited liability company | Trading of machines in Hong Kong | 10,000 ordinary shares of HK$1 each | 100% |
| Leeport Cutting Tools Corporation (note (i)) | The British Virgin Islands, limited liability company | Inactive | 10,000 ordinary shares of US$1 each | 100% |
| Leeport Electronics Limited | Hong Kong, limited liability company | Trading of electronic equipment in Hong Kong | 200,000 ordinary shares of HK$10 each | 100% |
| Leeport Machine Tool Company Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | 1,000,000 ordinary shares of HK$10 each | 100% |
| Leeport Macao Commercial Offshore Limited (note (i)) | Macau, limited liability company | Trading of machines, tools, accessories and measuring instruments in Macau | 1 ordinary share of MOP100,000 each | 100% |
| Leeport (Malaysia) Sdn. Bhd. (note (i)) | Malaysia, limited liability company | Distribution and repair of machine tools and accessories in Malaysia | 350,000 ordinary shares of RM1 each | 100% |
| Leeport Machine Tool (Shenzhen) Company Limited (note (i)) | The PRC, limited liability company | Trading of machines, tools and measuring instruments in the PRC | Registered and fully paid capital of HK$10,000,000 | 100% |

## 8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ establishment and type of legal entity | Principal activities and place of operation | Issued/registered and fully paid capital | Interest held |
|---|---|---|---|---|
| Leeport Machine Tool Trading (China) Limited (Note (i)) | The PRC, limited liability company | Inactive | Registered and fully paid capital of RMB6,000,000 | 100% |
| Leeport (Singapore) Pte Ltd (note (i)) | Singapore, limited liability company | Trading of machine tools and related products in Singapore | 1,000,000 ordinary shares of S$1 each | 100% |
| Leeport Machinery (Shanghai) Company Limited (note (i)) | The PRC, limited liability company | Trading of machines, tools and measuring instruments in the PRC | Registered and fully paid capital of US$1,000,000 | 98% |
| Leeport Metalforming Machinery Limited | Hong Kong, limited liability company | Trading of metalforming machines in Hong Kong | 50,000 ordinary shares of HK$10 each | 100% |
| Leeport Metrology Corporation | The British Virgin Islands, limited liability company | Investment holding in Hong Kong | 7,000,000 ordinary shares of US$1 each | 90% |
| Leeport Metrology (Hong Kong) Limited | Hong Kong, limited liability company | Trading of measuring instruments in Hong Kong | 1,000,000 ordinary shares of HK$10 each | 90% |
| Leeport Precision Machine Tool Company Limited | Hong Kong, limited liability company | Trading of metalcutting machines in Hong Kong | 5,000,000 ordinary shares of HK$1 each | 100% |
| Leeport Technology Limited | Hong Kong, limited liability company | Trading of rapid prototyping equipment and materials in Hong Kong | 100,000 ordinary shares of HK$10 each | 100% |
| Leeport Tools Limited | Hong Kong, limited liability company | Trading of cutting tools in Hong Kong | 10,000 ordinary shares of HK$100 each | 100% |
| Mitutoyo Metrology (Dongguan) Limited (note (i)) | The PRC, limited liability company | Provision of metrology maintenance service in the PRC | Registered and fully paid capital of US$483,000 | 100% |

## 8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

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

| Name | Place of incorporation/ establishment and type of legal entity | Principal activities and place of operation | Issued/registered and fully paid capital | Interest held |
|---|---|---|---|---|
| Rapman Limited | Hong Kong, limited liability company | Manufacturing of rapid prototypes | 100,000 ordinary shares of HK$10 each | 100% |
| Rapman (Dongguan) Limited (note (i)) | The PRC, limited liability company | Manufacturing of rapid prototypes | Registered and fully paid capital of HK$3,500,000 | 100% |
| World Leader Limited | Hong Kong, limited liability company | Property holding in the PRC | 1 ordinary share of HK$1 each | 100% |

[1] Shares held directly by the Company

Note:

(i) PricewaterhouseCoopers Hong Kong is not the statutory auditor of these companies.

### (b) Amounts due from subsidiaries

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

## 9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares | **1,172** | 1,172 |
| Less: provision for impairment losses | **(1,172)** | (1,172) |
| | **–** | – |

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Forward foreign exchange contracts – non-hedge instruments | **145** | **(227)** | 691 | (368) |

## 11 TRADE RECEIVABLES AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables and bills receivables | **186,859** | 225,749 | **–** | – |
| Less: provision for impairment of receivables | **(7,775)** | (6,132) | **–** | – |
| Trade receivables and bills receivables – net | **179,084** | 219,617 | **–** | – |
| Other receivables, prepayments and deposits | **27,513** | 23,803 | **390** | 360 |
| | **206,597** | 243,420 | **390** | 360 |

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

## 11 TRADE RECEIVABLES AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

At 31st December 2006 and 2005, the ageing analysis of trade receivables and bills receivables was as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Current | **111,055** | 119,318 |
| 1 - 3 months | **27,774** | 68,675 |
| 4 - 6 months | **21,075** | 11,621 |
| 7 - 12 months | **10,102** | 17,707 |
| Over 12 months | **16,853** | 8,428 |
| | **186,859** | 225,749 |
| Less: provision for impairment of receivables | **(7,775)** | (6,132) |
| | **179,084** | 219,617 |

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$599,000 (2005: HK$12,449,000) to certain banks in exchange for cash during the year ended 31st December 2006. These transactions have been accounted for as collateralised borrowings (Note 17).

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$1,064,000 (2005: HK$104,000) for the impairment of its trade receivables and bills receivables during the year ended 31st December 2006. The loss has been included in administrative expenses in the consolidated income statement.

## 12 INVENTORIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Merchandise | **147,793** | 162,308 |

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$685,158,000 (2005: HK$607,664,000).

## 13 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Restricted bank deposits (note a) | **72,464** | 70,725 | **–** | – |
| Cash at bank and in hand (note b) | **62,764** | 29,387 | **6** | 275 |
| Short-term bank deposits (note c) | **2,699** | 2,869 | **–** | – |
| | **65,463** | 32,256 | **6** | 275 |

Notes:

(a) Restricted bank deposits of the Group are pledges to secure banking facilities granted to the Group (Note 17). The effective interest rate on restricted bank deposits was 1.40% (2005: 0.49%) and these deposits have an average maturity of 8 days (2005: 7 days).

(b) The bank balances of the Group amounting to HK$12,068,000 (2005: HK$7,395,000) are placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

(c) The effective interest rate on short-term bank deposits was 4.40% (2005: 3.95%); these deposits have an average maturity of 8 days (2005: 7 days).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and cash equivalents | **65,463** | 32,256 | **6** | 275 |
| Bank overdrafts (Note 17) | **(370)** | (429) | **–** | – |
| | **65,093** | 31,827 | **6** | 275 |

## 14 SHARE CAPITAL

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK$0.10 each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 209,917,695 (2005: 203,880,000) ordinary shares of HK$0.10 each | **20,992** | 20,388 |

| | **Ordinary shares at HK$0.10 each** | |
|---|---|---|
| | **Number of shares (thousands)** | **HK$'000** |
| **At 1st January 2005** | 200,284 | 20,028 |
| Share option scheme | | |
| – proceeds from shares issued (Note b) | 3,596 | 360 |
| **At 31st December 2005** | 203,880 | 20,388 |
| Issued as scrip dividends (Note a) | 6,038 | 604 |
| **At 31st December 2006** | 209,918 | 20,992 |

Notes:

**(a) Scrip dividends**

During the year ended 31st December 2006, 6,037,695 new shares were issued for the settlement of 2006 interim scrip dividends, of which HK$604,000 is being recognised as share capital and the remaining amount of HK$9,793,000 is being recognised as share premium accordingly.

**(b) Share options**

The exercisable 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 of Hong Kong Limited's (the "HKEx") daily quotations sheet on the date of the offer; (ii) the average closing price of the Company's shares as stated in the HKEx'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.

## 14 SHARE CAPITAL (CONTINUED)

Movements in the number of share options outstanding as at 31st December 2005 and their related weighted average exercise prices were as follows:

| | 2005 | |
|---|---|---|
| | Average exercise price in HK$ per share | Number of options (thousands) |
| **At 1st January** | 0.87 | 4,060 |
| Exercised | 0.87 | (3,596) |
| Lapsed | – | (464) |
| **At 31st December** | | – |

No new share options were granted during the year ended 31st December 2006. The options exercised in 2005 resulted in 3,596,000 shares being issued at HK$0.87 each. The related weighted average share price at the time of exercise was HK$1.41 per share.

## 15 OTHER RESERVES

| | Group | | | | |
|---|---|---|---|---|---|
| | **Share premium** HK$'000 | **Building revaluation reserve** HK$'000 | **Exchange reserve** HK$'000 | **Merger reserve** HK$'000 | **Total** HK$'000 |
| **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 – gross (Note 7) | – | 7,229 | – | – | 7,229 |
| Revaluation – tax (Note 18) | – | (1,099) | – | – | (1,099) |
| Depreciation transfer on buildings | – | (63) | – | – | (63) |
| **Balance at 31st December 2005** | 10,310 | 28,634 | 195 | 11,310 | 50,449 |
| **Balance at 1st January 2006** | 10,310 | 28,634 | 195 | 11,310 | 50,449 |
| Issue of shares (Note 14(a)) | 9,793 | – | – | – | 9,793 |
| Currency translation differences | – | 20 | 2,013 | – | 2,033 |
| Revaluation – gross (Note 7) | – | 6,504 | – | – | 6,504 |
| Revaluation – tax (Note 18) | – | (654) | – | – | (654) |
| Depreciation transfer on buildings | – | (1,072) | – | – | (1,072) |
| **Balance at 31st December 2006** | 20,103 | 33,432 | 2,208 | 11,310 | 67,053 |

## 15 OTHER RESERVES (CONTINUED)

| | | Company | |
|---|---|---|---|
| | Share premium | Contributed surplus | Total |
| | HK$'000 | HK$'000 (note (a)) | HK$'000 |
| **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 |
| **Balance at 1st January 2006** | 10,310 | 91,445 | 101,755 |
| Issue of shares (Note 14(a)) | 9,793 | – | 9,793 |
| **Balance at 31st December 2006** | 20,103 | 91,445 | 111,548 |

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 2006 amounted to HK$103,424,000 (2005: HK$112,053,000).

## 16 TRADE PAYABLES AND BILLS PAYABLES, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables and bills payables | **127,757** | 116,233 | **–** | – |
| Other payables, accruals and deposits received | **52,291** | 49,682 | **36** | 200 |
| | **180,048** | 165,915 | **36** | 200 |

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

## 16 TRADE PAYABLES AND BILLS PAYABLES, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED (CONTINUED)

At 31st December 2006 and 2005, the ageing analysis of trade payables and bills payables was as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Current | **101,513** | 82,536 |
| 1 - 3 months | **9,521** | 29,676 |
| 4 - 6 months | **11,433** | 3,352 |
| 7 - 12 months | **4,833** | – |
| Over 12 months | **457** | 669 |
| | **127,757** | 116,233 |

## 17 BORROWINGS, SECURED

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| **Current** | | |
| Bank overdrafts (Note 13) | **370** | 429 |
| Collateralised borrowings (Note 11) | **599** | 12,449 |
| Trust receipt loans | **82,888** | 155,846 |
| Short-term bank loans | **105,835** | 63,313 |
| **Total borrowings** | **189,692** | 232,037 |

Total borrowings include secured liabilities (bank overdrafts, collateralised borrowings, trust receipt loans and short-term bank loans) of HK$189,692,000 (2005: HK$232,037,000). Bank overdrafts, trust receipt loans and short-term bank loans are secured by the leasehold land (Note 6), buildings (Note 7) and restricted bank deposits (Note 13(a)) of the Group. Collateralised borrowings are secured by trade receivables (Notes 11).

As at 31st December 2006, the Group has no non-current borrowing (2005: Nil).

The maturity of all borrowings is within one year (2005: within one year).

## 17 BORROWINGS, SECURED (CONTINUED)

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

| | 2006 | | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **HK$** | **US$** | **EUR** | **JPY** | **Others** | HK$ | US$ | EUR | JPY | Others |
| Bank overdrafts | **8.50%** | **8.25%** | **–** | **–** | **–** | 7.42% | – | – | – | – |
| Collateralised borrowings | **8.25%** | **7.10%** | **5.10%** | **–** | **–** | 7.87% | 6.29% | 4.27% | 1.89% | – |
| Trust receipt loans | **–** | **6.75%** | **4.95%** | **1.98%** | **8.28%** | 8.25% | 6.76% | 5.33% | 1.64% | – |
| Short-term bank loans | **5.22%** | **–** | **–** | **–** | **–** | 5.15% | – | – | – | – |

The carrying amounts of the borrowings approximate their fair values.

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Hong Kong dollar | **106,658** | 65,376 |
| US dollar | **12,698** | 26,305 |
| EURO | **5,229** | 13,035 |
| Japanese Yen | **62,938** | 127,321 |
| Others | **2,169** | – |
| | **189,692** | 232,037 |

The facilities expiring within one year are annual facilities subject to review at various dates during the year of 2007.

## 18 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% (2005: 17.5%).

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At 1st January | **7,187** | 6,320 |
| Exchange differences | **(10)** | – |
| Deferred taxation charged to/(credited from) consolidated income statement (Note 24) | **328** | (232) |
| Taxation charged to equity (Note 15) | **654** | 1,099 |
| At 31st December | **8,159** | 7,187 |

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Building revaluation reserve in shareholders' equity (Note 15) | **654** | 1,099 |

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$11,849,000 (2005: HK$11,940,000) to carry forward against future taxable income.

The movement in deferred income tax liabilities during the year is as follows:

| Deferred income tax liabilities | Accelerated tax depreciation | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At 1st January | **7,187** | 6,320 |
| Charged to/(credited from) consolidated income statement | **328** | (232) |
| Charged to equity | **654** | 1,099 |
| Exchange differences | **(10)** | – |
| At 31st December | **8,159** | 7,187 |

## 19 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

Included in other payables, accruals and deposits received is a warranty provision for repairs or replacement of products still under the warranty period 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 | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At 1st January | **4,474** | 4,654 |
| Provision made during the year | **12,075** | 10,003 |
| Provision utilised during the year | **(12,106)** | (10,183) |
| At 31st December | **4,443** | 4,474 |

The provision has been included in selling and distribution costs in the consolidated income statement.

## 20 OTHER GAINS – NET

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Derivative instruments – forward contract: | | |
| – Realised and unrealised net fair value (loss)/gain | **(405)** | 341 |
| Interest income | **1,136** | 782 |
| Investment income | **731** | 1,123 |
| Service income | **13,221** | 8,582 |
| Commission income | **852** | 8,290 |
| Other income | **746** | 560 |
| | **15,550** | 18,555 |

## 21 EXPENSES BY NATURE

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Auditor's remuneration | **1,980** | 1,577 |
| Cost of inventories sold | **685,158** | 607,664 |
| Depreciation of property, plant and equipment | **11,767** | 6,701 |
| Amortisation of leasehold land | **456** | 444 |
| Operating lease rentals in respect of land and buildings | **6,436** | 4,339 |
| Provision for slow moving inventories | **1,587** | 2,106 |
| Provision for impairment of trade receivables and bills receivables | **1,064** | 104 |
| Employee benefits expenses (including directors' remuneration) (note 22) | **71,673** | 69,157 |
| Other expenses | **70,180** | 63,346 |
| Total cost of goods sold, selling and distribution costs and administrative expenses | **850,301** | 755,438 |

## 22 EMPLOYEE BENEFITS EXPENSES

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Wages and salaries, including directors' emolument | **66,065** | 64,591 |
| Pension costs – defined contribution plans (Note a) | **5,608** | 4,566 |
| | **71,673** | 69,157 |

### (a) Pensions – defined contribution plans

The Group operates 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 or paid to the funds by the Group.

Employees in the subsidiaries operating in the PRC are required to participate in defined contribution retirement schemes operated by the local municipal governments. The retirement schemes for employees of the 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.

Contributions totalling HK$267,000 (2005: HK$179,000) were payable to the funds at the year end.

There is no forfeited contributions utilised during the year (2005: Nil), leaving nil balance available at the year end (2005: Nil) to reduce future contributions.

## 22 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

### (b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2006 is set out below:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Other benefits[(a)] HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| Lee Sou Leung, Joseph | – | 1,300 | 100 | 174 | 60 | 1,634 |
| Lisa Marie Tan | – | 579 | – | – | 27 | 606 |
| Chan Ching Huen, Stanley | – | 922 | 100 | 280 | 12 | 1,314 |
| Non-executive directors | | | | | | |
| 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 2005 is set out below:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Other benefits[(a)] HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| 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 |
| Non-executive directors | | | | | | |
| Lui Sun Wing | 100 | – | – | – | – | 100 |
| Pike Mark Terence | 100 | – | – | – | – | 100 |
| Nimmo, Walter Gilbert Mearns | 100 | – | – | – | – | 100 |

Note:

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

## 22 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 (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals during the year are as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **2,410** | 1,942 |
| Discretionary bonuses | **1,369** | 2,534 |
| Pension costs – defined contribution plans | **94** | 87 |
| | **3,873** | 4,563 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2006** | 2005 |
| Emolument bands | | |
| HK$1,000,001 – HK$1,500,000 | **3** | 2 |
| HK$2,000,001 – HK$2,500,000 | **–** | 1 |

## 23 FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest expense on: | | |
| – bank overdrafts, collateralised borrowings, trust receipt loans and short-term bank loans wholly repayable within one year | **10,806** | 7,647 |

## 24 INCOME TAX EXPENSE

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **3,230** | 4,675 |
| – Overseas taxation | **643** | 492 |
| Under-provision in previous years | | |
| – Hong Kong profits tax | **175** | 455 |
| – Overseas taxation | **–** | 3 |
| Deferred income tax (Note 18) | **328** | (232) |
| | **4,376** | 5,393 |

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable taxation rate in Hong Kong of 17.5% (2005: 17.5%) as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Profit before income tax | **35,615** | 57,770 |
| Calculated at a taxation rate of 17.5% (2005: 17.5%) | **6,233** | 10,110 |
| Effect of different taxation rates in other countries | **(1,447)** | (217) |
| Income not subject to taxation | **(2,194)** | (5,420) |
| Expenses not deductible for taxation purposes | **1,625** | 1,595 |
| Tax losses not recognised | **413** | 339 |
| Utilisation of previously unrecognised tax losses | **(429)** | (1,472) |
| Under-provision of profits tax in previous years | **175** | 458 |
| Income tax expense | **4,376** | 5,393 |

## 25 NET FOREIGN EXCHANGE GAINS

The net exchange gains recognised in the consolidated income statement are included as administrative expenses for the year ended 31st December 2006 amounted to HK$4,982,000 (2005: net foreign exchange gains of HK$4,865,000).

## 26 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$25,011,000 (2005: HK$33,046,000).

## 27 EARNINGS PER SHARE

### (a) 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.

| | **2006** | 2005 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **30,858** | 51,118 |
| Weighted average number of ordinary shares in issue (in thousands) | **205,319** | 203,088 |
| Basic earnings per share (HK cents per share) | **15.03** | 25.17 |

### (b) Diluted

Diluted earnings per share has not been presented for the year ended 31st December 2006 as there were no potentially dilutive shares outstanding.

Diluted earnings per share for the year ended 31st December 2005 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had only one category of dilutive potential ordinary shares: share options. A calculation was 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.

## 27 EARNINGS PER SHARE (CONTINUED)

The calculation of diluted earnings per share for the year ended 31st December 2005 was as follows:

| | 2005 |
|---|---|
| Profit attributable to equity holders of the Company used to determine diluted earnings per share (HK$'000) | 51,118 |
| Weighted average number of ordinary shares in issue (in thousands) | 203,088 |
| Adjustment for | |
| – share options (in thousands) | 204 |
| Weighted average number of ordinary shares for diluted earnings per share (in thousands) | 203,292 |
| Diluted earnings per share (HK cents per share) | 25.15 |

## 28 DIVIDENDS

The dividends paid during the year ended 31st December 2006 and 2005 were HK$33,640,000 (HK9 cents per share for 2005 final dividends and HK7.5 cents for 2006 interim dividends) and HK$28,508,000 (HK7 cents per share for 2004 final dividends and HK7 cents per share for 2005 interim dividends) respectively. A final dividend in respect of 2006 of HK4.5 cents per share, amounting to a total dividend of HK$9,446,000 was proposed at the board meeting held on 26th April 2007. 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 2006.

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Interim, paid, of HK7.5 cents (2005: HK7 cents) per ordinary share (Note (a) below) | **15,291** | 14,488 |
| Final, proposed, of HK4.5 cents (2005: HK9 cents) per ordinary share | **9,446** | 18,349 |
| | **24,737** | 32,837 |

Note (a): HK$10,397,000 of the total interim dividend paid were settled by the issue of scrip.

## 29 CASH GENERATED FROM OPERATIONS

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Profit before income tax | **35,615** | 57,770 |
| Adjustments for: | | |
| – Depreciation of property, plant and equipment (Note 7) | **11,767** | 6,701 |
| – Amortisation of leasehold land (Note 6) | **456** | 444 |
| – (Profit)/loss on sale of property, plant and equipment (see Note (a) below) | **(7)** | 23 |
| – Excess of fair value of net assets acquired over cost of acquisition of a subsidiary | **–** | (2,087) |
| – Fair value loss/(gain) on derivative financial instruments (Note 20) | **405** | (341) |
| – Interest income (Note 20) | **(1,136)** | (782) |
| – Interest expense (Note 23) | **10,806** | 7,647 |
| – Effect of foreign exchange rate | **847** | (52) |
| Changes in working capital (excluding the effects of exchange differences on consolidation): | | |
| – Decrease/(increase) in inventories | **14,515** | (83,872) |
| – Decrease/(increase) in trade receivables and bills receivables, other receivables, prepayments and deposits | **36,823** | (80,892) |
| – (Decrease)/increase in trade payables and bills payables, trust receipt loans, other payables, accruals and deposits received | **(58,825)** | 112,793 |
| Cash generated from operations | **51,266** | 17,352 |

## 29 CASH GENERATED FROM OPERATIONS (CONTINUED)

Note:

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Net book amount (Note 7) | **261** | 26 |
| Profit/(loss) on sale of property, plant and equipment | **7** | (23) |
| Proceeds from sale of property, plant and equipment | **268** | 3 |

## 30 CONTINGENT LIABILITIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Letters of guarantee given to customers | **9,962** | 8,850 |

## 31 COMMITMENTS

### (a) Capital commitments

(i) Commitments for available-for-sale financial assets:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Contracted obligations for – available-for-sale financial assets | **775** | 775 |

(ii) Commitments for investment in subsidiaries:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Contracted obligations for investment in subsidiaries in the PRC | **–** | 10,542 |

## 31 COMMITMENTS (CONTINUED)

### (b) Commitments under operating leases

(i) As lessee

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Not later than one year | **4,450** | 4,388 |
| Later than one year but not later than five years | **1,949** | 3,670 |
| | **6,399** | 8,058 |

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Commitments for foreign currency forward contracts | **25,927** | 98,922 |

## 32 RELATED PARTY TRANSACTIONS

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Island), which owns 66.47% of the Company's shares. The remaining 33.53% 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 | **2006** | 2005 |
| | | **HK$'000** | HK$'000 |
| Rental paid to a director, Mr LEE Sou Leung, Joseph | (a) | **144** | 144 |

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

(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 2006 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 | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **11,558** | 12,725 |
| Pension costs – defined contribution plans | **324** | 321 |
| | **11,882** | 13,046 |

(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 12th June 2006, 22nd June 2006 and 23rd November 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$114 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:

| | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Sales | **881,172** | 800,213 | 661,266 | 519,675 | 451,967 |
| Profit before income tax | **35,615** | 57,770 | 47,846 | 34,216 | 31,366 |
| Income tax expense | **(4,376)** | (5,393) | (3,217) | (2,978) | (3,162) |
| Profit for the year | **31,239** | 52,377 | 44,629 | 31,238 | 28,204 |
| Profit attributable to Equity shareholders | **30,858** | 51,118 | 43,451 | 31,028 | 28,204 |
| Minority Interest | **381** | 1,259 | 1,178 | 210 | – |
| **Assets** | | | | | |
| Property, plant and equipment | **81,164** | 74,557 | 51,292 | 45,812 | 47,241 |
| Leasehold land | **34,191** | 34,462 | 29,213 | 29,366 | 29,499 |
| Current assets | **492,462** | 509,400 | 319,522 | 253,385 | 187,234 |
| Total assets | **607,817** | 618,419 | 400,027 | 328,563 | 263,974 |
| **Liabilities** | | | | | |
| Current liabilities | **372,630** | 400,083 | 214,929 | 167,029 | 155,803 |
| Non-current liabilities | **8,159** | 7,187 | 6,320 | 13,761 | 14,518 |
| Total liabilities | **380,789** | 407,270 | 221,249 | 180,790 | 170,321 |
| Net assets | **219,140** | 203,642 | 171,930 | 142,103 | 93,653 |

# 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 JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 30th May 2007 at 10:30 a.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, 2006;

2. To declare a final dividend for the year ended 31st December, 2006;

3. To elect directors and to authorise the board of directors to fix directors remuneration;

4. To appoint auditors and to authorise the board of directors to fix their remuneration;

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

   "**THAT**

   (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares ("Shares") in the capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:

      (i) a Rights Issue (as defined below); or

      (ii) the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or

(iii) the exercise of any option under the share option scheme or any other share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares of the Company; or

(iv) scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; and

(v) a specific authority granted by the shareholders of the Company,

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

(d) for the purpose of this resolution:

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

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or by any applicable laws to be held; or

(iii) the date on which the authority set out in this resolution is revoked or varied or renewed by an ordinary resolution of the shareholders of the Company in general meeting; and

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

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

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.".

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

Hong Kong, 30th April 2007

*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 28th May 2007 (Monday) to 30th May 2007 (Wednesday) (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 25th May 2007 (Friday).

(5) An explanatory statement containing further details regarding the proposed resolution nos. 5 to 7 above will be sent to members together with the 2006 annual report containing this notice of meeting.

(6) 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.