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**LEEPORT (HOLDINGS) LIMITED**

**力豐(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 387)**

**RESULTS ANNOUNCEMENT FOR THE YEAR ENDED  
31ST DECEMBER 2013**

The Board of Directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) would like to present the consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st December 2013, together with the comparative figures for the year ended 31st December 2012. The annual results have been reviewed by the Audit Committee of the Company.

**FINANCIAL PERFORMANCE**

**Sales**

The global economy, including that of China, was still weak in 2013 and this unavoidably also affected the business performance of the Group. The weakening machine tool market in 2013 reflected this situation. China imported USD10.1 billion worth of machine tool in 2013 compared with USD13.7 billion in 2012, representing a decrease of 26.3%. The Group’s sales amounted to HK\$745,599,000 in 2013 compared with HK\$930,630,000 in 2012, a decrease of 19.9%.

However, despite the decrease in sales volume, the Group’s gross profit in 2013 amounted to HK\$137,964,000 compared with HK\$135,549,000 in 2012, an increase of 1.8%. The gross profit percentage was 18.5% in 2013 compared with 14.6% in 2012. Some business divisions successfully disposed of some aged stock. The overall stock provision of the Group in 2013 was HK\$2,077,000 and this is much lower than the stock provision amounting to HK\$7,785,000 in 2012. The weak Japanese Yen in 2013 also contributed to the improvement in the gross profit percentage of some business divisions.

**Other Income and Gains**

The total value of other income and gains was HK\$20,528,000 in 2013 compared with HK\$22,907,000 in 2012, representing a decrease of 10.4%.

The service income was HK\$9,461,000 in 2013 compared with HK\$10,028,000 in 2012. The commission income was HK\$1,141,000 in 2013 compared with HK\$5,130,000 in 2012. Commission income is the income received from suppliers for some of the customers' orders placed directly with suppliers.

The management fee income from an associated company, Mitutoyo Leepport Metrology Corporation, was HK\$1,947,000 in 2013 compared with HK\$5,097,000 in 2012. The associated company set up its own administrative operation in 2013, reducing its dependence on the management service provided by Leepport's administration.

One of the Group's warehouses was rented to external party and earned rental income of HK\$984,000 in 2013. There was also a fair value gain for this property amounting to HK\$3,211,000 at the end of 2013.

### **Operating Expenses**

Selling and distribution costs were HK\$33,044,000 in 2013 compared with HK\$32,515,000 in 2012, an increase of 1.6%. The Group incurred higher exhibition costs in 2013 as a result of participating in several exhibitions including the CIMT in Beijing, the biggest and most important machine tool exhibition in China which is held every two years.

Administration expenses amounted to HK\$131,019,000 in 2013 compared with HK\$136,198,000 in 2012, a decrease of 3.8%. The completion of a re-structuring programme after the middle of the year resulted in a saving of staff costs in 2013. Professional fees in 2013 were also lower than in 2012 (such fees were higher in 2012 due to the Group's acquisition of an associate, OPS Ingersoll Funkenerosion GmbH).

The business results of two associated companies, Mitutoyo Leepport Metrology Corporation and OPS Ingersoll Funkenerosion GmbH, were encouraging in 2013. Mitutoyo Leepport Metrology Corporation had a successful year in 2013 because it had the advantage of being the market leader in measuring instruments and its products were very competitive. Mitutoyo Leepport Metrology Corporation contributed HK\$9,887,000 net profit to the Group's result. OPS Ingersoll Funkenerosion GmbH had good business in the German and US markets in 2013 contributing HK\$3,308,000 net profit to the Group's result. The newly-formed associated company, Prima Power Suzhou Company Limited was under construction and the Group incurred shared loss of HK\$287,000.

Finance costs net of interest income were HK\$2,518,000 in 2013 compared with HK\$3,232,000 in 2012, a decrease of 22.1%. The interest income in bank deposits was higher in 2013 as more deposits were placed with banks. Also the interest income for the loan to an associated company, OPS Ingersoll Funkenerosion GmbH in 2013 was higher than in 2012 as the loan was only effective from 1st April 2012.

### **Profit Attributable to Owners of the Company and Earnings Per Share**

The profit attributable to owners of the Company was HK\$6,493,000 in 2013 compared with HK\$15,134,000 in 2012, representing a decrease of 57.1%.

For the year 2013, the operating loss before the finance costs, share of profits of associates and the income tax expenses was HK\$5,571,000, as compared with operating loss of HK\$10,257,000 in 2012. There was a significant improvement in 2013 due mainly to the higher gross profit in the year and the lower administrative expenses.

There was also, a gain for the Group on the disposal of its shareholding in Mitutoyo Leepport Metrology Corporation to Mitutoyo Corporation in 2012, amounting to HK\$19,850,000. Excluding this factor, the Group's profit after taxation was HK\$6,493,000 as at 31st December 2013 compared with a loss after taxation amounting to HK\$5,267,000 as at 31st December 2012.

The basic earnings per share were HK2.93 cents and it were HK6.83 cents in 2012.

## **DIVIDENDS**

No interim dividend was paid in the year 2013.

The Directors recommended a final dividend of HK1.5 cents per ordinary share, totalling HK\$3,329,000 (2012: the final dividend was HK3.5 cents per ordinary share, totalling HK\$7,768,000). This recommendation is subject to the approval of shareholders at the forthcoming Annual General Meeting, which will be held on 27th May 2014. Upon the approval of the shareholders, the final dividend warrant will be payable on or before 17th June 2014 to shareholders of the Company whose names appear on the register of members on 5th June 2014.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

	<i>Note</i>	<b>2013</b> <b>HK\$'000</b>	2012 HK\$'000
<b>Continuing operations</b>			
Sales	2	<b>745,599</b>	930,630
Cost of goods sold	4	<b>(607,635)</b>	(795,081)
<b>Gross profit</b>		<b>137,964</b>	135,549
Other income and gains – net	3	<b>20,528</b>	22,907
Selling and distribution costs	4	<b>(33,044)</b>	(32,515)
Administrative expenses	4	<b>(131,019)</b>	(136,198)
<b>Operating loss</b>		<b>(5,571)</b>	(10,257)
Finance income		<b>2,845</b>	2,109
Finance expenses		<b>(5,363)</b>	(5,341)
Finance expenses – net		<b>(2,518)</b>	(3,232)
Share of profits of associates	10(a)	<b>12,908</b>	6,503
Gain on disposal of a subsidiary	5	–	2,869
<b>Profit/(loss) before income tax</b>		<b>4,819</b>	(4,117)
Income tax credit/(expense)	6	<b>1,674</b>	(1,150)
Profit/(loss) for the year from continuing operations		<b>6,493</b>	(5,267)
<b>Discontinued operations</b>			
Profit for the year from discontinued operations		–	20,963
<b>Profit for the year</b>		<b>6,493</b>	15,696
<b>Profit attributable to:</b>			
Owners of the Company		<b>6,493</b>	15,134
Non-controlling interests		–	562
		<b>6,493</b>	15,696

**CONSOLIDATED INCOME STATEMENT** *(Continued)*  
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

	<i>Note</i>	<b>2013</b> <b><i>HK\$'000</i></b>	2012 <i>HK\$'000</i>
<b>Profit attributable to owners of the company arises from:</b>			
Continuing operations		<b>6,493</b>	(5,267)
Discontinued operations		–	20,401
		<u><b>6,493</b></u>	<u>15,134</u>
<b>Earnings/(loss) per share for the year from continuing and discontinued operations attributable to the owners of the Company</b>			
<b>Basic and diluted earnings/(loss) per share</b>	8		
From continuing operations		<b>HK2.93 cents</b>	HK(2.37) cents
From discontinued operations		–	HK9.20 cents
		<u><b>HK2.93 cents</b></u>	<u>HK6.83 cents</u>
<b>Dividends</b>	7	<u><b>3,329</b></u>	<u>7,768</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST DECEMBER 2013**

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Profit for the year</b>	<b>6,493</b>	15,696
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences	<b>(43,048)</b>	(21,949)
<i>Items that may be reclassified to profit or loss</i>		
Gain on revaluation of land and buildings	<b>26,646</b>	36,498
Movement of deferred tax	<b>1,209</b>	(8,300)
Change in value of available-for-sale financial assets, net of tax	<b>720</b>	2,652
Currency translation differences	<b>2,376</b>	646
Share of other comprehensive loss of associates	<b>(9,402)</b>	–
	<b>21,549</b>	31,496
<b>Other comprehensive (loss)/income for the year, net of tax</b>	<b>(21,499)</b>	9,547
<b>Total comprehensive (loss)/income for the year</b>	<b>(15,006)</b>	25,243
<b>Attributable to:</b>		
Owners of the Company	<b>(15,006)</b>	25,179
Non-controlling interests	–	64
<b>Total comprehensive (loss)/income for the year</b>	<b>(15,006)</b>	25,243
<b>Total comprehensive (loss)/income attributable to owners of the Company arises from:</b>		
Continuing operations	<b>(15,006)</b>	6,772
Discontinued operations	–	18,407
	<b>(15,006)</b>	25,179

**CONSOLIDATED BALANCE SHEET**  
*AS AT 31ST DECEMBER 2013*

	<i>Note</i>	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		178,433	225,134
Leasehold land		9,359	6,856
Investment property	9	37,700	–
Investments in associates	10(a)	69,205	62,182
Loan to an associate	10(b)	32,148	30,805
Prepayment for property, plant and equipment		1,705	–
		<u>328,550</u>	<u>324,977</u>
<b>Current assets</b>			
Inventories		65,761	93,399
Trade receivables and bills receivables	11	115,616	169,218
Other receivables, prepayments and deposits		30,336	49,012
Available-for-sale financial assets		17,242	16,522
Derivative financial instruments	12	105	258
Amount due from associates		1,764	2,567
Tax recoverable		311	260
Restricted bank deposits		139,030	129,852
Cash and cash equivalents		51,509	41,590
		<u>421,674</u>	<u>502,678</u>
<b>Total assets</b>		<u><b>750,224</b></u>	<u><b>827,655</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	13	22,193	22,193
Other reserves	13	173,973	199,991
Retained earnings	13		
– Proposed final dividend		3,329	7,768
– Others		141,267	133,233
		<u>340,762</u>	<u>363,185</u>
<b>Total equity</b>		<u><b>340,762</b></u>	<u><b>363,185</b></u>

	<i>Note</i>	<b>2013</b> <b><i>HK\$'000</i></b>	2012 <i>HK\$'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		<b>22,188</b>	25,662
<b>Current liabilities</b>			
Trade payables and bills payables	<i>14</i>	<b>103,033</b>	135,124
Other payables, accruals and deposits received		<b>62,016</b>	76,243
Derivative financial instruments	<i>12</i>	<b>290</b>	1,315
Borrowings	<i>15</i>	<b>221,935</b>	226,126
		<b>387,274</b>	438,808
<b>Total liabilities</b>		<b>409,462</b>	464,470
<b>Total equity and liabilities</b>		<b>750,224</b>	827,655
<b>Net current assets</b>		<b>34,400</b>	63,870
<b>Total assets less current liabilities</b>		<b>362,950</b>	388,847

## 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 land in Hong Kong and buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

The following amendments to standards and interpretations are mandatory for the Group’s financial year beginning on 1st January 2013. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Annual Improvements Project	Annual Improvements 2009-2011 cycle

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning on 1st January 2013 that not currently relevant to the Group and have not been early adopted:

		<b>Effective for the accounting period beginning on or after</b>
HKAS 32 (Amendment)	Financial Instruments: Presentation on Asset and Liability Offsetting	1 January 2014
HKAS 36 (Amendment)	Impairment of Assets on Recoverable Amount Disclosure	1 January 2014
HKAS 39 (Amendment)	Financial Instruments: Recognitions and Measurement – Novation of derivatives	1 January 2014
HKFRS 10, 12 and HKAS 27 Amendment)	Consolidation for Investment Entities	1 January 2014
HK (IFRIC) 21	Levies	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations that have been issued but are not yet effective for financial year beginning on 1st January 2013, and does not expect there will be a significant impact to the Group’s financial statements.

## 2. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker, represented by Board of Directors that are used to make strategic decisions.

The Board considers the business from a geographic region. Geographically, management considers the performance in the PRC, Hong Kong and other countries.

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 PRC, Hong Kong and other countries (principally Singapore, Malaysia and Indonesia). The PRC, for the purpose of this consolidated financial statement, excludes Hong Kong, the Republic of China (“Taiwan”) and Macau.

The Board assesses the performance of the operating segments based on a measure of segment result, total assets and total capital expenditure. The Group primarily operates in Hong Kong and the PRC. The Group’s sales by geographical location are determined by the country in which the customer is located.

	<b>For the year ended 31st December 2013</b>			
	<b>The PRC</b>	<b>HK</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>
Sales	<u>565,467</u>	<u>128,151</u>	<u>51,981</u>	<u>745,599</u>
Segment results	<u>(3,341)</u>	<u>(435)</u>	<u>(1,795)</u>	<u>(5,571)</u>
Finance expense – net				(2,518)
Share of profit of associates				<u>12,908</u>
Profit before income tax				4,819
Income tax credit				<u>1,674</u>
Profit for the year				<u>6,493</u>

For the year ended 31st December 2012

	The PRC <i>HK\$'000</i>	HK <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sales	<u>650,684</u>	<u>188,152</u>	<u>91,794</u>	<u>930,630</u>
Segment results	<u>(8,185)</u>	<u>(1,845)</u>	<u>(227)</u>	(10,257)
Finance expenses – net				(3,232)
Gain on disposal of a subsidiary				2,869
Share of profit of associates				<u>6,503</u>
Loss before income tax				(4,117)
Income tax expense				<u>(1,150)</u>
Loss for the year from continuing operations				(5,267)
Profit for the year from discontinued operations				<u>20,963</u>
Profit for the year				<u>15,696</u>

There is no revenue from transactions with a single external customer amounting to 10% or more of the Group's revenues.

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Total assets:		
The PRC	<b>212,441</b>	306,387
Hong Kong	<b>431,822</b>	412,472
Other countries	<b>105,961</b>	108,796
	<u><b>750,224</b></u>	<u>827,655</u>

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

Note:

(a) Other countries include Taiwan, Singapore, Macau, Indonesia and Malaysia.

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

	<b>2013</b>	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure:		
The PRC	<b>3,648</b>	3,319
Hong Kong	<b>607</b>	2,238
	<u>4,255</u>	<u>5,557</u>

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

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

The entity is domiciled in Bermuda. The result of its sales from external customers for the years ended 31st December 2013 and 2012 and the total of non-current assets as at 31st December 2013 and 2012 were wholly located in other countries.

### 3. OTHER INCOME AND GAINS – NET

	<b>Group</b>	
	<b>2013</b>	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Derivative instruments – forward contracts:		
– Realised and unrealised net fair value gain/(loss)	<b>872</b>	(602)
	<u>872</u>	<u>(602)</u>
Investment income/(loss)	<b>872</b>	(602)
	-----	-----
Rental income	<b>1,056</b>	27
Service income	<b>9,461</b>	10,028
Commission income	<b>1,141</b>	5,130
Net gain from fair value adjustment on an investment property	<b>3,211</b>	–
Other income	<b>2,840</b>	3,227
Management fee income from an associate	<b>1,947</b>	5,097
	<u>20,528</u>	<u>22,907</u>

#### 4. EXPENSES BY NATURE

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

	Group	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Auditors' remuneration	2,426	2,559
Cost of inventories sold	600,925	780,524
Depreciation on property, plant and equipment	11,092	11,807
Amortisation on leasehold land	232	223
Operating lease rentals	4,361	4,553
Provision for slow moving inventories	2,077	7,785
Net provision for impairment of trade and bills receivables	1,256	882
Foreign exchange gain	(6,056)	(10,920)
Employee benefits expenses (including directors' remuneration)	81,131	83,794
Other expenses	74,254	82,587
	<hr/>	<hr/>
Total cost of goods sold, selling and distribution costs and administrative expenses	<b>771,698</b>	<b>963,794</b>

#### 5. GAIN ON DISPOSAL OF A SUBSIDIARY

A subsidiary, Leeport Tools Macao Commercial Offshore Limited, was disposed at a consideration of HK\$2,900,000 at a profit of HK\$2,869,000 in 2012.

#### 6. INCOME TAX (CREDIT)/EXPENSE

The amount of taxation (credited)/charged to the consolidated income statement represents:

	Group	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	29	212
– PRC and overseas taxation	617	2,978
– Over provision in previous years	(55)	(883)
Deferred income tax	(2,265)	(1,157)
	<hr/>	<hr/>
	<b>(1,674)</b>	<b>1,150</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

Enterprise income tax (“EIT”) in the PRC has been provided at the rate of 25% (2012: 25%) on the estimated assessable profit for the year with certain preferential provisions.

Corporate tax in Singapore has been provided at the rate of 17% (2012: 17%) 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.

## 7. DIVIDENDS

No interim dividend is paid for the year ended 31st December 2013 (2012: Nil). Final dividend of HK1.5 cents for the year ended 31st December 2013 (2012: HK3.5 cents) is to be proposed at the annual general meeting on 27th May 2014. These financial statements do not reflect this dividend payable.

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interim, paid, of HK Nil cents (2012: Nil cents) per ordinary share	–	–
Final, proposed, of HK1.5 cents (2012: HK3.5 cents) per ordinary share	<u>3,329</u>	<u>7,768</u>
	<u><b>3,329</b></u>	<u><b>7,768</b></u>

The aggregate amounts of the dividends paid and proposed during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

## 8. EARNINGS/(LOSS) PER SHARE

### (a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit/(loss) from continuing operations attributable to owners of the Company (HK\$'000)	<b>6,493</b>	(5,267)
Profit from discontinued operations attributable to owners of the Company (HK\$'000)	<u>–</u>	<u>20,401</u>
	<u><b>6,493</b></u>	<u>15,134</u>
Weighted average number of ordinary shares in issue (in thousands)	<u><b>221,934</b></u>	<u>221,696</u>
Basic earnings/(loss) per share attributable to owners of the Company (HK cents per share)		
– From continuing operations	<b>2.93</b>	(2.37)
– From discontinued operations	<u>–</u>	<u>9.20</u>
	<u><b>2.93</b></u>	<u>6.83</u>

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the years ended 31st December 2013 and 2012, shares issuable upon exercise of the share options are the only potential dilutive ordinary shares. There was no potential dilutive effect from the share options, as the conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the earnings per share for the year ended 31st December 2013 and 2012.

**9. INVESTMENT PROPERTY**

During the year, a property was rent out and was reclassified from Property, plant and equipment as investment property. Rental income of HK\$984,000 is included in other income and gain (Note 3).

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
At fair value		
Opening balance at 1st January	–	–
Transfer from owner-occupied property	34,489	–
Net gain from fair value adjustment	3,211	–
	<u>37,700</u>	<u>–</u>
Closing balance at 31st December	<u>37,700</u>	<u>–</u>

**10(a). INVESTMENTS IN ASSOCIATES**

Movements of investments in associates are as follows:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
At fair value		
At 1st January	62,182	–
Recognition of investment cost in Mitutoyo Leepport Metrology Corporation (“MLMC”)	–	40,000
Recognition of investment cost in Prima Power Suzhou Co., Ltd	4,399	–
Investment in OPS-Ingorsoll Funkenerosion GmbH (“OPS”)	–	15,679
Share of post-tax profits of associates	12,908	6,503
Share of other comprehensive loss of associates	(9,402)	–
Share of dividend of an associate	(882)	–
	<u>69,205</u>	<u>62,182</u>
At 31st December	<u>69,205</u>	<u>62,182</u>

During the year, the Company’s wholly owned subsidiary, Leepport Machine Tool Company Limited set up a company with two independent third parties. Leepport Group will invest RMB9.5 million (equivalent to approximately HK\$12 million) by cash in 4 instalments for a 19% equity interest.

**10(b). LOAN TO AN ASSOCIATE**

The balance represents a loan made to OPS. The loan is unsecured, interest bearing at HIBOR plus 4.5% per annum and will not be repaid within the next twelve months from the reporting date.

As at 31st December 2013, the carrying value of the loan to an associate was HK\$32,148,000. Based on assessment on the recoverability of the balance, management considers no impairment provision is necessary.

During the year, interest received from OPS amounted to HK\$1,462,000 (2012: HK\$1,083,000).

## 11. TRADE AND BILLS RECEIVABLES

At 31st December 2013 and 2012, the ageing analysis of trade and bills receivables by due dates are as follows:

	<b>Group</b>	
	<b>2013</b>	2012
At fair value	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current	<b>69,148</b>	98,648
1-3 months	<b>30,582</b>	42,869
4-6 months	<b>8,900</b>	16,940
7-12 months	<b>4,630</b>	7,198
Over 12 months	<b>9,355</b>	9,306
	<b>122,615</b>	174,961
Less: provision for impairment of receivables	<b>(6,999)</b>	(5,743)
	<b>115,616</b>	169,218

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

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>Group</b>			
	<b>2013</b>		2012	
	<b>Assets</b>	<b>Liabilities</b>	Assets	Liabilities
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>	<i>HK\$'000</i>
Forward foreign exchange contracts				
– non-hedge instruments	<b>105</b>	<b>290</b>	258	1,315

Derivatives holding for trading purpose are classified as a current asset or liability. As at 31st December 2013, the Group has outstanding gross-settled foreign currency forward contracts to buy EUR 626,000 for HK\$6,625,000; JPY101,800,000 for USD1,008,000; RMB11,000,000 for HK\$13,987,000; EUR3,000,000 for USD4,139,000 (2012: Buy EUR1,399,000 for HK\$14,049,000; JPY62,750,000 for HK\$5,927,000; JPY73,700,000 for USD929,000; JPY37,400,000 for RMB3,083,000; AUD259,000 for HK\$2,095,000 and GBP23,000 for HK\$288,000).

13. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2013

	Attributable to owners of the Company			Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
Balance at 1st January 2013	22,193	199,991	141,001	363,185
<b>Comprehensive income</b>				
Profit for the year	–	–	6,493	6,493
<b>Other comprehensive income</b>				
Gain on revaluation of land and buildings	–	26,646	–	26,646
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(4,870)	4,870	–
Movement of deferred tax	–	1,209	–	1,209
Change of value of available-for-sale financial assets	–	720	–	720
Currency translation differences	–	(40,672)	–	(40,672)
Share of other comprehensive loss of associates	–	(9,402)	–	(9,402)
Total other comprehensive loss, net of tax	–	(26,369)	4,870	(21,499)
<b>Total comprehensive loss</b>	–	(26,369)	11,363	(15,006)
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>				
Employees share option scheme:				
Share option scheme				
– value of services provided	–	351	–	351
Dividend paid relating to 2012	–	–	(7,768)	(7,768)
<b>Total transaction with owners, recognized directly in equity</b>	–	351	(7,768)	(7,417)
Balance at 31st December 2013	<u>22,193</u>	<u>173,973</u>	<u>144,596</u>	<u>340,762</u>

	Attributable to owners of the Company			Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000		
Balance at 1st January 2012	22,055	211,503	134,962	14,853	383,373
<b>Comprehensive income</b>					
Profit for the year	–	–	15,134	562	15,696
<b>Other comprehensive income</b>					
Gain on revaluation of land and buildings	–	36,498	–	–	36,498
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(4,138)	4,138	–	–
Movement of deferred tax	–	(8,300)	–	–	(8,300)
Available-for-sale financial assets	–	2,652	–	–	2,652
Currency translation differences	–	(20,805)	–	(498)	(21,303)
Total other comprehensive income, net of tax	–	5,907	4,138	(498)	9,547
<b>Total comprehensive income</b>	–	5,907	19,272	64	25,243
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>					
Employees share option scheme:					
Share option scheme					
– value of services provided	–	34	–	–	34
– proceeds from shares issued	138	708	–	–	846
Disposal of subsidiaries with loss of control	–	(17,821)	–	(15,057)	(32,878)
Dividend paid relating to 2011	–	–	(13,233)	–	(13,233)
<b>Total contributions by and distributions to owners of the Company</b>	138	(17,079)	(13,233)	(15,057)	(45,231)
Changes in ownership interests in subsidiaries without change of control	–	(340)	–	140	(200)
<b>Total transaction with owners</b>	138	(17,419)	(13,233)	(14,917)	(45,431)
Balance at 31st December 2012	22,193	199,991	141,001	–	363,185

#### 14. TRADE AND BILLS PAYABLES

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

	Group	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current	87,991	123,949
1-3 months	12,365	5,186
4-6 months	184	3,564
7-12 months	611	1,738
Over 12 months	1,882	687
	<u>103,033</u>	<u>135,124</u>

#### 15. BORROWINGS

	Group	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Current</b>		
Bank overdraft	65	–
Trust receipt loans	71,818	75,853
Term loans from banks due for repayment within one year	<u>150,052</u>	<u>150,273</u>
<b>Total borrowings</b>	<u>221,935</u>	<u>226,126</u>

As at 31st December 2013, certain land and buildings, leasehold land, investment property and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$331,012,000 (2012: HK\$329,880,000) were pledged to secure the banking facilities of the Group.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed during the following periods:

- (i) from 23rd May 2014 (Friday) to 27th May 2014 (Tuesday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2014 Annual General Meeting. In order to be eligible to attend and vote at the 2014 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 22nd May 2014 (Thursday); and
- (ii) from 3rd June 2014 (Tuesday) to 5th June 2014 (Thursday), both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 30th May 2014 (Friday).

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

## **BUSINESS REVIEW**

The global economy, including China, continued to be weak in 2013, and there was no significant improvement compared with 2012. The goal of the Chinese Government's latest strategic direction is to improve the quality of economic growth rather than its quantitative expansion. The volume of Government spending was restricted and investment was selective in the year. The global economic slow-down also affected China's exports. The GDP growth rate was 7.7% in 2013 compared with 7.8% in 2012. The value of industrial production grew at 7.6% in 2013 compared with 7.9% in 2012. The economic index indicates that the basic economic situation in China was stagnant in 2013.

In 2013, the Group's business was sustained mainly by the increased prosperity of the car, mobile phone manufacturing, accessories for electronic products and telecommunications equipment industries. China manufactured 22 million cars in 2013, an increase of 14.7% compared with 2012. The mobile phone manufacturing industry also grew by 23.2% in 2013 compared with 2012. However, business from the other industrial segments was relatively weak in 2013.

The Group's business performance in South East Asian countries was also disappointing. The economy in the region was affected by the economic slow-down in China and weak demand from Europe and the USA.

The value of the Group's contract bookings in the second half of 2013 was HK\$374,429,000 compared with HK\$396,436,000 in the first half of 2013. This indicates that the Group's business still lacks an upward momentum. The value of the Group's outstanding contracts at the end of February 2014 was HK\$214,714,000.

Our associated companies (Mitutoyo Leepport Metrology Corporation and OPS Ingersoll Funkenerosion GmbH) made a significant contribution to the Group's results in 2013. With the enhancement of the support from Japan headquarters, Mitutoyo Leepport Metrology Corporation, a subsidiary of the world-leading measuring instruments manufacturer, achieved an outstanding performance for the business in Southern China in 2013. The increasing prosperity of the car and mobile phone manufacturing industries contributed to the success of the business for measuring instruments. Furthermore, due to the strong economy in Germany, OPS Ingersoll, the German machine tool company, also achieved a better result in 2013 compared with 2012. The increase in sales for OPS Ingersoll in the US market also contributed to the good result in 2013, whereas their sales in China were unsatisfactory.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The balance of cash net of overdraft of the Group as at 31st December 2013 was HK\$51,444,000 (31st December 2012: HK\$41,590,000). The Group maintained reasonable level of cash position. The Group's inventory balance as at 31st December 2013 was HK\$65,761,000 (31st December 2012: HK\$93,399,000). The Group continued to maintain tight control on purchase orders and put more effort on disposal of aged stock. The Group achieved significant reduction of inventory level in 2013. The turnover days of inventory was 40 at the end of December 2013 and it was 51 at the end of December 2012. The trade receivables and bills receivables balance was HK\$115,616,000 as at 31st December 2013 (31st December 2012: HK\$169,218,000). The turnover days of trade receivable was 57 and which was also a reasonable level. The trade payables and bills payables balance was HK\$103,033,000 as at 31st December 2013 (31st December 2012: HK\$135,124,000). The balance of short-term borrowing was HK\$221,935,000 as at 31st December 2013 (31st December 2012: HK\$226,126,000).

The Group's net gearing ratio was approximately 50% as at 31st December 2013 (31st December 2012: 50.8%) The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalent.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2013, the Group had aggregate banking facilities of approximately HK\$807,359,000 of which approximately HK\$297,655,000 was utilized, bearing interest at prevailing market rates and secured by certain leasehold land, land and buildings, investment property and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK\$331,012,000 (31st December 2012: HK\$329,880,000). The directors are confident that the Group is able to meet its operational and capital expenditure and requirements.

## **FUTURE PLANS AND PROSPECTS**

It is likely that 2014 will still be a challenging year for the Group's business. The economic situation in Europe and the USA will probably improve only very slowly. The GDP growth rate in China will most likely stay in the range of 7% to 8%, as it has in the past two years. The tightening credit control measures implemented by the Chinese Government continue to affect the liquidity of the loan market. Most small and medium-sized enterprises continue to face the problem of tight financial resources for investment. The Group's business will rely on orders from sizable and well-established customers. The car and mobile phone manufacturing industries will continue to be the key customer segments for the Group.

The Group expects an improvement in sales in 2014 compared with 2013. Individual business divisions will strengthen their sales management in order to upgrade the productivity of the sales force. The ongoing process of disposing of aged stocks is expected to contribute to the Group's results for the year. The Group will closely monitor its operating expenses and improve its operational efficiency.

In August 2013, the Group participated in establishing Prima Power Suzhou Company Limited, a new joint-venture manufacturing plant in Suzhou, China, and became one of the shareholders. The plant was established by the Italian firm Prima Industrie S.p.A., a world-leading manufacturer of sheetmetal processing machinery.

The commissioning of the plant is expected to take place by the end of 2014. The China-made machines will be more competitive and will increase the market share of Prima Power machinery in China. Leeport, as the exclusive distributor for Prima Power products in China, will as a consequence increase its revenue. It is expected that the co-operation with Prima Industrie S.p.A. will be further strengthened.

We foresee that in 2014, the business results of the associated companies Mitutoyo Leeport Metrology Corporation and OPS Ingersoll Funkenerosion GmbH will be as good as in 2013 and will make a significant contribution to the Group's results.

Despite the unclear global economic situation in 2014, the Group is taking appropriate action to handle the challenges it is facing. We are confident that the Group's business results in 2014 will improve.

The Group will continue to take up more new products and look for opportunities to go into joint-ventures with suitable partners.

## **EMPLOYEES**

As at 31st December 2013, the Group had 380 employees (2012: 476). Of these, 101 were based in Hong Kong, 252 were based in mainland China, and 27 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses.

## SHARE CAPITAL

### Share capital

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<b><u>100,000</u></b>	<u>100,000</u>
	<b>Number of shares (in thousand)</b>	Share capital <i>HK\$'000</i>
Issued and fully paid:		
At 1st January 2013 and 31st December 2013		
221,934,062 ordinary shares of HK\$0.10 each	<b><u>221,934</u></b>	<u>22,193</u>

### Share options

On 17th June 2003, the Company approved and adopted a share option scheme (the “Old Scheme”).

On 15th May 2013, a new share option scheme (the “New Scheme”) has been adopted in the annual general meeting held to replace the Old Scheme. Details of the New Scheme are set out in the circular dated 15th April 2013 which was sent to the shareholders.

On 15th November 2013, 1,740,000 share options have been offered and granted to a director namely Dr. Lui Sun Wing with an exercise price of HK\$1.13 per share. The closing price of the shares on the date of grant was HK\$1.13 per share and the average closing price of the shares for the five business days immediately preceding the date of grant was HK\$1.108 per share. The closing price of the shares on 14th November 2013 (immediately before 15th November 2013, the date his options granted) was HK\$1.13 per share.

The Company used the Black–Scholes Valuation model to value the share options granted. The key parameters used in the model and the corresponding fair value of the options granted during 2013 are as follows:

**Share Option granted on  
15th November 2013**

Number of share options granted	1,740,000
Share price at date of grant (HK\$)	1.13
Exercise price (HK\$)	1.13
Expected life of options	3 years
Annualised volatility	34.70%
Risk free interest rate	0.45%
Dividend payout rate	3.47%

The exercise period of share option granted on 15th November 2013 is from 15th November 2013 to 14th November 2016 (both dates inclusive). Pursuant to the share option scheme, these share options were fully vested on 15th November 2013.

The share-based payment recognised in the consolidated income statement for these share options granted to directors and employees for the year ended 31st December 2013 is HK\$351,000 (2012: HK\$34,000).

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

Eligible participants	Date of grant	Exercise period	Exercise Price HK\$	At beginning of the year	Granted during the year	Lapsed during the year	At end of the year
<b>Director</b>							
LUI Sun Wing (Dr. Lui)	4th July 2011	2nd July 2012–1st July 2013	0.96	260,000	–	(260,000)	–
	15th November 2013	15th November 2013– 14th November 2016	1.13	–	1,740,000	–	1,740,000
				260,000	1,740,000	(260,000)	1,740,000
				260,000	1,740,000	(260,000)	1,740,000

During the year, no share options were exercised or cancelled.

## **DETAILS OF THE CHARGES ON THE GROUP'S ASSETS**

As at 31st December 2013, certain land and buildings, leasehold land, investment property and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$331,012,000 (2012: HK\$329,880,000) were pledged to secure the banking facilities of the Group by way of a fixed charge.

## **CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES**

In 2013, the Group spent a total of HK\$4,255,000 (2012: HK\$5,557,000) in capital expenditure, which primarily consisted of property, plant and equipment and leasehold land. As at 31st December 2013, the Group had capital commitments of HK\$736,000 on property, plant and equipment and HK\$7,073,000 on investment in an associated company (2012: HK\$ Nil). In the meantime, total of HK\$24,155,000 (2012: HK\$20,381,000) 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 minimize the Group's exposure to foreign exchange rate risks.

As at 31st December 2013, the Group has outstanding gross-settled foreign currency forward contracts to buy EUR626,000 for HK\$6,625,000; JPY101,800,000 for USD1,008,000; RMB11,000,000 for HK\$13,987,000; EUR3,000,000 for USD4,139,000 (2012: Buy EUR1,399,000 for HK\$14,049,000; JPY62,750,000 for HK\$5,927,000; JPY73,700,000 for USD929,000; JPY37,400,000 for RMB3,083,000; AUD259,000 for HK\$2,095,000 and GBP23,000 for HK\$288,000).

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **CORPORATE GOVERNANCE**

During the year ended 31st December 2013, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except the following:

## **Code Provision A.2.1**

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

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (“MODEL CODE”)**

For the year ended 31st December 2013, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31st December 2013 under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## **AUDIT COMMITTEE**

The Audit Committee, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Mr. NIMMO, Walter Gilbert Mearns and Dr. LEE Tai Chiu, has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the condensed consolidated financial statements for the year ended 31st December 2013 with the directors.

## **REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS**

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended 31st December 2013. The figures in respect of the preliminary announcement of the Group’s results for the year have been agreed by the Company’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s consolidated financial statements for the year 2013. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## **2014 ANNUAL GENERAL MEETING**

It is proposed that the 2014 Annual General Meeting of the Company will be held on 27th May 2014 (Tuesday). A notice convening the 2014 Annual General Meeting will be published on the websites of the Stock Exchange and the Company in due course and will be dispatched to the shareholders of the Company accordingly.

## **CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

The board of directors of the Company hereby announces that, with effect from 31st March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the “Branch Share Registrar”), will change its address from 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong to:

Level 22, Hopewell Centre  
183 Queen’s Road East  
Hong Kong

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

On behalf of the Board  
**LEE Sou Leung, Joseph**  
*Chairman*

Hong Kong, 14th March 2014

*As at the date of this announcement, the board of directors comprises 3 executive directors, namely Mr. LEE Sou Leung, Joseph, Mr. CHAN Ching Huen, Stanley, Mr. WONG Man Shun, Michael and 1 non-executive director, namely Dr. LUI Sun Wing, and 3 independent non-executive directors, namely Mr. PIKE, Mark Terence, Mr. NIMMO, Walter Gilbert Mearns and Dr. LEE Tai Chiu.*

\* *for identification purpose only*