

Leeport

力豐(集團)有限公司
LEEPORT (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 0387)



2017
Annual Report

50 YEARS
IN MANUFACTURING
TECHNOLOGY



Contents

	<i>PAGES</i>
OUR HISTORY	2
CORPORATE INFORMATION	4
CHAIRMAN'S STATEMENT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	10
BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT	14
REPORT OF THE DIRECTORS	16
CORPORATE GOVERNANCE REPORT	27
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	36
INDEPENDENT AUDITOR'S REPORT	42
AUDITED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEET	47
CONSOLIDATED INCOME STATEMENT	49
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	50
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	51
CONSOLIDATED CASH FLOW STATEMENT	53
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	54
FIVE YEAR FINANCIAL SUMMARY	130

Our History



1967

- Joseph Lee founded Leeport & Co.



1968

- Joseph Lee (front row far left) attended the Mitutoyo distributors' meeting in Japan



1971

- Leeport became the exclusive agent of Okamoto Machine Tool Works, Ltd. in Hong Kong



1987

- Leeport became the exclusive agent of Okuma Corporation in Hong Kong and Guangdong Province, China



1996

- Leeport became the exclusive agent of Finn-Power (now named Prima Power) in Hong Kong, China and South East Asia



2011

- Further collaboration between Mitutoyo Corporation and Leeport (Holdings) Limited



2012

- Leeport invested in OPS-Ingersoll Funkenerosion GmbH, a German manufacturer of automated mold centres



1981

- Dr. the Hon. Sir S.Y. Chung, GBM, J.P., officiated at the opening of Leeport's Kwai Chung Showroom



1986

- In May 1986, the Mayor of Tianjin officiated at the opening of the "Advanced Machine Tool & Electronics Equipment Show" in Tianjin, organised solely by Leeport



1986

- Leeport became the exclusive agent of Mitsubishi Materials Corporation in five provinces in China



1998

- Leeport became the exclusive agent of Yasda Precision Tools K.K. in Hong Kong and China



2003

- Leeport was listed on the Main Board of the Hong Kong Stock Exchange



2005

- Established Leeport Shenzhen Advanced Manufacturing Technology Centre



2014

- A joint-venture company, Prima Power Suzhou Company Limited, was established with Prima Industrie S.p.A.



2016

- The grand opening of the new Leeport Shanghai office



2017

- The celebration of Leeport's 50th Anniversary

Corporate Information

DIRECTORS

Executive Directors

Mr. LEE Sou Leung, Joseph
(Chairman and Group Chief Executive Officer)
Mr. CHU Weiman
Mr. CHAN Ching Huen, Stanley
Mr. WONG Man Shun, Michael

Independent Non-executive Directors

Mr. PIKE, Mark Terence
Dr. LEE Tai Chiu
Mr. ZAVATTI Samuel

COMPANY SECRETARY

Mr. CHAN Ching Huen, Stanley

MEMBERS OF AUDIT COMMITTEE

Mr. PIKE, Mark Terence *(Chairman)*
Dr. LEE Tai Chiu
Mr. ZAVATTI Samuel

MEMBERS OF REMUNERATION COMMITTEE

Mr. LEE Sou Leung, Joseph
Mr. PIKE, Mark Terence
Dr. LEE Tai Chiu *(Chairman)*
Mr. ZAVATTI Samuel

MEMBERS OF NOMINATION COMMITTEE

Mr. LEE Sou Leung, Joseph *(Chairman)*
Mr. PIKE, Mark Terence
Dr. LEE Tai Chiu
Mr. ZAVATTI Samuel

SOLICITORS

Stevenson, Wong & Co

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

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 Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.leeport.com.hk

Chairman's Statement

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 2017, together with the comparative figures for the year ended 31st December 2016. The annual results have been reviewed by the Audit Committee of the Company.

FINANCIAL PERFORMANCE

Sales

In 2017, China's economy was stronger than in 2016. The demand for manufacturing equipment and tools was also good. Unfortunately, the Group's business in equipment sales was adversely affected by the delay of shipments from a Japanese supplier of some big orders. On the other hand, the sales of our cutting tools business increased 35.7% as compared with 2016, and the sales of measuring equipment increased 13.3% as compared with 2016.

The Group's sales amounted to HK\$614,370,000 in 2017, compared with HK\$715,113,000 in 2016, representing a decrease of 14.1%. The Group's gross profit amounted to HK\$104,048,000, compared with HK\$133,595,000 in 2016, representing a decrease of 22.1%. The gross profit percentage was 16.9% in 2017, lower than the gross profit percentage of 18.7% in 2016. The lower gross profit percentage in 2017 was due mainly to the lower gross profit percentage of equipment sales.

Although the sales of the Group fell by 14.1% in 2017, the total value of the contracts signed was 3% higher than in 2016. The total value of contract in 2017 was HK\$744,946,000 and it was HK\$723,026,000 in 2016. This was due mainly to the strong performance of the business in cutting tools and measuring instruments. In the second half of 2017, all the business divisions, including equipment, made significant improvements in closing sales contracts.

Other Income and Gains

The total value of other income and gains was HK\$19,859,000 in 2017, compared with HK\$17,249,000 in 2016, representing an increase of 15.1%.

Service income was HK\$7,299,000 in 2017, compared with HK\$8,735,000 in 2016, representing a decrease of 16.4%. Commission income was only HK\$678,000 in 2017, lower than the amount of HK\$3,032,000 in 2016.

Other income included a rental fee of HK\$2,175,000, and a management fee of HK\$1,565,000 charged against Mitutoyo Leeport Metrology Corporation. There was a gain on forward contracts of HK\$569,000 in 2017, compared with a loss on forward contracts of HK\$2,810,000 in 2016. Also there was a gain in valuation of investment properties amounting to HK\$3,034,000 in 2017. There was no such gain in 2016.

In the first half of 2017, our investee, Prima Industrie S.p.A., the parent company of Prima Power Suzhou Company Limited, also declared a dividend, so the Group received a dividend of HK\$1,091,000. The dividend received in 2016 was HK\$690,000.

Chairman's Statement (Continued)

Operating Expenses

Selling and distribution costs were HK\$17,392,000 in 2017, compared with HK\$34,070,000 in 2016, representing a decrease of 49.0%. The reduction in selling and distribution costs was due mainly to the lower logistics costs, commissions paid to salespersons and sub-dealers, and bank charges in line with the lower sales volume.

Administrative expenses amounted to HK\$90,553,000 in 2017, compared with HK\$100,800,000 in 2016, representing a decrease of 10.2%. The decrease in administrative expenses was due mainly to an exchange gain of HK\$6,953,000. The Japanese Yen rose by around 4%, the Euro rose by around 15%, and Renminbi rose by around 8% at the end of 2017. The stronger Euro caused the shareholder's loan to OPS-Ingersoll Funkenerosion GmbH to record a gain on the exchange difference. The Group held a certain amount of Renminbi in 2017, and accordingly this also recorded an exchange gain. As some Group entities operated using the functional currency of Japanese Yen, the translation of their net monetary liabilities, which were denominated mainly in HKD to the functional currency, also recorded an exchange gain. There was an exchange loss of HK\$3,447,000 in 2016. On the other hand, the other general administrative expenses in 2017 were about the same as in 2016.

Finance Expenses – Net

Finance expenses net of finance income were HK\$2,407,000 in 2017, compared with HK\$1,740,000 in 2016. Finance income in 2017 was HK\$1,475,000, compared with HK\$1,767,000 in 2016, representing a decrease of 16.5%. The decrease in finance income was due mainly to a reduction in restricted bank deposits in Australian Dollars and Renminbi. Interest income derived from the loan to OPS-Ingersoll Funkenerosion GmbH was HK\$899,000 in 2017, compared with HK\$1,102,000 in 2016. This decrease was due to the fact that OPS-Ingersoll Funkenerosion GmbH repaid a loan of Euro 1 million to Looport at the end of August 2016.

Finance expenses were HK\$3,882,000 in 2017, compared with HK\$3,507,000 in 2016, representing an increase of 10.7%. This increase was due to the higher interest rate in the market in 2017.

Share of Profit of Associated Companies

The share of profits of associates in 2017 was HK\$19,346,000, compared with HK\$11,279,000 in 2016, representing an increase of 71.5%. The business for Mitutoyo Looport Metrology Corporation continued to increase in 2017 as compared with 2016. The Company still showed a strong position in the market. The share of profit of Mitutoyo Looport Metrology Corporation was HK\$15,814,000 in 2017, compared with HK\$5,294,000 in 2016, representing an increase of 198.7%. In 2016 there was a significant exchange loss in Japanese Yen due to the fluctuating Japanese Yen, but the result in 2017 was back to normal.

The business for OPS-Ingersoll Funkenerosion GmbH in 2017 was lower than in 2016. Due to the strong Euro in 2017, the business in the US market was adversely affected. The share of profit of OPS-Ingersoll Funkenerosion GmbH in 2017 was HK\$2,197,000, compared with HK\$5,486,000 in 2016.

The business for Prima Power Suzhou Company Limited improved slightly in 2017 as compared with 2016. The plant still did not reach a level of economic scale, and the competition for metalforming machinery in China was keen. The share of profit of Prima Power Suzhou Company Limited was HK\$1,335,000 in 2017, compared with HK\$499,000 in 2016.

Chairman's Statement (Continued)

Income Tax Expenses

Income tax expenses in 2017 were HK\$4,870,000, compared with HK\$1,840,000 in 2016, representing an increase of 164.7%. The increase in the business of cutting tools and measuring instruments in 2017 came mainly from the Group's subsidiaries in China, and they were subject to an income tax rate of 25%. On the other hand, the reduction in equipment sales came mainly from some subsidiaries in Hong Kong. In 2016, some subsidiaries in Hong Kong made use of the tax loss carried forward to set off the taxable income, so Hong Kong income tax payable in 2016 is at relatively low level.

Profit Attributable to Owners of the Company and Earnings Per Share

The profit attributable to owners of the Company was HK\$28,031,000 in 2017, compared with HK\$23,673,000 in 2016, representing an increase of 18.4%. The operating profit for the trading business in 2017 was HK\$15,962,000, compared with HK\$15,974,000 in 2016, representing a decrease of 0.1%. Even though the Group's sales and gross profit in 2017 were lower than in 2016, the increase in other income and gains, and the significant reduction in selling and distribution costs and administrative expenses, contributed to the increase in profit attributable to owners of the Company. Also, the significant increase in the share of profits of associates in 2017 contributed to the improvement in profit attributable to owners of the Company.

The basic earnings per share were HK12.25 cents in 2017, compared with the figure of HK10.57 cents in 2016, representing an increase of 15.9%.

DIVIDEND

An interim dividend of HK2.5 cents per ordinary share and a special interim dividend of HK2.0 cents per ordinary share, totalling HK\$10,353,000, was paid to the shareholders of the Company on 15th September 2017.

The Directors recommended a final dividend of HK3.5 cents per ordinary share, totalling HK\$8,053,000 (in 2016, the final dividend was HK3.0 cents per ordinary share, totalling HK\$6,902,000). This recommendation is subject to the approval of the shareholders at the forthcoming Annual General Meeting, which will be held on 11th June 2018. Upon the approval of the shareholders, the final dividend warrant will be payable on or before 28th June 2018 to the shareholders of the Company whose names appear on the register of members on 19th June 2018.

The total dividend paid per ordinary share for the year ended 31st December 2017 will be HK8.0 cents, compared with HK6.5 cents per ordinary share for the year ended 31st December 2016, representing an increase of 23.1%.

BUSINESS REVIEW

Trading

In 2017, the global economic situation showed a tendency towards recovery. China achieved GDP growth of 6.9% in 2017, compared with 6.7% in 2016. The growth rate in 2017 was higher than expected. The growth rate for the value of industrial production was 6.4% in 2017 as compared with 6% in 2016. The value of exports grew by 10.8% in 2017, compared with a drop of 0.2% in 2016.

Chairman's Statement (Continued)

The trend of business growth is expected to continue in 2018. The value of outstanding contracts of the Group as at the end of February 2018 was HK\$325,416,000, compared with HK\$151,208,000 at the end of February 2017.

The new energy and new technology industries (for example the manufacturing of equipment, new energy cars, smart TVs, industrial robots and drones) in China grew rapidly in 2017. This boom contributed to an increase in market demand for manufacturing equipment and tools. The production of smart phones in China was 901 million units in 2017, compared with 832 million units in 2016, representing an increase of 8.3%. The production of cars was 29 million units in 2017, 3.2% higher than in 2016. The continued high number of smart phones and cars produced in 2017 also contributed to the demand for manufacturing equipment and tools. China also continued to be the world's biggest consumer of machine tools. The country consumed 40% of the total global machine tool production in 2017, with the value of consumption amounting to USD29.8 billion. This represented an increase of 7.5% from 2016.

Investment

Due to the recovery of China's economy in 2017, the business of Mitutoyo LEEPOT Metrology Corporation in South China achieved a reasonable growth in 2017. The market for measuring instruments was still strong in 2017, in particular because the production of mobile phones and cars continued to grow in 2017.

The business for OPS-Ingersoll Funkenerosion GmbH in 2017 was lower than in 2016. The business in the US market fell due to the strong Euro against the US dollar in 2017, which affected the number and value of orders from customers.

Although the market for metalforming machinery in 2017 improved in China, the business for Prima Power Suzhou Company Limited achieved only a limited growth, mainly because of the keen competition. The Company needs to find ways to reduce the cost of production and increase the volume of sales.

Leeport Group held a 4.3% shareholding in Prima Industrie S.p.A. (the parent company of Prima Power Suzhou Company Limited) at the end of February 2018. Prima Industrie S.p.A. achieved outstanding results in 2017. The Company's consolidated revenue was Euro 449.5 million in 2017, compared with Euro 393.9 million in 2016, representing an increase of 14.1%. The Prima Industrie Group's net profit was Euro 18.7 million in 2017, compared with Euro 10.2 million in 2016, representing an increase of 83.3%.

The unit share price of Prima Industrie S.p.A. was Euro 15.82 at the beginning of 2017, and Euro 33.80 at the end of December 2017. Due to the significant increase in the share price, Leeport Group gained from the increase in valuation of shares in Prima Industrie S.p.A. amounting to HK\$89.9 million in 2017. Together with the increase in valuation of properties of the Group, amounting to HK\$28 million, and the increase in carrying amount of investment in associates, amounting to HK\$25 million, these were the main reasons why the net asset value of Leeport Group increased by HK\$131 million in 2017. The net asset value of Leeport Group as at 31st December 2017 was HK\$519 million, compared with HK\$388 million as at 31st December 2016, representing an increase of 33.8%.

Chairman's Statement (Continued)

FUTURE PLANS AND PROSPECTS

Now, in early 2018, the global economy seems to be recovering well. However the protectionism of the US Government might cause some uncertainty regarding the global trade environment. The new technology and new energy industries in China have grown rapidly in the past few years. The traditional big industries in China, such as car manufacturing, mobile phone manufacturing and infrastructure, look set to continue their growth and their domination of the economy. We therefore believe that the business of the Group will increase at a reasonable growth rate in the coming years.

We need to put more resources into expanding our sales and service organisation. The recruitment of salespeople has proceeded satisfactorily, and we will continue to recruit sales staff at various levels. We also need to enhance the technology in our automation and new equipment business, for example, 3D printing equipment. We have established a strong team for our 3D printing equipment business, and we expect that it will have a bright future. Furthermore, we expect that the strength of our collaborations with current and new suppliers will bring us enormous business opportunities. The Group is in a healthy financial situation, which will allow us to invest in the existing businesses and acquire new businesses in the near future.

The Group recently became the majority shareholder of Screw and Fastener (HK) Co., Ltd., a trading company in Hong Kong. It has a long history as trading company, dealing in a number of world-leading manufacturers of assembly tools. This acquisition broadens the product range of Leeport in the tools business. The Group will continue to explore acquisition opportunities.

With respect to the business of the associates, we are confident that their profit situation in 2018 will be better than in 2017.

Given the current market situation, Mitutoyo Leeport Metrology Corporation, a market leader in measuring instruments, expects to be able to achieve better business results in 2018. OPS-Ingersoll Funkenerosion GmbH is also confident about its likely business results in 2018. The impact of the strong Euro on the Company's US market is likely to be less severe in 2018, and the business in Europe and China is expected to improve as compared with 2017. Prima Power Suzhou Company Limited will optimise its production with new components, which is likely to reduce costs. The plant will also launch a number of new models of laser-cutting machines, which will bring in additional business. The Company therefore expects that its performance will improve in 2018.

The performance of Leeport Group in 2017 was merely satisfactory. However, due to the current favourable market situation, I am confident that the Group's performance will improve significantly in 2018.

Finally, I would like to express my gratitude to our shareholders, customers, suppliers, bankers, business associates and staff. I thank you all sincerely for your support and contribution in 2017.

LEE Sou Leung, Joseph
Chairman

26th March 2018

Management's Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The balance of cash net of overdraft of the Group as at 31st December 2017 was HK\$52,323,000 (31st December 2016: HK\$53,108,000). The Group maintained a reasonable cash position. The Group's inventory balance as at 31st December 2017 was HK\$61,441,000 (31st December 2016: HK\$60,595,000). The turnover days of inventory were 44 at the end of December 2017, compared with 38 at the end of December 2016. The higher inventory turnover days in year 2017 was due to a higher purchase amount of cutting tools products at the year end of 2017 for the shipment before Chinese New Year in 2018. The balance of trade receivables and bills receivables was HK\$108,445,000 as at 31st December 2017 (31st December 2016: HK\$97,906,000). The turnover days of trade receivables were 64, compared with 50 at the end of December 2016. The turnover days of trade receivables were higher as higher proportion of the business in the year of 2017 was cutting tools. The credit period for the cutting tools business is relatively longer than the equipment business. The balance of trade payables and bills payables was HK\$110,452,000 as at 31st December 2017 (31st December 2016: HK\$95,105,000). The higher balance of trade payables and bills payables as at 31st December 2017 was due to a higher purchase amount of cutting tools products at the year end of 2017. The balance of short-term borrowings was HK\$137,254,000 as at 31st December 2017 (31st December 2016: HK\$133,641,000). The balance of long-term borrowings was HK\$5,556,000 as at 31st December 2017 (31st December 2016: HK\$12,222,000).

The Group's net gearing ratio was approximately 17.4% as at 31st December 2017 (31st December 2016: 23.7%). The net gearing ratio is lower than in 2016. The net gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalent. Lower net gearing ratio is due to larger amount of equity which majorly comes from appreciation of available for sale financial assets, valuation of investment in associates and properties.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2017, the Group had aggregate banking facilities of approximately HK\$727,005,000, of which approximately HK\$164,095,000 was utilized, bearing interest at prevailing market rates and secured by certain leasehold land, land and buildings, investment properties and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK\$262,565,000 (31st December 2016: HK\$244,301,000). The Directors are confident that the Group is able to meet its operational and capital expenditure requirements.

Management's Discussion and Analysis (Continued)

FINANCIAL KEY PERFORMANCE INDICATORS

The Group measures its business performance by various financial key performance indicators in terms of Gross Profit ratio ("GP ratio"), Net Profit ratio ("NP ratio"), Return on Equity ratio ("ROE ratio") and Net Gearing ratio ("NG ratio").

GP ratio measures the Group's ability to cover its operational expenses by its gross profit. The GP ratio is calculated as gross profit divided by sales. The Group's GP ratio was approximately 16.9% in the year of 2017 (2016: 18.7%). The Group is able to maintain its GP ratio in the year of 2017 to cover its current year operational cost effectively showing that the Group is capable to provide products to market at a reasonable price that is acceptable by customer.

NP ratio measures how effectively the Group can convert sales into net income and the performance of the Group's associates. It reveals the remaining profit after cost of goods sold, selling and distribution costs, administrative expenses, finance expenses and income tax expenses. The NP ratio is calculated as profit for this year divided by sales. The Group's NP ratio was approximately 4.6% in the year of 2017 (2016: 3.3%). The Group is able to improve NP ratio for the year of 2017.

ROE ratio measures the efficiency of the Group to utilize the fund from shareholders to generate profit and grow the company. The ROE ratio is calculated as profit for the year divided by average equity. The Group's ROE ratio was approximately 6.2% for the year of 2017 (2016: 6.3%). The Group delivered an average return to shareholders' investment in year 2017. The management of the Group will pursue higher ROE in the future.

NG ratio measures the Group's financial leverage about the degree of its business activities are funded by the owner's cash or by bank loan. The NG ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalent. The Group's NG ratio was approximately 17.4% as at 31st December 2017 (31st December 2016: 23.7%). The Group was able to obtain a lower NG ratio as at 31st December 2017 as compared with 2016 which demonstrates that the Group was capable to reduce its NG ratio to a relatively low level and majorly relied on owner's fund for its business activities.

CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

During the year 2017, the Group spent a total of HK\$1,187,000 (31st December 2016: HK\$22,182,000) in capital expenditure, primarily consisting of property, plant and equipment and leasehold land. As at 31st December 2017, the Group had capital commitments of HK\$2,707,000 on property, plant and equipment. (31st December 2016: HK\$168,000 on property, plant and equipment) In the meantime, a total of HK\$5,472,000 (31st December 2016: HK\$25,090,000) in contingent liabilities in respect of letters of guarantee was given to customers.

Management's Discussion and Analysis (Continued)

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 2017, the Group had outstanding gross-settled foreign currency forward contracts to buy EUR1,300,000 for HKD11,979,000; JPY78,000,000 for RMB4,836,000; JPY92,000,000 for USD829,000 and JPY270,840,000 for HKD18,890,000 (2016: buy EUR2,387,000 for HKD19,815,000; JPY25,000,000 for RMB1,695,000; USD49,000 for RMB340,000 and JPY233,900,000 for HKD16,154,000).

Foreign exchange gains and losses are calculated on the settlement of monetary transactions and on the translation of monetary assets and liabilities at the exchange rates of the end of the year.

Some group entities with functional currency of Japanese Yen ("JPY") have recorded exchange gain when Japanese Yen ("JPY") strengthened against Hong Kong dollars ("HKD") over the year of 2017 when such entities translate their net monetary liabilities which is mainly denominated in HKD to the functional currency.

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 31st December 2017, certain land and buildings, leasehold land, investment properties and restricted bank deposits in Hong Kong and Singapore, with an aggregate carrying value of approximately HK\$262,565,000 (31st December 2016: HK\$244,301,000), were pledged to secure the banking facilities of the Group.

Available-for-Sales Financial Assets

Prima Industrie S.p.A. – The Group holds 446,228 shares in Prima Industrie S.p.A., representing around 4.3% of the total shareholding of Prima Industrie S.p.A. The company is a world leader in high-technology laser systems, sheet metal working systems and electronics components for industrial applications, and also possesses some advanced technology. Prima Industrie S.p.A. and Leeport have a joint-venture manufacturing plant in Suzhou that produces laser cutting and punching machines and imports 3D laser machines and production systems. Leeport is also the distributor for Prima's products in China. The valuation of the financial assets was based on the closing price of the shares at the end of December 2017. Prima Industrie S.p.A. is listed on the Stock Exchange of Milan, Italy. The value of the Prima Industrie S.p.A. shares held by the Group as at 31st December 2017 was HK\$143,057,000. The value of the total assets of Leeport Group as at 31st December 2017 was HK\$869,429,000. The value of the Group's share of interest in Prima Industrie S.p.A. to the total assets of Leeport Group was 16.5%.

Management's Discussion and Analysis (Continued)

In the year ended 31st December 2017, Prima Industrie S.p.A. achieved revenues of Euro 449.5 million as compared with Euro 393.9 million in 2016, representing an increase of 14.1%. The company also achieved a net profit of Euro 18.7 million as compared with Euro 10.2 million in 2016, representing an increase of 83.3%. Prima Industrie S.p.A. is a long-term partner of Leeport. The Group will continue to partner with Prima Industrie S.p.A. and explore appropriate business opportunities in the future. We believe the business of the company will continue to be strong in the near future.

OY Mapvision Limited ("Mapvision") – The Group holds 29,388 shares in Mapvision, representing 2.67% of the total shareholding of the company. Based in Finland, Mapvision is a leading innovator in optical measurement systems for mass production. The company specialises in the 100% in-line inspection of automotive body and chassis components.

The cost of the Group's investment in Mapvision as at the end of December 2017 was HK\$12,863,000. The cost of investment for Mapvision to total assets of Leeport Group as at the end of December 2017 was 1.5%.

The business partner of Leeport, Mitutoyo Corporation, is also an investor in Mapvision. Mitutoyo has an extensive partnership with Mapvision for the distribution of Mapvision's products. The associate of Leeport, Mitutoyo Leeport Metrology Corporation, is the distributor of Mapvision products in China.

According to the management report, Mapvision made a loss in 2017, however the company forecasts that the business will grow at a significant pace in the coming years and will be profitable. As Mapvision possesses a unique in-line inspection system and is very focused in the huge market of automobile components, the Group believes the projection of profit-making in the near future is achievable.

Furthermore, the Group will continue to explore investment opportunities in advanced manufacturing technology.

EMPLOYEES

As at 31st December 2017, the Group had 256 employees (31st December 2016: 256). Of these, 75 were based in Hong Kong, 167 were based in mainland China, and 14 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, education subsidies and discretionary performance bonuses.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Lee Sou Leung, Joseph, aged 74, the founder and the Chief Executive Officer 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 more than 50 years of experience in the distribution of machine 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.

Mr. Chu Weiman, aged 60, was appointed as the Chief Executive Officer of trading division in September 2016. He is responsible for the overall trading business of the Group. Mr. Chu has joined Lleeport Tools Limited as the Managing Director since May 2014. Before he joined the Group, he was the Vice President and Chief Operating Officer of Screw and Fastener (HK) Company Limited, an engineering tools distributor in Hong Kong and China. Mr. Chu also held various senior positions in the reputable companies with operations in Hong Kong and China. Mr. Chu was stationed in China during the years between 1994 and 2000 and worked for US based multi-national companies. He was a member of the Board of Directors and General Manager of Shanghai Westinghouse Control System Company Limited, the Managing Director of Cutler-Hammer China, a subsidiary of Eaton Corporation. During the years between 2000 and 2007, Mr. Chu held the position of Branch Director for Innovation Process and Automation Branch and Branch Director for Manufacturing Productivity Branch of Hong Kong Productivity Council. He was also a member of the board of directors of Shenzhen Productivity Consulting Company and the Chairman of Shenzhen-Hong Kong Productivity Foundation. These Companies were the subsidiaries of the Hong Kong Productivity Council. He also possesses strong relationship with the Hong Kong trade associations and the local government offices of various cities in China. He is currently a General Committee member of The Chinese Manufactures' Association of Hong Kong. Mr. Chu is a licensed Professional Engineer of the State of California and a member of the American Chamber of Commerce in Shanghai. He holds a bachelor degree in Power Mechanical Engineering from Tsing Hua University, Taiwan; a master of science degree in engineering from the University of California, Los Angeles; and a Master of Business Administration degree from the University of Southern California.

Mr. Chan Ching Huen, Stanley, aged 60, 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 technology. 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 years of 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.

Mr. Wong Man Shun, Michael, aged 53, was appointed as the Managing Director of Lleeport Precision Machine Tool Company Limited in January 2013. He is currently responsible for new business development of the Group. He holds a Bachelor of Science Degree in Engineering from the University of Hong Kong. Mr. Wong joined the Group in 1986 and had been responsible for the trading business of various products in the Group. He was promoted to the Director of Lleeport Precision Machine Tool Company Limited in January 2004. Mr. Wong is also an Honorary Vice President of the Hong Kong Electrical Appliance Industries Association, an executive committee member of the Hong Kong Mold and Die Council and a Director of the Hong Kong Mold & Product Technology Association.

Biographical Details of Directors and Senior Management (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pike, Mark Terence, aged 61, is a member of the Australian Institute of Company Directors (AICD), an associate of The Institute of Chartered Accountants in Australia (ACA) and member of The Hong Kong Institute of Certified Public Accountants (CPA). He holds a Bachelor of Economics, University of Sydney and Masters of Science in Environmental and Natural Resource Economics, National Agricultural University, Lima, Peru. Mr. Pike worked in Hong Kong for many years in the commercial and not for profit sectors. He is currently a director and corporate advisor in Brisbane, Australia.

Dr. Lee Tai Chiu, aged 73, graduated in 1975 with a Doctor degree in Mechanical Engineering from Aston University, Birmingham, UK and a Master degree in Production Technology in 1971 from Brunel University, Uxbridge, UK. He had worked as a graduate engineer at the Harrison & Sons in England. He had joined the now Hong Kong Polytechnic University as a Lecturer, Principal Lecturer, Professor and Associate Head of department. Owing to his contribution in technology, he was awarded an Honorary Professor of the Shandong University of Technology and also appointed as an Honorary Fellow of the University of Warwick, United Kingdom. Apart from his connections with the academic circle, he is quite identified with the Industry as reflected by his many years as an Honorary Consultant of the Hong Kong Metal Manufacturers' Association.

Mr. Zavatti Samuel, aged 71, is the founder of Sadella Advisory Services Limited. He has over thirty years of global experience in major financial institutions, providing managerial as well as executive advisory to management boards. Utilizing his financial expertise, he had also provided advisory to senior executives in major multinational corporations throughout his career. Mr. Zavatti was the Vice Chairman of Global Financial Institutions in The Royal Bank of Scotland and ABN AMRO from 2005-2009. Prior to the Vice Chairman role, Mr. Zavatti was the Global Head of Financial Institutions and Public Sector for ABN AMRO and also was a member of the Executive Committee of the Wholesale Banking Division. Before joining ABN AMRO in 2001, he has had an extensive international career with Bank of America, working in senior positions globally including Athens, London, Cairo, Sydney and Hong Kong. He held his last position for Bank of America in Hong Kong as the Managing Director and Head of Asia Pacific Financial Institutions, which he set up in 1994. Mr. Zavatti graduated from the University of Colorado in 1969. He holds a bachelor of arts degree in History and Economics.

SENIOR MANAGEMENT

Mr. Sa Wai Keung, aged 56, the Director and General Manager of metalforming division of the Group. Mr. Sa has many years of 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 59, the General Manager of Leeport Technology Limited. He has extensive experience in marketing CAD/CAM software, rapid prototyping equipment and metrology equipment. 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. Lee Huat Eng, aged 61, the General Manager of Leeport (Singapore) Pte. Ltd., is responsible for the marketing, management and business development in Singapore. 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.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31st December 2017.

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 9 to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2017 are set out in the consolidated income statement on page 49.

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

The Directors recommend the payment of a final dividend of HK3.5 cents (2016: HK3.0 cents) per ordinary share, totalling HK\$8,053,000 (2016: HK\$6,902,000). The total dividend paid per ordinary share for the year ended 31st December 2017 will be HK8.0 cents, compared with HK6.5 cents per ordinary share for the year ended 31st December 2016, representing an increase of 23.1%.

BUSINESS REVIEW

The business review of the Group for the year ended 31st December 2017 is set out in the section headed "Chairman's Statement" and "Management's Discussion and Analysis" on pages 5 to 13 of this annual report.

Principal Risks and Uncertainties

The board of directors are aware that the Group is exposed to various risks, and have established a risk-management system and procedures to ensure that significant risks that might adversely affect the performance of the Group and its ability to implement its business strategies are identified and managed efficiently.

The following are the key risks that the Group considers to be significant and that could adversely affect the results of the business.

(1) *Competition*

The market for manufacturing equipment and tools is highly competitive in China. Price competition, the cost of customer acquisition and the payment terms for contracts are challenges to the Group. Regarding price competition, the Group works with suppliers to handle all sales negotiations and tries to compete with competitors by devising competitive pricing strategies. The Group also strives to improve the productivity of its sales management process, for example by carefully managing travel costs and optimising the scheduling of customer visits. We also work with leasing companies and banks to provide financing for customer orders.

Report of the Directors (Continued)

(2) *Growth Strategy*

The risk in terms of the growth strategy is that the Group might not produce sufficient and timely returns from its investments in the organic growth of the existing business and in new products. Factors affecting decisions about the organic growth of the existing business include an in-depth understanding of the market and the addition of sufficient human resources. Decisions about investing in new products depend mainly on the quality of suppliers and the market's awareness of the products. Any selected new products should have been in the market for a certain number of years, and must have shown proven sales results. The Group carefully monitors the market situation, and adjusts its investment strategy accordingly by promptly delaying, cancelling or modifying its investment contracts.

(3) *China Market*

The Group's business relies heavily on the Chinese market. Any adverse changes in that market will significantly affect the Group's performance. In order to diversify the risk, the Group is also developing the market in Taiwan and Indonesia, and also invests in a number of suppliers with global business. This reduces the risk of depending too much on the Chinese market.

(4) *IT Database*

The Group's business operations rely heavily on the IT Oracle System. The failure or destruction of the system could wipe out the Group's database and paralyse its operations. The Group has therefore established a Disaster Recovery Program, which includes a daily back-up practice and a stand-by system.

(5) *Database Security*

There is a risk that people with access to the Group's computer system will leak business information to outsiders. The level of authority for users of the computer system is therefore managed carefully, with authorisation controlled at the supervisory level. The use of lock-in passwords and the segregation of data by division or department also minimise the risk of data leakage.

A number of user activity reports and data transaction reports are generated on a weekly basis. This enables us to spot any abnormal or suspicious activities by users of the computer system.

ENVIRONMENTAL POLICY

Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Discussions on the Group's relationships with its employees, customers and suppliers is contained in the section headed "Environmental, Social and Governance Report" on pages 36 to 41 of this report.

Report of the Directors (Continued)

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the financial year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

DONATIONS

Charitable and other donations amounted to HK\$131,000 were made by the Group during the year (2016: HK\$130,000).

SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31st December 2017 are set out in Note 17 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2017, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$100,790,000 (2016: HK\$99,458,000).

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 130 of the annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed 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

Details of the Group's borrowings, including secured bank loans, trust receipt loans and overdrafts as at 31st December 2017 are set out in Note 20 to the consolidated financial statements.

Report of the Directors (Continued)

SHARE OPTIONS

Pursuant to the resolution passed by the shareholders of the Company in the annual general meeting held on 15th May 2013, the Company had adopted a new share option scheme (the "Scheme") to replace the old one 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 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 on 15th May 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption on 15th May 2013. There is no change to the terms of the Scheme since adoption.

The total number of shares of the Company issuable upon exercise of all options that may be granted under the Scheme and any other share option scheme of the Group is 12,546,406, representing 5.45% of the issued shares of the Company as at the date of this annual report, and such limit is subject to renewal with shareholders' approval. The maximum number of shares issuable upon exercise of the options granted to each eligible participant under the Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval.

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

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

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

Report of the Directors (Continued)

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

Details of the Scheme are set out in the circular dated 15th April 2013.

Movement of share options during the year is set out in Note 17 to the consolidated financial statements.

DIRECTORS OF THE COMPANY

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. LEE Sou Leung, Joseph (*Chairman and Group Chief Executive Officer*)

Mr. CHU Weiman

Mr. CHAN Ching Huen, Stanley

Mr. WONG Man Shun, Michael

Independent Non-executive Directors

Mr. PIKE, Mark Terence

Dr. LEE Tai Chiu

Mr. ZAVATTI Samuel

In accordance with Article 87(1) of the Company's Bye-Laws, one third of the directors (or if the number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation at each annual general meeting.

Mr. Lee Sou Leung, Joseph, Mr. Wong Man Shun, Michael and Mr. Pike, Mark Terence 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, and will continue thereafter until 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.

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.

Report of the Directors (Continued)

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, subsidiaries or its holding company was a party and in which a director of the Company and the directors connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 14 to 15.

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

At 31st December 2017, 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 Part XV of the SFO or as notified to the Company, were as follows:

Directors		Number of ordinary shares of HK\$0.10 each held				Total	Percentage
		Personal interests	Family interests	Other interests	Share options (Note (b))		
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	23,272,000 shares	Nil	144,529,982 shares (Note (a))	Nil	167,801,982 shares	72.93%
Mr. CHU Weiman ("Mr. Chu")	Long position	1,000,000 shares	Nil	Nil	Nil	1,000,000 shares	0.43%
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	1,344,000 shares	Nil	Nil	Nil	1,344,000 share	0.58%
Mr. WONG Man Shun, Michael ("Mr. Wong")	Long position	1,432,000 shares	Nil	Nil	Nil	1,432,000 shares	0.62%
Mr. PIKE, Mark Terence ("Mr. Pike")	Long position	Nil	Nil	Nil	Nil	Nil	Nil
Dr. LEE Tai Chiu ("Dr. Lee")	Long position	110,000 shares	Nil	Nil	Nil	110,000 shares	0.05%
Mr. ZAVATTI Samuel ("Mr. Zavatti")	Long position	110,000 shares	Nil	Nil	Nil	110,000 shares	0.05%

Report of the Directors (Continued)

- (a) The 144,529,982 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 Lisa Marie 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) Information relation to the share options held by the directors is disclosed in the "Details of options granted by the Company" section.

SHARE OPTIONS

Other than as disclosed above, and other than those as disclosed below and in the share options section in Note 17 to the consolidated financial statements, 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 executive 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.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

Movements of the share options during the year were as follows:

Name and Category of participants	Date of grant	Exercise prices of share options HK\$ per share	Exercise periods of share options	At 1st January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31st December 2017
Directors								
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	1,000,000 shares	-	(1,000,000) shares	-	-
Mr. CHU Weiman ("Mr. Chu")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	1,000,000 shares	-	(1,000,000) shares	-	-
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	1,000,000 shares	-	(1,000,000) shares	-	-
Mr. WONG Man Shun, Michael ("Mr. Wong")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	1,000,000 shares	-	(1,000,000) shares	-	-
Mr. PIKE, Mark Terence ("Mr. Pike")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	110,000 shares	-	-	(110,000) shares	-

Report of the Directors (Continued)

Name and Category of participants	Date of grant	Exercise prices of share options HK\$ per share	Exercise periods of share options	At 1st January 2017	Granted during the year	Exercised during the year	Lapsed during the year	At 31st December 2017
Directors (Continued)								
Dr. LEE Tai Chiu ("Dr. Lee")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	110,000 shares	-	(110,000) shares	-	-
Mr. ZAVATTI Samuel ("Mr. Zavatti")	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	110,000 shares	-	(110,000) shares	-	-
Sub-total				4,330,000 shares	-	(4,220,000) shares	(110,000) shares	-
Employees								
In aggregate	17/03/2015	1.026	17/12/2015 to 16/6/2017 (Notes 1 & 2)	1,709,000 shares	-	(314,000) shares	(1,395,000) shares	-
Total				6,039,000 shares	-	(4,534,000) shares	(1,505,000) shares	-

Notes:

- The options, granted on 17th March 2015, are exercisable from 17th December 2015 to 16th June 2017 (both days inclusive).
- According on the Black-Scholes valuation model, the fair value of the options granted on 17th March 2015 was estimated at HK\$1,508,000. The key parameters used in the model were as follows:

Date of grant

17th March 2015

Number of share options granted	7,907,000
Share price at date of grant (HK\$)	1.01
Exercise price (HK\$)	1.026
Expected life of options	2.25 years
Annualised volatility	40.47%
Risk free interest rate	0.63%
Dividend payout rate	3.47%

Closing price of the shares of the Company immediately before the date on which the options was granted was HK\$1.02.

- During the year, options for subscribing 1,505,000 shares were lapsed.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was approximately HK\$1.45.

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 31st December 2017, the register of substantial shareholders required to be kept under Section 336 of Part XV 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 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 is made.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases

– the largest supplier	38%
– five largest suppliers combined	74%

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

During the year ended 31st December 2017, 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 Group Chief Executive Officer 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.

Code Provision C.2.5

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. This situation will be reviewed annually.

Report of the Directors (Continued)

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

For the year ended 31st December 2017, 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 2017 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, Dr. LEE Tai Chiu, and Mr. ZAVATTI Samuel has reviewed the accounting principles and practices adopted by the Group with the management and has discussed risk management and internal control systems and financial reporting matters, including a review of the consolidated financial statements for the year ended 31st December 2017 with the directors.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at 26th March 2018.

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 current ceiling of HK\$1,500 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 current ceiling of HK\$1,500 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years. The MPF contributions charged to the income statement represent the contributions payable to the funds by the Group.

Report of the Directors (Continued)

Employees of 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 2017 are set out in Note 24(a) to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

The Company's Bye-laws provide that all directors and officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. Directors' liability insurance is arranged to cover the directors of the Company against any potential costs and liabilities arising from claims brought against them.

RELATED PARTY TRANSACTION

Details of the major related party transactions undertaken in the normal course of business are provided under note 33 to the consolidated financial statements of this annual report, and none of which constitutes a discloseable continuing connected transaction as defined under the Listing Rules.

AUDITOR

The consolidated 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 March 2018

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) and the management of the Company and its subsidiaries (together, the “Group”) are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices have always been one of the Group’s goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders’ value.

The Board has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Continuous efforts are made to review and enhance the Group’s risk management and internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the CG Code for the year ended 31st December 2017, except where otherwise stated.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all directors, the directors confirmed that they had complied with the required standard set out in the Model Code throughout the year.

Board of Directors

The Board comprises:

Executive Directors:

Mr. LEE Sou Leung, Joseph (*Chairman and Group Chief Executive Officer*)
Mr. CHU Weiman
Mr. CHAN Ching Huen, Stanley
Mr. WONG Man Shun, Michael

Independent Non-executive Directors:

Mr. PIKE, Mark Terence
Dr. LEE Tai Chiu
Mr. ZAVATTI Samuel

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

Corporate Governance Report (Continued)

During the financial year ended 31st December 2017, a total of four Board meetings and one annual general meeting ("2017 AGM") were held and the attendance of each director is set out as follows:

Name of Director	Number of meetings attended in the year ended 31st December 2017	
	Board meetings	2017 AGM
Mr. LEE Sou Leung, Joseph	4/4	1/1
Mr. CHU Weiman	4/4	1/1
Mr. CHAN Ching Huen, Stanley	4/4	1/1
Mr. WONG Man Shun, Michael	4/4	1/1
Mr. PIKE, Mark Terence	3/4	1/1
Dr. LEE Tai Chiu	3/4	1/1
Mr. ZAVATTI Samuel	3/4	0/1

RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies and operational goals, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the risk management and internal control systems; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. A Board Meeting in relation to the Board Diversity Policy was held during the year.

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.

Corporate Governance Report (Continued)

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. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

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 GROUP CHIEF EXECUTIVE OFFICER

Mr. Lee Sou Leung, Joseph is the Chairman and the Group Chief Executive Officer of the Company. Mr. Lee Sou Leung, Joseph 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 Group Chief Executive Officer, 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.

The Board also believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive director is appointed for an initial term which is renewable automatically each year. All independent non-executive directors are appointed for a specific term which may be renewed as each director and the Company may agree. However, their appointments are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Bye-laws of the Company (the "Bye-laws").

The Bye-laws of the Company provides that at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

Corporate Governance Report (Continued)

PROFESSIONAL DEVELOPMENT

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. All directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors are kept and updated by the company secretary of the Company.

The directors have attended various seminars and meetings organised by such as Hong Kong Institute of Chartered Secretaries, Department of Foreign Affairs of Trade of Australia and Australian Institute of Company Directors to develop and refresh their knowledge so as to ensure that their contribution to the Board remains informed and relevant. All the directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy effective on 1st September 2013 which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives as stated in the above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 7 directors. Three of the directors are independent non-executive directors and independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of nationality, professional background and skills.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises of three independent non-executive directors, who have reviewed the financial statements for the year ended 31st December 2017. One member has accounting professional qualifications or related financial management expertise. Mr. Pike, Mark Terence is the chairman of the Audit Committee.

Corporate Governance Report (Continued)

No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the Company's website and on the website of The Stock Exchange of Hong Kong Limited.

Our Audit Committee has primary responsibility for monitoring the quality of risk management and internal control and ensuring that the financial performance of the Company is properly measured and reported on, receiving and reviewing reports from management and the auditors relating to the annual and interim accounts, and monitoring the accounting and risk management and internal control systems in use throughout the Group.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings were held during the year ended 31st December 2017. The attendance of each member is set out as follows:

Name of members of Audit Committee	Number of meetings attended in the financial year ended 31st December 2017
Mr. PIKE, Mark Terence	2/2
Dr. LEE Tai Chiu	2/2
Mr. ZAVATTI Samuel	2/2

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:

- (a) review and supervise the financial reporting process and risk management and internal control systems of the Company and its subsidiaries;
- (b) recommendation to the Board, for the approval by shareholders, of the re-appointment of PricewaterhouseCoopers as the external auditor and approval of their remuneration;
- (c) determination of the nature and scope of the audit; and
- (d) review the financial statements for the relevant periods.

Corporate Governance Report (Continued)

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established on 10th September 2005 comprising the existing three independent non-executive directors and Mr. Lee Sou Leung, Joseph. Dr. Lee Tai Chiu is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company’s website and on the website of The Stock Exchange of Hong Kong Limited.

The roles and functions of the Remuneration Committee include consulting the chairman of the Board about their remuneration proposals for other executive directors, making recommendation to the Board on the Company’s remuneration policy and structure for all directors’ and senior management and the Remuneration Committee has adopted the approach under B.1.2(c)(ii) of the code provisions to make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held during the year ended 31st December 2017. During the meeting, the committee has reviewed the remuneration policy of the Group and the directors’ remuneration.

The attendance of each member is set out as follows:

Name of members of Remuneration Committee	Number of meetings attended in the financial year ended 31st December 2017
Mr. LEE Sou Leung, Joseph	1/1
Mr. PIKE, Mark Terence	1/1
Dr. LEE Tai Chiu	1/1
Mr. ZAVATTI Samuel	1/1

The Company has adopted a share option scheme on 15th May 2013, which serves as an incentive to attract, retain and motivate staff. Details of such share option scheme are set out in Note 17 to the consolidated financial statements.

The emolument payable to directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the directors’ emolument are set out in note 35 to the consolidated financial statements.

Corporate Governance Report (Continued)

NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) comprises Mr. Lee Sou Leung, Joseph (“Mr. Lee”) and the existing three independent non-executive directors. Mr. Lee is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company’s website and on the website of The Stock Exchange of Hong Kong Limited.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company’s corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive officer. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the machinery industry and/or other professional areas.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31st December 2017. Issues concerning the structure, size and composition of the board of directors were discussed and no significant change has been proposed to the structure, size and composition.

The attendance of each member is set out as follows:

Name of members of Nomination Committee	Number of meetings attended in the financial year ended 31st December 2017
Mr. LEE Sou Leung, Joseph	1/1
Mr. PIKE, Mark Terence	1/1
Dr. LEE Tai Chiu	1/1
Mr. ZAVATTI Samuel	1/1

Corporate Governance Report (Continued)

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other performance of the Company.

The directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. The consolidated financial statements prepared by the directors of the Company 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 consolidated financial statements of each financial period. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Company and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavours to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risks and the relevant measures have been disclosed in the report of the directors of this annual report. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Each department of the Company would choose certain material risk events in its field every year and assess and grade the possibility of occurrence and influence of risk events to determine the scope of material risk of the year together with the management of the Company. Each functional department prepares counteractions to deal with material risks in its field and report the execution situation regularly.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. This situation will be reviewed annually. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board reviews the risk management and internal controls annually. The Board has conducted a review of, and is satisfied with the effectiveness of the risk management and internal control systems for the year ended 31st December 2017 as well as the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

With respect to the monitoring and disclosure of inside information, the Company has formulated its guidelines, with an aim to ensure that the insiders abide by the confidentiality requirement and fulfill the disclosure obligation of the inside information.

Corporate Governance Report (Continued)

AUDITORS' REMUNERATION

The amount of fees charged by the Group's auditors in respect of their audit services and non-audit services is disclosed in Note 23 to the consolidated financial statements. The non-audit services are related to tax services. The Audit Committee is responsible for reviewing the remuneration and terms of engagement of the external auditors and for making recommendation to the Board regarding any non-audit services to be provided to the Group by the external auditors.

COMPANY SECRETARY

Mr. Chan Ching Huen, Stanley was appointed as Company Secretary of the Company since 2003. The biographical details of Mr. Chan Ching Huen, Stanley are set out under the section headed "Biographical Details of Directors and Senior Management".

According to Rule 3.29 of the Listing Rules, Mr. Chan has taken no less than 15 hours of relevant professional training during the financial year ended 31st December 2017.

SHAREHOLDERS' RIGHTS

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

Shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request to the company secretary of the Company stating the resolution intended to be moved at the general meeting or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

As regards proposing a person for election as a director, please refer to the procedures available on the website of the Company.

The above procedures are subject to the Company's Bye-laws, the Bermuda Companies Act 1981 and applicable legislation and regulation (as amended from time to time). Shareholders who have enquiries about the above procedures or have enquiries to put to the Board may write to the company secretary of the Company at the principal place of business at 1st Floor, Block 1, Golden Dragon Industrial Centre, 152-160 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong or by e-mail to main@leeport.com.hk for the attention of the company secretary.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.leeport.com.hk.

During the year ended 31st December 2017, there had been no significant change in the Company's constitutional documents.

Environmental, Social and Governance Report

CORPORATE PROFILE

Leeport's vision is to help improve both the quality and the productivity of the manufacturing industry, and thus enhance everybody's standard of living and quality of life. The Group is committed to maintaining sustainable long-term development and continuously creates value for all stakeholders, including shareholders, customers, employees and society.

The Group strives to become the leading distributor of advanced equipment and precision tools for the manufacturing industry and provide manufacturing technology and solutions that will help our customers to become more productive, competitive and profitable. Leeport serves a wide range of customers from various industrial sectors, including but not limited to industrial machinery, construction machinery, mobile phone, cars, medical equipment, household appliances, audio and visual equipment, elevator, power supply equipment, high speed train, computers and telecommunications equipment. All of our stakeholders benefit from the technology, solutions and services that we provide.

With the global trend of reduced energy and resource consumption, Leeport works to raise our staff members' awareness of and involvement in environmental protection, and we are committed to maintaining an all-round green culture in the Group.

This report covers the financial year ended 31st December 2017 and describes how the Company fulfills the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

ENVIRONMENT

In all its operations, the Group adheres strictly to local environmental protection laws and regulations. Moreover, we have developed a green office policy, which has been applied extensively in all our offices located in Hong Kong, PRC, Taiwan, Singapore and elsewhere.

Emissions

Emission management is not a critical area for the Group. Reducing the energy consumption of our office facilities and equipment is a priority, as they account for a significant proportion of our total carbon emissions. The Group's approach to managing carbon emissions and other air emissions focuses mainly on the efficient operation of our office facilities and equipment. Details are set out in our energy management practice.

Environmental, Social and Governance Report (Continued)

Emission data from the operation of the Group for this year are set out as follows:

Environmental Performance	Unit	Total
Electricity consumption	KWh	569,038
Carbon dioxide (“CO2”) equivalent emission for electricity consumption	Ton	198.5
Electricity Intensity	KWh per staff day	6.1
Water Consumption	M ³	1,691
CO2 equivalent emission for water used	Ton	0.6
Water Intensity	M ³ per staff month	0.6
Paper	Kg	3,895
CO2 equivalent emission for paper used	Ton	3.6
Paper Intensity	Kg per staff month	1.3

The Group is not aware of any non-compliance with the relevant Laws and regulations that has an impact relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes of the Group in the year.

Use of Resources

In order to make sure all the facilities in our offices consume electricity efficiently and responsibly, we maintain a regular schedule of checking their operations and ensuring that they are in good condition at all times.

To ensure that we consume electricity efficiently, we have introduced a green lighting and air conditioning management system to the Group. When a room is not in use, the lights and air conditioner are switched off. Our building in Shanghai has been designed and renovated for maximum energy efficiency – LED lights have been installed extensively throughout the offices, and glass doors prevent cool air from spreading wastefully to other office areas. The building has been designed, as much as possible, to make good use of natural light and natural air. In some areas of our offices, we switch off electric lights and air conditioners, and use natural light or natural fresh air instead. Such measures help to reduce carbon emissions.

The Group has set up a paperless data-storage system, which our staff use for the data warehousing and retrieval of electronic documents. A CRM system for the service department has been developed so that various departments can share and retrieve documents related to service orders. A staff attendance record system has been developed so that staff members can apply online for leave, which reduces paper usage and optimises the approval process. A recycle paper tray is placed near every copier or printer, so that our staff members can easily re-use printing paper. Also, all staff members are encouraged to print double-sided documents to reduce paper usage.

Environmental, Social and Governance Report (Continued)

The group is also committed to recycling resources used in its offices, to minimise or prevent the generation of waste during its operations. All empty ink cartridges, copier toner containers and printing consumables are sent to recycling factories. Waste-separation bins are placed in every office for the collection of recyclable items, e.g., disposed plastic items, metallic containers and waste paper. For our PRC offices, we have selected a qualified supplier to refill ink cartridges, which extends the life of items.

Water management is not a material area for the Group. Much of our water consumption is for basic cleaning, sanitation and catering purposes in our offices. It is our policy that we always remind our staff to use water responsibly.

Environment and Natural Resources

The Group also promotes environmental awareness among our staff members and their families. We encourage our employees and their families to take the initiative to protect the environment. Employees and their families often share their views and suggestions about how we can go green and protect our natural environment.

The Group has a policy of encouraging customers to go green alongside us. We invite them to join us to maximise the socially responsible utilisation of resources. With the support of our professional and experienced technical team, we are able to provide a special repair service to customers so that they do not need to purchase a new Printed Circuit Board (“PCB”). The life of a PCB can be extended and a customer can resume operations more quickly, at a lower cost, and at the same level of quality. Electrical rubbish can also be eliminated.

We also provide a service package for customers, whereby our experienced technical people will periodically visit a customer’s office or factory to check the machines on site and make sure they are operating optimally. This helps to extend the life of the machines and reduces the consumption of electricity during daily operations.

SOCIAL

Employment

The Group complies strictly with all relevant, applicable local laws and regulations, including but not limited to the Employment Ordinance of Hong Kong, the Labor Law of the PRC, and the Special Rules on the Labor Protection of Female Employees of the PRC. We have established procedures to ensure that our operations comply fully with such laws and regulations. The Group enforces local working hours and arranges annual leave, casual leave, sick leave, maternity leave and all official public holidays for staff. As a leading distributor of advanced equipment and precision tools, we work around the clock to provide the best possible service to our valuable customers, so some of our employees are required to work overtime on holidays or after office hours. We pay an overtime salary for such overtime work in accordance with local regulations.

The Group regularly develops, reviews and improves its Human Resources administration policies and systems. For example, it has implemented a performance appraisal system for all employees, and has established a remuneration system based on position, capacity, attitude and performance.

Environmental, Social and Governance Report (Continued)

The Group complies strictly with laws in connection with social security. Starting from 1st December 2000, the existing employees in Hong Kong were able to elect to join the Mandatory Provident Fund scheme ("MPF Scheme"), and all new employees in Hong Kong have been required to join the MPF Scheme. Prior to 1st December 2000, the Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified Hong Kong employees. For our operations in the PRC, we adhere strictly to The Social Insurance Law of the PRC, covering basic pension insurance, basic medical insurance, industrial injury insurance, unemployment insurance and maternity insurance. All our employees in the PRC have joined this national social insurance scheme. The retirement schemes for employees of other overseas subsidiaries follow the local statutory requirements of the respective countries.

The Group has published staff handbooks for employees in Hong Kong and the PRC, and regularly arranges training courses to ensure that staff members understand the company's policies and their benefits and responsibilities.

Health and Safety

In 2017, there is only one minor occupational accident incurred, which one of our service staff injured his wrist carelessly. This staff have received proper medical treatment, and will be compensated according to local Labour Law. Except for above, there is no other occupational accidents, and no occupational diseases were reported in this year. We have achieved excellent results in controlling safety hazards in connection with machine installation and maintenance, and stock management in our warehouse.

All new staff members are required to attend our in-house safety training course. Staff who are exposed to potentially risky working environments are required to attend regular safety trainings. We also arrange for our qualified engineers to educate new service staff and share their experience. The Group has created a safe and clean working environment in its offices, and displays warning signs in its warehouse to prevent the mishandling of equipment. Also, we arrange personal protective clothing, gear and equipment for service staff when they work in customers' factories.

The Group has fully satisfied its principal responsibility regarding safety and the prevention of occupational diseases, and implements all relevant local laws and regulations, including but not limited to the Prevention and Control of Occupational Disease Law of the PRC and the Production Safety Law of the PRC.

Each subsidiary is required to investigate any weaknesses in operational safety and occupational health, and to handle any safety issues immediately.

Development and Training

The Group considers that the growth of our employees is the key to the success of our business. In 2017, we organised various in-house job-related training programs in connection with team-building, leadership, technical skills, etc. Also, we regularly arrange for our technical people to attend training programs and seminars organised by our suppliers at their factories. To ensure that our key PRC staff understand the latest developments in local regulations and laws, we send them to seminars arranged by local authorities. We also offer a training subsidy to employees, in the hope of encouraging them to pursue career opportunities within the Group.

Environmental, Social and Governance Report (Continued)

Labour Standards

The Group is committed to protecting human rights and complying with all relevant labour regulations and laws as stipulated by local authorities. We have no tolerance for the use of forced labour or child labour in our business operations, and we expect our business partners to behave in the same way.

Supply Chain Management

The Group adheres to the “Supply Chain Sustainability” principle in conducting our business. We have a supplier evaluation system that assesses suppliers’ qualifications, costs, supply capability, delivery, and good-faith management of their operations. We continuously monitor the quality of our suppliers, and examine different suppliers to ensure that the quality of their products is consistent.

As one of the leading distributors of advanced equipment and precision tools in Greater China, we maintain business relationships with many world-renowned suppliers from Japan, Europe, Korea and elsewhere. We review our suppliers’ operations from time to time, and have concluded that our suppliers are able to comply with local regulations and laws. So far, we have not identified any violations of local regulations by our suppliers.

The Group passed an annual ISO9001 audit in 2017, which demonstrates our commitment to high-quality supply chain management.

Product Responsibility

The Group is committed to providing an excellent customer experience and ensuring that our products and services are safe, user-friendly and environmentally friendly. We always think ahead on behalf of our customers and work to satisfy their needs. We value customer service highly and have established a comprehensive after-sales service system. After a machine is installed, we provide a maintenance and training service. Our after-sales service team sends a questionnaire to customers, and takes the initiative to seek their feedback. If customers encounter any problems in connection with our machines or services, our professional technical staff solve the problem and ensure that our machines are operated effectively and are customised to meet our customers’ requirements. We run a customised, online service system, which improves the quality of our after-sales service, builds our corporate brand image, and increases customers’ satisfaction with and loyalty to Leeport’s products and services.

During periodical review meetings with suppliers, we consolidate our technical knowledge and our customers’ feedback, and provide professional advice to suppliers about product enhancements so that we keep pace with the rapid developments in the marketplace.

We adhere to applicable laws in relation to health and safety standards, as well as those related to advertising and labelling. We strive to safeguard and protect intellectual property rights, and comply with local relevant privacy regulations.

In 2017, the Group was not involved in any material litigation or complaints due to product quality or service provision.

Environmental, Social and Governance Report (Continued)

Anti-corruption

The Group is committed to upholding a high standard of ethics, responsibility and integrity in our business operations. We refuse to accept or tolerate any form of bribery or corruption in connection with our business activities. All of our employees are regularly advised of our policy against corruption. All new employees are required to read our anti-corruption and bribery policy and are expected to commit themselves to complying with such policy.

In 2017, the Group was not involved in any litigation regarding corruption, bribery, fraud or money-laundering.

Community Investment

Leeport is committed to fostering harmonious relationships with the communities where we operate, and has consistently kept its responsibility to return to society and endeavoured to achieve sharing and win-win relationship between the Group and its stakeholders. We participate in a variety of charitable events every year. During 2017, the Group donated approximate of HK\$131,000 in total to various charitable and community causes.

Organiser/Beneficiary

Event/Award/Recognition

The Community Chest	Love Teeth Day
The Community Chest	Million Walk
The Community Chest	Green Day
The Sunbeam Children's Foundation	Provision of home, education and healthcare support to Orphans and disadvantaged children
Association for International Teaching, Educational and Curriculum Exchange	Education Service
Procurator in HK of the Salesian Society	Education and Blessing

Independent Auditor's Report



羅兵咸永道

To the Shareholders of Leeport (Holdings) Limited

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Leeport Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 47 to 129, which comprise:

- the consolidated balance sheet as at 31st December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment on carrying value of inventories
- Assessment of provision for trade receivables

Key Audit Matter

How our audit addressed the Key Audit Matter

Assessment on carrying value of inventories

Refer to notes 4(b) Critical accounting estimates and judgements and 15 Inventories to the consolidated financial statements

As at 31st December 2017, the Group's gross inventories and provision for impairment of inventories amounted to HK\$85.1 million and HK\$23.7 million respectively.

The directors consistently apply a provisioning methodology for slow moving inventory based on inventory aging and make specific provision for obsolete inventories.

The estimations used in applying this methodology are subject to uncertainty and judgment by directors as a result of changes of economy condition, technology advancement and customer needs.

We examined the basis of the methodology with respect to inventory provisions and evaluated, amongst others, the outcome of management's estimations in prior years, and analysis and assessment made by management with respect to slow moving and obsolete inventories.

We tested the accuracy of the aging profile of the inventory used in the calculation. We also tested, on a sample basis, the net realisable value of inventory with reference to the actual selling price subsequent to the year-end and latest sales records. We performed a recalculation of the inventory provision based on the net realisable value and aging profile of the inventory as at 31st December 2017.

We also discussed with management in relation to the specific provision on certain inventories which provision was made according to their view on latest economy condition, technology advancement and customer needs.

Based on the procedures performed, we considered that management's judgements made in assessing the carrying value of inventories were supported by the evidence we gathered.

Independent Auditor's Report (Continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Assessment of provision for trade receivables

Refer to note 4(a) Critical accounting estimates and judgements and 14 Trade and bills receivables to the consolidated financial statements

As at 31st December 2017, the Group's gross trade receivables and provision for impairment of trade receivables amounted to HK\$112.0 million and HK\$3.5 million respectively.

Certain customers of the Group may have a slower settlement pattern and may settle after the contractual credit period. Management performed periodic credit monitoring, which included the review of customers' credit worthiness, status of collection of outstanding balances and individual credit terms. If there is indicator that the receivables are impaired, management would make specific provision against individual balances with reference to the recoverable amount.

We focus on this area due to the estimation and judgement involved in the assessment of provision for trade receivables.

We understood and validated the credit control procedures performed by management, including its procedures on periodic review on aged receivables and assessment on recoverability of these receivables.

We tested the accuracy of the aging profile on trade receivables. We reviewed the aging profile, focusing on the aged receivables for which no provision had been made. We tested the subsequent settlement of these balances. For those unsettled receivables, we enquired management on the reasons for the delay in collection of these receivables and checked to any further actions taken in recovering the long outstanding receivables in order to assess whether any additional provision should be made.

Based on the procedures performed, we considered that management's judgements made in assessing the provision for trade receivables were supported by the evidence we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (Continued)

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kong Ling Yin, Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th March 2018

Consolidated Balance Sheet

As at 31st December 2017

	Note	2017 HK\$'000	2016 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	226,154	211,102
Leasehold land	6	15,056	16,473
Investment property	8	54,658	43,000
Investments in associates	10	126,525	101,871
Loan to an associate	33(d)	18,970	16,593
Prepayments	14	1,132	391
Available for sale financial assets	12	12,863	12,863
		455,358	402,293
Current assets			
Inventories	15	61,441	60,595
Trade and bills receivables	14	108,445	97,906
Other receivables, prepayments and deposits	14	26,467	18,917
Available-for-sale financial assets	12	143,057	56,336
Derivative financial instruments	13	265	429
Amounts due from an associate	33(c)	2,766	213
Restricted bank deposits	16	19,307	24,680
Cash and cash equivalents	16	52,323	53,954
		414,071	313,030
Total assets		869,429	715,323
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	17	23,007	22,554
Other reserves	18	282,334	168,483
Retained earnings		213,670	197,200
Total equity		519,011	388,237

Consolidated Balance Sheet (Continued)

As at 31st December 2017

	Note	2017 HK\$'000	2016 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	5,556	12,222
Deferred income tax liabilities	21	29,809	26,044
		35,365	38,266
Current liabilities			
Trade payables and bills payables	19	110,452	95,105
Other payables, accruals and deposits received	19	63,355	57,382
Derivative financial instruments	13	490	1,150
Borrowings	20	137,254	133,641
Tax payable		3,502	1,542
		315,053	288,820
Total liabilities		350,418	327,086
Total equity and liabilities		869,429	715,323

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 47 to 129 were approved by the Board of Directors on 26th March 2018 and were signed on its behalf.

LEE Sou Leung, Joseph
Director

CHAN Ching Huen, Stanley
Director

Consolidated Income Statement

For the year ended 31st December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Sales	5	614,370	715,113
Cost of goods sold	23	(510,322)	(581,518)
Gross profit		104,048	133,595
Other income and gains – net	22	19,859	17,249
Selling and distribution costs	23	(17,392)	(34,070)
Administrative expenses	23	(90,553)	(100,800)
Operating profit		15,962	15,974
Finance income	25	1,475	1,767
Finance expenses	25	(3,882)	(3,507)
Finance expenses – net		(2,407)	(1,740)
Share of profits of associates	10	19,346	11,279
Profit before income tax		32,901	25,513
Income tax expense	26	(4,870)	(1,840)
Profit for the year		28,031	23,673
Profit attributable to:			
Owners of the Company		28,031	23,673
Earnings per share for profit attributable to owners of the Company			
Basic earnings per share (Hong Kong cents)	28	HK12.25 cents	HK10.57 cents
Diluted earnings per share (Hong Kong cents)	28	HK12.25 cents	HK10.50 cents

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Profit for the year		28,031	23,673
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on revaluation of land and buildings	18	27,980	17,449
Movement of deferred tax	18	(3,489)	(1,494)
		24,491	15,955
<i>Items that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets, net of tax	18	81,358	4,246
Currency translation differences		1,659	(5,972)
Share of other comprehensive income of associates		7,839	364
		90,856	(1,362)
Other comprehensive income for the year, net of tax		115,347	14,593
Total comprehensive income for the year		143,378	38,266
Total comprehensive income attributable to owners of the company		143,378	38,266

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2017

	Attributable to owners of the Company			
	Share capital (Note 17) HK\$'000	Other reserves (Note 18) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1st January 2017	22,554	168,483	197,200	388,237
Comprehensive income				
Profit for the year	-	-	28,031	28,031
Other comprehensive income/(loss)				
Gain on revaluation of land and buildings	-	27,980	-	27,980
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	-	(5,694)	5,694	-
Movement of deferred tax	-	(3,489)	-	(3,489)
Change of value of available-for-sale financial assets	-	81,358	-	81,358
Currency translation differences	-	1,659	-	1,659
Share of other comprehensive income of associates	-	7,839	-	7,839
Total other comprehensive income, net of tax	-	109,653	5,694	115,347
Total comprehensive income	-	109,653	33,725	143,378
Transactions with owners of the Company recognised directly in equity				
Employees share option scheme:				
– exercise of options	453	4,198	-	4,651
Dividend paid relating to 2016	-	-	(6,902)	(6,902)
Dividend paid relating to 2017	-	-	(10,353)	(10,353)
	453	4,198	(17,255)	(12,604)
Total transactions with owners, recognised directly in equity	453	4,198	(17,255)	(12,604)
Balance at 31st December 2017	23,007	282,334	213,670	519,011

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31st December 2017

	Attributable to owners of the Company			Total HK\$'000
	Share capital (Note 17) HK\$'000	Other reserves (Note 18) HK\$'000	Retained earnings HK\$'000	
	Balance at 1st January 2016	22,367	157,498	
Comprehensive income				
Profit for the year	–	–	23,673	23,673
Other comprehensive income/(loss)				
Gain on revaluation of land and buildings	–	17,449	–	17,449
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(5,338)	5,338	–
Movement of deferred tax	–	(1,494)	–	(1,494)
Change of value of available-for-sale financial assets	–	4,246	–	4,246
Currency translation differences	–	(5,972)	–	(5,972)
Share of other comprehensive income of associates	–	364	–	364
Total other comprehensive income, net of tax	–	9,255	5,338	14,593
Total comprehensive income	–	9,255	29,011	38,266
Transactions with owners of the Company recognised directly in equity				
Employees share option scheme:				
– exercise of options	187	1,730	–	1,917
Dividend paid relating to 2015	–	–	(3,355)	(3,355)
Dividend paid relating to 2016	–	–	(7,870)	(7,870)
	187	1,730	(11,225)	(9,308)
Total transactions with owners, recognised directly in equity	187	1,730	(11,225)	(9,308)
Balance at 31st December 2016	22,554	168,483	197,200	388,237

The above consolidated statement of change in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

For the year ended 31st December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities			
Cash generated from operations	30	15,585	28,300
Interest paid		(3,882)	(3,507)
Income tax paid		(2,634)	(239)
Net cash generated from operating activities		9,069	24,554
Cash flows from investing activities			
Purchase of leasehold land and property, plant and equipment		(796)	(3,544)
Prepayment of property, plant and equipment		(677)	–
Prepayment of long-term investment		(455)	–
Proceeds from sale of property, plant and equipment	30(a)	–	13
Purchase of available-for-sale financial assets	12	(5,363)	(30,937)
Interest received		1,475	1,767
Dividend received from an associate	10	2,531	6,768
Dividend received from available-for-sale financial assets		1,091	690
Repayment of loan from an associate		–	8,575
Net cash used in investing activities		(2,194)	(16,668)
Cash flows from financing activities			
Proceeds from collateralised borrowings and bank loans	30(b)	50,533	62,603
Repayment of collateralised borrowings and bank loans	30(b)	(52,702)	(51,513)
Proceeds from exercise of share options		4,651	1,917
Dividends paid to the Company's shareholders		(17,255)	(11,225)
Decrease/(increase) in restricted bank deposits		5,373	(529)
Net cash (used in)/generated from financing activities		(9,400)	1,253
Net (decrease)/increase in cash, cash equivalents and bank overdrafts			
		(2,525)	9,139
Cash, cash equivalents and bank overdrafts at beginning of the year		53,108	45,228
Effect of the exchange rate for the year		1,740	(1,259)
Cash, cash equivalents and bank overdrafts at end of the year	16	52,323	53,108

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Leeport (Holdings) Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the trading, installation and 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 Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26th March 2018.

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 all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land in Hong Kong and buildings, investment property, 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

- (i) The following amendments to standards are mandatory for the Group's financial year beginning on 1st January 2017. The adoption of these amendments has not had any significant impact to the results and financial position of the Group.

Annual Improvements Project	Annual Improvements 2014 – 2016 Cycle
HKAS 7 (Amendment)	Disclosure initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

- (ii) The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning on 1st January 2017 and have not been early adopted by the Group:

		Effective for the accounting period beginning on or after
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
HKAS 40 Amendment	Transfers of investment property	1st January 2018
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration	1st January 2018
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1st January 2019
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions	1st January 2018
HKFRS 4 Amendment	Insurance Contracts	1st January 2018
HKFRS 9	Financial instruments	1st January 2018
HKFRS 9 Amendment	Prepayment Features with Negative Compensation	1st January 2019
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HKFRS 15 Amendment	Clarifications to HKFRS 15	1st January 2018
HKFRS 16	Leases	1st January 2019
Annual Improvements Project	Annual Improvements 2014-2016 Cycle	1st January 2018

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations to standards that have been issued but are not yet effective for financial years beginning on 1st January 2017, and does not expect there will be a significant impact to the Group's financial statements, except for the following new standards.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) *HKFRS 9, 'Financial instruments'*

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1st January 2018:

- equity instruments currently classified as available-for-sale ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets,
- the unlisted equity instruments currently measured at cost which will change to be measured at fair value through other comprehensive income ("FVOCI") under HKFRS 9, and
- derivatives currently measured at FVPL which will continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) *HKFRS 9, 'Financial instruments' (Continued)*

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

This new standard must be applied for financial years commencing on or after 1st January 2018. The Group will apply the new rules retrospectively from 1st January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(b) *HKFRS 15 "Revenue from Contracts with Customers"*

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standards on the Group's consolidated financial statements and has identified the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue generated from the provision of services.

More detailed assessment will be carried out by the Group to estimate the impact of the new rules on the Group's consolidated financial statements.

This new standard is mandatory for financial years commencing on or after 1st January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1st January 2018 and that comparatives will not be restated.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(c) *HKFRS 16 “Leases”*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$477,000.

2.2 Principles of consolidation and equity accounting

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany 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 transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

(iii) *Equity accounting*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

(iv) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Leeport (Holdings) Limited.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(iv) *Changes in ownership interests (Continued)*

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity.

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 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 HK dollars (HK\$), which is the Company's functional and the Group's presentational currency.

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within 'administrative expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(c) *Group companies*

The results and financial position of foreign operations (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 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 other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(c) *Group companies (Continued)*

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency exchange differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

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

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (Continued)

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 consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land in Hong Kong and buildings are credited to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. 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 consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Land and buildings	1-4%
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 reporting period.

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 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income and gains – net", in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of a valuation gain or loss in “other income and gains – net”.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and 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.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables and bills receivables", "other receivables and deposit", "amounts due from an associate", "restricted bank deposits" and 'cash and cash equivalents' in the consolidated balance sheet.

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

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

Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

Recognition and measurement

Regular way 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 cost or 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 cost or fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the consolidated income statement within “other income and gains – net” in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as “other income and gain – net”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

Offsetting financial instruments (Continued)

Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

Offsetting financial instruments (Continued)

Impairment of financial assets (Continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists 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 profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments stated at fair value, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists 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 profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

For equity investments stated at cost, a significant worsening of financial results of the investee against the forecast is an evidence of impairment indicator of the investment. If there is an impairment indicator, impairment assessment would be performed to identify if there is any impairment necessary. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.11 Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured at their fair value.

The Group does not designate any derivatives as hedging instruments. Changes in fair values of derivatives that do not qualify for hedge accounting are being included in the consolidated income statement as “other income and gains – net”.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Inventories

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

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.17 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 consolidated income statement over the period of the borrowings using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowings (Continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

Borrowing costs are recognised in the consolidated income statements in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *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, 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 substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (Continued)

(b) *Deferred income tax (Continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual 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 Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) *Pension obligations*

Group companies participate in various defined contribution pension schemes, 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.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (Continued)

(d) *Share-based payments*

Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. 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 is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);
- and including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(e) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate employment without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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. Provisions are not recognised for future operating losses.

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 rate 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 period at the end of reporting period. The provision is calculated based on past historical experience of the level of repairs and replacements.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sales 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.

Management fee income under management fee agreements on a straight-line basis over the life of the agreement.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

Notes to the Consolidated Financial Statements (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue recognition (Continued)

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 continues unwinding the discount as interest income.

2.22 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.23 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 consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain leasehold land. Leases of leasehold land where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

When the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms.

2.24 Dividend distribution

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

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risks), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

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

(a) Foreign exchange risk

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency by using forward contracts, translated with group treasury. The functional currency of the entity should primarily be determined with reference to the primary economic environment in which an entity operates and this will normally be the one in which it primarily generates and expends cash.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Foreign exchange risk arises when future commercial transactions and net monetary assets and liabilities are denominated in a currency that is not the entity's functional currency.

The foreign exposure of group entities with functional currency of JPY is mainly exposed to United States dollars ("USD"), Euro ("EUR"), HKD and Renminbi ("RMB").

As at 31st December 2017, a 5% strengthening/weakening of the JPY against USD, EUR, HKD and RMB, the post-tax profit of the year would have increased/decreased by HK\$1,002,000 (2016: increased/decreased by HK\$705,000), increased/decreased by HK\$23,000 (2016: decreased/increased by HK\$25,000), increased/decreased by HK\$414,000 (2016: increase/decreased by HK\$417,000) and increased/decreased by HK\$33,000 (2016: increased/decreased by HK\$125,000) respectively, mainly as a result of foreign exchange gain/losses on translation of trade and other receivables, trade and other payables, borrowings and cash and bank balances which are not denominated in JPY.

The foreign exposure of group entities with functional currency of EUR is mainly exposed to HKD.

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) *Foreign exchange risk (Continued)*

As at 31st December 2017, a 5% strengthening/weakening of the EUR against HKD, post-tax profit of the year would have increased/decreased by HK\$188,000 (2016: increased/decreased by HK\$249,000), mainly as a result of foreign exchange gain/losses on translation of trade and other receivables, trade and other payables, cash and bank balances which are not denominated in EUR.

This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2017 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposures to changes in interest rates are mainly attributable to its borrowings.

Borrowings 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. Details of the Group's borrowings have been disclosed in Note 20.

During the year end, the borrowings of the Group at variable rates were denominated in HKD, USD, EUR, JPY and no borrowings were at fixed rate. The Group endeavored to maintain the borrowings on a relatively short term basis which would be refinanced when considered as appropriate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration of refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss and equity of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post-tax profit for the year of a 50 basis-point decrease/increase would be an increase/decrease of HK\$516,000 for the year ended 31st December 2017 (2016: HK\$502,000).

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) *Credit risk*

The Group has no significant concentrations of credit risk. The Group's credit risk arises from cash and cash equivalents, restricted bank deposits, counter party risk in respect of derivative financial instruments, as well as credit exposures to trade and bills receivables as well as other receivables (including amounts due from associates). The Group considers its maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed in Note 11.

To manage the counter party risk and credit risk in respect of cash and cash equivalents and restricted bank deposits, cash and deposits are mainly placed with reputable banks which are all high-credit-quality financial institutions. In addition, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, appropriate percentage of down payment and to perform periodic credit evaluations of its customers or made in cash. Collection of outstanding receivable balances and authorisation of credit limits to individual customers are closely monitored on an ongoing basis. The Group reviews the recoverable amount of each individual trade receivables to ensure that adequate impairment loss is made for irrecoverable amounts.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the counter party's default history. The current portion of trade and bills receivables which are not impaired are analysed below.

	As at 31st December	
	2017	2016
	HK\$'000	HK\$'000
Trade and bills receivables		
Customers accepted within past 12 months	2,270	7,199
Customers accepted beyond the past 12 months	67,257	41,358
Total	69,527	48,557

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) *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 Group aims to maintain flexibility in funding by keeping committed credit lines available from banks.

The Group had the following banking facilities with banks:

	As at 31st December	
	2017 HK\$'000	2016 HK\$'000
Banking facilities available	727,005	656,439
Banking facilities utilised	(164,095)	(215,675)
Undrawn banking facilities	562,910	440,764

The table below analyses the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

	On demand or less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000
At 31st December 2017			
Trust receipt loans (Note 20)	40,532	–	–
Term loan from bank subject to a repayment on demand clause and interest payment	90,056	–	–
Term loan from bank not subject to a repayment on demand clause and interest payment	6,926	5,628	–
Derivative financial instruments (Note 13)	490	–	–
Trade and bills payables (Note 19)	110,452	–	–
Other payables	13,162	–	–
	<u>261,618</u>	<u>5,628</u>	<u>–</u>
At 31st December 2016			
Bank overdraft (Note 20)	846	–	–
Trust receipt loans (Note 20)	24,356	–	–
Term loan from bank subject to a repayment on demand clause and interest payment	102,174	–	–
Term loan from bank not subject to a repayment on demand clause and interest payment	7,035	6,880	5,615
Derivative financial instruments (Note 13)	1,150	–	–
Trade and bills payables (Note 19)	95,105	–	–
Other payables	18,015	–	–
	<u>248,681</u>	<u>6,880</u>	<u>5,615</u>

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

The following table summarises the maturity analysis of term loans from bank with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates assuming it remained constant until maturity dates. Taking into account the Group's net assets, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
At 31st December 2017	<u>90,056</u>	<u>-</u>	<u>-</u>	<u>90,056</u>
At 31st December 2016	<u>96,589</u>	<u>5,585</u>	<u>-</u>	<u>102,174</u>

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK\$'000
At 31st December 2017	
Forward foreign exchange contracts – held for trading:	
Outflow	43,074
Inflow	42,849
At 31st December 2016	
Forward foreign exchange contracts – held for trading:	
Outflow	38,259
Inflow	<u>37,538</u>

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents.

The gearing ratio at 31st December 2017 and 2016 were as follows:–

	2017 HK\$'000	2016 HK\$'000
Total borrowings (Note 20)	142,810	145,863
Less: cash and cash equivalents (Note 16)	(52,323)	(53,954)
Net debt	90,487	91,909
Total equity	519,011	388,237
Gearing ratio	17.4%	23.7%

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including trade receivables and bills receivables, other receivables, amounts due from associates, restricted bank deposits and cash and bank balances; and financial liabilities including trade and bills payables, other payables and borrowings approximate their fair values due to their short maturities. The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques.

The method by which the fair values of financial instruments are categorised as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data.

See Notes 7 and 8 for disclosure of the property, plant and equipment and investment property that are measured at fair value.

The Group's financial assets and financial liabilities that are measured at fair values at 31st December 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	265	–	265
Available-for-sale financial assets – listed securities	143,057	–	–	143,057
	<u>143,057</u>	<u>265</u>	<u>–</u>	<u>143,322</u>
Liabilities				
Derivative financial instruments	–	490	–	490

Notes to the Consolidated Financial Statements (Continued)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The Group's financial assets and financial liabilities that are measured at fair values at 31st December 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	429	–	429
Available-for-sale financial assets				
– listed securities	56,336	–	–	56,336
	<u>56,336</u>	<u>429</u>	<u>–</u>	<u>56,765</u>
Liabilities				
Derivative financial instruments	–	1,150	–	1,150

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

Notes to the Consolidated Financial Statements (Continued)

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) Provision of impairment of inventories

The Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing the net realisable value and making appropriate allowances, management identifies inventories that are moving or obsolete, considers their physical conditions, market conditions and market price for similar items.

(b) Provision for impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade and other receivables. Provisions for impairment are applied to trade and other receivables, where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment charges in the period in which such estimate has been changed.

5 SEGMENT INFORMATION

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

The Board considers the business from a geographic perspective. 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, 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.

Notes to the Consolidated Financial Statements (Continued)

5 SEGMENT INFORMATION (CONTINUED)

	For the year ended 31st December 2017			
	The PRC HK\$'000	HK HK\$'000	Others HK\$'000	Total HK\$'000
Sales	<u>502,035</u>	<u>99,648</u>	<u>12,687</u>	<u>614,370</u>
Segment results	<u>11,319</u>	<u>3,312</u>	<u>1,331</u>	<u>15,962</u>
Finance expense – net				(2,407)
Share of profit of associates				<u>19,346</u>
Profit before income tax				<u>32,901</u>
Income tax expenses				<u>(4,870)</u>
Profit for the year				<u><u>28,031</u></u>

	For the year ended 31st December 2016			
	The PRC HK\$'000	HK HK\$'000	Others HK\$'000	Total HK\$'000
Sales	<u>622,025</u>	<u>83,827</u>	<u>9,261</u>	<u>715,113</u>
Segment results	<u>14,557</u>	<u>3,908</u>	<u>(2,491)</u>	<u>15,974</u>
Finance expense – net				(1,740)
Share of profit of associates				<u>11,279</u>
Profit before income tax				<u>25,513</u>
Income tax expenses				<u>(1,840)</u>
Profit for the year				<u><u>23,673</u></u>

Notes to the Consolidated Financial Statements (Continued)

5 SEGMENT INFORMATION (CONTINUED)

During the year ended 31st December 2017, there is no single customer whose revenue amounted to 10% or more of the Group's revenue (2016: a single customer with revenue amounting to HK\$107,972,000 or 15.1% of the Group's revenue).

Assets

	2017 HK\$'000	2016 HK\$'000
Total assets:		
The PRC	266,960	236,435
Hong Kong	372,054	346,202
Other countries (Note (a))	230,415	132,686
	869,429	715,323

Note:

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

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

Segment assets consist primarily of property, plant and equipment, leasehold land, investment properties, inventories, receivables, investment in associates, available for sale financial instruments, derivative financial instruments, operating cash and deposits.

The depreciation of property, plant and equipment and amortisation of leasehold land for the year ended 31st December 2017 are HK\$8,835,000 (2016: HK\$8,752,000) and HK\$424,000 (2016: HK\$461,000) respectively.

Notes to the Consolidated Financial Statements (Continued)

5 SEGMENT INFORMATION (CONTINUED)

Capital expenditure:

	2017 HK\$'000	2016 HK\$'000
Capital expenditure:		
The PRC	507	21,017
Hong Kong	680	1,165
	1,187	22,182

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

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

6 LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their movements during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
At 1st January	16,473	8,332
Addition	–	9,432
Transfer to investment property (Note 8)	(1,704)	–
Exchange differences	711	(830)
Amortisation (Note 23)	(424)	(461)
At 31st December	15,056	16,473

No leasehold land was pledged as at 31st December 2017 (31st December 2016: HK\$1,704,000 pledged as security for bank borrowing) (Note 20).

Notes to the Consolidated Financial Statements (Continued)

7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant, machinery furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1st January 2016					
Cost or valuation	184,114	31,231	45,134	966	261,445
Accumulated depreciation	–	(27,024)	(42,987)	(912)	(70,923)
Net book amount	184,114	4,207	2,147	54	190,522
Year ended 31st December 2016					
Opening net book amount	184,114	4,207	2,147	54	190,522
Exchange differences	(565)	(19)	(22)	(3)	(609)
Revaluation gain (Note 18)	17,449	–	–	–	17,449
Additions	6,830	5,382	218	320	12,750
Disposals (Note 30(a))	–	–	(249)	(9)	(258)
Depreciation (Notes 23)	(6,719)	(1,198)	(793)	(42)	(8,752)
Closing net book amount	201,109	8,372	1,301	320	211,102
At 31st December 2016					
Cost or valuation	201,109	35,742	42,530	1,191	280,572
Accumulated depreciation	–	(27,370)	(41,229)	(871)	(69,470)
Net book amount	201,109	8,372	1,301	320	211,102
Year ended 31st December 2017					
Opening net book amount	201,109	8,372	1,301	320	211,102
Exchange differences	603	298	39	–	940
Revaluation gain (Note 18)	27,980	–	–	–	27,980
Additions	–	25	880	282	1,187
Transfer to investment property (Note 8)	(6,220)	–	–	–	(6,220)
Depreciation (Notes 23)	(6,893)	(1,183)	(679)	(80)	(8,835)
Closing net book amount	216,579	7,512	1,541	522	226,154
At 31st December 2017					
Cost or valuation	216,579	36,999	43,916	1,483	298,977
Accumulated depreciation	–	(29,487)	(42,375)	(961)	(72,823)
Net book amount	216,579	7,512	1,541	522	226,154

Notes to the Consolidated Financial Statements (Continued)

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's buildings located in the PRC and land and buildings located in Hong Kong were revalued at 31st December 2017 and 2016. The Group's building located in Singapore were revalued at 31st December 2016. Valuations of buildings located in the PRC and land and buildings located in Hong Kong were carried out on the basis of open market value by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The buildings of the Group located in Singapore were revalued on the basis of their open market value by Dickson Property Consultants Pte Ltd., an independent firm of professional valuers.

The valuation was derived using the direct comparison approach, assuming sale of the property interest in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

The fair value measurement of these land and buildings are categorised into level 3 in the fair value hierarchy based on the inputs to valuation techniques used.

The Group's policy is to recognise transfers into/out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the year.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	2017 HK\$'000	2016 HK\$'000
At beginning of the year	201,109	184,114
Exchange differences	603	(565)
Revaluation gain (Note 18)	27,980	17,449
Addition	–	6,830
Transfer to investment property (Note 8)	(6,220)	–
Depreciation	(6,893)	(6,719)
At end of the year	<u>216,579</u>	<u>201,109</u>

Notes to the Consolidated Financial Statements (Continued)

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Below is a summary of the key inputs to the valuation of properties for own use:

	Significant unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
As at 31st December 2017			
Land and buildings in Hong Kong	Market unit sale price (per square foot)	HK\$ 2,713–HK\$ 25,012 (HK\$ 14,943)	The higher the weighted average sales price, the higher the fair value
Buildings in the PRC	Market unit sale price (per square foot)	HK\$ 1,558–HK\$ 3,919 (HK\$ 2,282)	The higher the weighted average sales price, the higher the fair value
As at 31st December 2016			
Land and buildings in Hong Kong	Market unit sale price (per square foot)	HK\$ 2,520–HK\$ 21,514 (HK\$ 12,627)	The higher the weighted average sales price, the higher the fair value
Buildings in the PRC	Market unit sale price (per square foot)	HK\$ 1,436–HK\$ 3,672 (HK\$ 1,984)	The higher the weighted average sales price, the higher the fair value
Buildings in Singapore	Market unit sale price (per square foot)	HK\$ 937 (HK\$ 937)	The higher the weighted average sales price, the higher the fair value

Depreciation expense of HK\$8,835,000 (2016: HK\$8,752,000) has been charged in administrative expenses (Note 23).

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

	2017 HK\$'000	2016 HK\$'000
Cost	49,364	51,643
Accumulated depreciation	(12,048)	(11,015)
Net book amount	37,316	40,628

Bank borrowings are secured on land and buildings with a carrying amount of HK\$188,600,000 (2016: HK\$174,917,000) (Note 20).

Notes to the Consolidated Financial Statements (Continued)

8 INVESTMENT PROPERTY

At fair value	2017 HK\$'000	2016 HK\$'000
Opening balance at 1st January	43,000	43,000
Net gain from fair value adjustment (Note 22)	3,034	–
Transfer from owner-occupied property	7,924	–
Exchange difference	700	–
Closing balance at 31st December	54,658	43,000

(a) Amounts recognised in profit and loss for investment property

	2017 HK\$'000	2016 HK\$'000
Rental income	2,005	1,500

As at 31st December 2017, the Group had no unprovided contractual obligations for further repairs and maintenance (2016: Nil).

During the year, the property of the Group located in Singapore was transferred to investment property as it ceased to be owner occupied and the property meets the definition of investment property with the intention of leasing out to earn rental income under an operating lease.

The investment properties situated in Hong Kong and Singapore are held on leases of between 10 to 50 years.

The investment property located in Hong Kong was revalued as at 31st December 2017 and 2016 by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The investment property of the Group located in Singapore was revalued as at 31st December 2017 by Orangetee Advisory Pte Limited, an independent firm of professional valuers.

The valuation was derived using the direct comparison approach, assuming sale of the property interest in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

The fair value measurement of the Group's investment properties are categorised into level 3 in the fair value hierarchy based on the inputs to valuation techniques used.

The Group's policy is to recognise transfers into/out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the year.

Notes to the Consolidated Financial Statements (Continued)

8 INVESTMENT PROPERTY (CONTINUED)

Below is a summary of the key inputs to the valuation of investment property:

	Significant unobservable inputs	Range (weighted average)	Relationship of unobservable inputs to fair value
As at 31st December 2017			
Land and buildings in Hong Kong	Market unit sale price (per square foot)	HK\$8,505 (HK\$8,505)	The higher the weighted average sales price, the higher the fair value
Land and buildings in Singapore	Market unit sale price (per square foot)	HK\$1,048 (HK\$1,048)	The higher the weighted average sales price, the higher the fair value
As at 31st December 2016			
Land and buildings in Hong Kong	Market unit sale price (per square foot)	HK\$7,985 (HK\$7,985)	The higher the weighted average sales price, the higher the fair value

Bank borrowings are secured on investment properties with a carrying amount of HK\$54,658,000 (2016: HK\$43,000,000).

9 SUBSIDIARIES

The following is a list of principal subsidiaries at 31st December 2017:

Company name	Place of Incorporation and kind of legal entity	Principal activities and place of operation	Issued/ registered and fully paid capital	Percentage of equity interest attributable to the Company
Leeport Group Limited (Note(i))	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US\$50,000	100% ¹
Leeport Machinery (Taiwan) Co., Ltd. (Formerly known as "Formtek Machinery Company Limited") (Note (i))	Taiwan, limited liability company	Trading of metal forming machines and tools in Taiwan	NT\$8,000,000	100%
Leeda Machinery Limited	Hong Kong, limited liability company	Inactive	HK\$10,000	100%

Notes to the Consolidated Financial Statements (Continued)

9 SUBSIDIARIES (CONTINUED)

Company name	Place of Incorporation and kind of legal entity	Principal activities and place of operation	Issued/ registered and fully paid capital	Percentage of equity interest attributable to the Company
Leeport Cutting Tools Corporation (Note (i))	British Virgin Islands, limited liability company	Inactive	US\$10,000	100%
Leeport Electronics Limited	Hong Kong, limited liability company	Trading of electronic equipment in Hong Kong	HK\$2,000,000	100%
Leeport Machine Tool Company Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$10,000,000	100%
Leeport Macao Commercial Offshore Limited (Note (i))	Macau, limited liability company	Trading of machines, tools, accessories and measuring instruments in Macau	MOP100,000	100%
Leeport (Malaysia) Sdn. Bhd. (Note (i))	Malaysia, limited liability company	Inactive	RM350,000	100%
Leeport Machine Tool (Shenzhen) Company Limited (Note (i))	PRC, limited liability company	Trading of machines, tools and measuring instruments in the PRC	HK\$10,000,000	100%
Leeport Machine Tool Trading (China) Limited (Note (i))	PRC, limited liability company	Trading of machines, tools and measuring instruments in the PRC	RMB22,000,000	100%
Leeport (Singapore) Pte Ltd (Note (i))	Singapore, limited liability company	Trading of machine tools and related products in Singapore	S\$1,000,000	100%
Leeport Machinery (Shanghai) Company Limited (Note (i))	PRC, limited liability company	Trading of machines, tools and measuring instruments in the PRC	US\$1,000,000	100%
Leeport Metalforming Machinery Limited	Hong Kong, limited liability company	Trading of metalforming machines in Hong Kong	HK\$500,000	100%

Notes to the Consolidated Financial Statements (Continued)

9 SUBSIDIARIES (CONTINUED)

Company name	Place of Incorporation and kind of legal entity	Principal activities and place of operation	Issued/ registered and fully paid capital	Percentage of equity interest attributable to the Company
Leeport Precision Machine Tool Company Limited (Formerly known as "Leeport Technology Limited")	Hong Kong, limited liability company	Trading of metalcutting machines in Hong Kong	HK\$1,000,000	100%
Leeport Technology Limited (Formerly known as "Leeport Precision Machine Tool Co. Limited")	Hong Kong, limited liability company	Trading of Measuring instruments in Hong Kong	HK\$5,000,000	100%
Leeport Tools Limited	Hong Kong, limited liability company	Trading of cutting tools in Hong Kong	HK\$1,000,000	100%
Rapman Limited	Hong Kong, limited liability company	Trading of rapid prototypes in Hong Kong	HK\$1,000,000	100%
Rapman (Dongguan) Limited (Note (i))	PRC, limited liability company	Inactive	HK\$3,500,000	100%
World Leader Limited	Hong Kong, limited liability company	Property holding in Hong Kong and the PRC	HK\$1	100%
Leeport International (BVI) Company Limited (Note (i))	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	HK\$50,000	100%
Leeport International (Hong Kong) Company Limited (Note (i))	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$10,000	100%

¹ Shares held directly by the Company

Notes:

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

Notes to the Consolidated Financial Statements (Continued)

10 INVESTMENTS IN ASSOCIATES

Movements of investments in associates are as follows:

	2017 HK\$'000	2016 HK\$'000
At 1st January	101,871	96,996
Share of post-tax profits of associates	19,346	11,279
Share of other comprehensive income of associates	7,839	364
Dividend received from an associate	(2,531)	(6,768)
At 31st December	126,525	101,871

Set out below are the associates of the Group as at 31st December 2017 and 2016. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group.

Details of investment in associates as at 31st December 2017 and 2016 are as follows:

Company name	Place of business/ country of incorporation	Effective % of ownership interest		Principal activities and place of operation
		2017	2016	
Mitutoyo Leeport Metrology Corporation ("MLMC")	Hong Kong/British Virgin Islands	49	49	Trading of measuring tools
OPS-Ingersoll Funkenerosion GmbH ("OPS")	Germany/Germany	22.34	22.34	Manufacturing of metal working machinery
Prima Power Suzhou Co., Ltd.	The PRC/The PRC	30	30	Manufacturing of metal forming machinery

There are no contingent liabilities relating to the Group's interest in the associates.

Notes to the Consolidated Financial Statements (Continued)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised financial information of a material associate, MLMC

Included in investments in associates is an investment in MLMC which has a carrying amount of HK\$74,131,000 (2016: HK\$58,531,000), which is material to the Group. Set out below is the summarised financial information of MLMC.

Summarised balance sheet

	MLMC	
	2017 HK\$'000	2016 HK\$'000
Current		
Cash and cash equivalents	147,043	106,632
Other current assets (excluding cash)	54,427	59,653
	<u>201,470</u>	<u>166,285</u>
Financial liabilities (excluding trade payables)	(56,605)	(54,471)
Other current liabilities (including trade payables)	(3,555)	(1,025)
Total current liabilities	<u>(60,160)</u>	<u>(55,496)</u>
Non-current		
Assets	<u>3,001</u>	1,696
Liabilities	<u>(67)</u>	(79)
Net assets	<u>144,244</u>	<u>112,406</u>

Notes to the Consolidated Financial Statements (Continued)

10 INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised Income Statement

	MLMC	
	2017 HK\$'000	2016 HK\$'000
Revenue	267,359	254,048
Depreciation and amortization	(900)	(725)
Interest income	30	376
Profit before income tax	38,873	15,418
Income tax expenses	(6,600)	(4,614)
Post-tax profit after tax	32,273	10,804
Other comprehensive income	4,729	3,806
Total comprehensive income	37,002	14,610
Dividends received from an associate	2,531	6,768

Reconciliation of summarised financial information presented to the carrying amount of MLMC is set out below:

	MLMC	
	2017 HK\$'000	2016 HK\$'000
Opening net assets 1st January	112,406	111,608
Profit for the year	32,273	10,804
Other comprehensive income	4,729	3,806
Dividend	(5,164)	(13,812)
Closing net assets 31st December	144,244	112,406
Interest in associates (49%)	70,679	55,079
Goodwill	3,452	3,452
Carrying value	74,131	58,531

Notes to the Consolidated Financial Statements (Continued)

11 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK\$'000	Available- for-sale HK\$'000	Assets at fair value through profit & loss HK\$'000	Total HK\$'000
Assets as per consolidated balance sheet				
At 31st December 2017				
Derivative financial instruments (Note 13)	-	-	265	265
Trade receivables and bills receivables (Note 14)	108,445	-	-	108,445
Other receivables and deposits	3,093	-	-	3,093
Available-for-sale financial assets (Note 12)	-	143,057	-	143,057
Restricted bank deposits (Note 16)	19,307	-	-	19,307
Amount due from an associate	2,766	-	-	2,766
Cash and cash equivalents (Note 16)	52,323	-	-	52,323
Total	<u>185,934</u>	<u>143,057</u>	<u>265</u>	<u>329,256</u>
At 31st December 2016				
Derivative financial instruments (Note 13)	-	-	429	429
Trade receivables and bills receivables (Note 14)	97,906	-	-	97,906
Other receivables and deposits	3,808	-	-	3,808
Available-for-sale financial assets (Note 12)	-	56,336	-	56,336
Restricted bank deposits (Note 16)	24,680	-	-	24,680
Amount due from an associate	213	-	-	213
Cash and cash equivalents (Note 16)	53,954	-	-	53,954
Total	<u>180,561</u>	<u>56,336</u>	<u>429</u>	<u>237,326</u>

Notes to the Consolidated Financial Statements (Continued)

11 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Financial liabilities at amortised cost HK\$'000	Liabilities at fair value-through the profit & loss HK\$'000	Total HK\$'000
Liabilities as per consolidated balance sheet			
At 31st December 2017			
Borrowings (Note 20)	142,810	–	142,810
Derivative financial instruments (Note 13)	–	490	490
Trade payables and bills payables (Note 19)	110,452	–	110,452
Other payables	13,162	–	13,162
Total	<u>266,424</u>	<u>490</u>	<u>266,914</u>
At 31st December 2016			
Borrowings (Note 20)	145,863	–	145,863
Derivative financial instruments (Note 13)	–	1,150	1,150
Trade payables and bills payables (Note 19)	95,105	–	95,105
Other payables	18,015	–	18,015
Total	<u>258,983</u>	<u>1,150</u>	<u>260,133</u>

Notes to the Consolidated Financial Statements (Continued)

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK\$'000	2016 HK\$'000
Non-current – at cost		
At the beginning of the year	12,863	–
Additions	–	12,863
At the end of the year	12,863	12,863
Current – at fair value		
At beginning of the year	56,336	34,016
Additions	5,363	18,074
Net fair value gain transferred to equity (Note 18)	81,358	4,246
At the end of the year	143,057	56,336

Available-for-sale financial assets include the following:

	2017 HK\$'000	2016 HK\$'000
Unlisted securities:		
– Equity securities – Europe	12,863	12,863
Listed securities:		
– Equity securities – Europe	143,057	56,336

Available-for-sale financial assets are denominated in EUR.

None of these financial assets is either past due or impaired.

Notes to the Consolidated Financial Statements (Continued)

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Forward foreign exchange contracts – non-hedge instruments	265	490	429	1,150

Derivatives held for trading purpose are classified as a current asset or liability. As at 31st December 2017, the Group had outstanding gross-settled foreign currency forward contracts to buy EUR1,300,000 for HKD11,979,000; JPY78,000,000 for RMB4,836,000; JPY92,000,000 for USD829,000 and JPY270,840,000 for HKD18,890,000 (2016: buy EUR2,387,000 for HKD19,815,000; JPY25,000,000 for RMB1,695,000; USD49,000 for RMB340,000 and JPY233,900,000 for HKD16,154,000).

Derivative financial instruments are presented within 'operating activities' as part of changes in working capital in the consolidated cash flow statement.

Fair value gains and losses on derivative financial instruments are recorded in 'other income and gains - net' in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated balance sheet.

Notes to the Consolidated Financial Statements (Continued)

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2017 HK\$'000	2016 HK\$'000
Non-current assets		
Prepayment for property, plant and equipment	677	391
Prepayment for long-term investment	455	–
	<u>1,132</u>	<u>391</u>
Current assets		
Trade and bills receivables	111,987	104,106
Less: provision for impairment of receivables	(3,542)	(6,200)
Trade receivables and bills receivables – net	108,445	97,906
Other receivables, prepayments and deposits	26,467	18,917
	<u>134,912</u>	<u>116,823</u>
Total	<u>136,044</u>	<u>117,214</u>

The carrying amounts of trade and bills receivables, other receivables and deposits approximated their fair values.

At 31st December 2017 and 2016, the ageing analysis of trade and bills receivables by due dates are as follows:

	2017 HK\$'000	2016 HK\$'000
Current	69,527	48,557
1 – 3 months	21,833	31,496
4 – 6 months	13,056	11,858
7 – 12 months	2,265	4,117
Over 12 months	5,306	8,078
	<u>111,987</u>	<u>104,106</u>
Less: provision for impairment of receivables	(3,542)	(6,200)
	<u>108,445</u>	<u>97,906</u>

Notes to the Consolidated Financial Statements (Continued)

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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.

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

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
EUR	5,204	4,222
HK\$	1,959	2,414
JPY	11,683	18,029
USD	12,195	5,932
RMB	76,397	63,867
Other currencies	1,007	3,442
	108,445	97,906

As at 31st December 2017, trade receivables of HK\$38,918,000 (2016: HK\$49,349,000) were past due but not impaired. These relate to a number of customers with no history of credit default and they are in continuous trading with the Group. The ageing analysis of these trade receivables based on due dates are as follows:

	2017 HK\$'000	2016 HK\$'000
1– 3 months	21,833	31,496
4– 6 months	13,056	11,858
7– 12 months	2,265	4,117
Over 12 months	1,764	1,878
	38,918	49,349

Notes to the Consolidated Financial Statements (Continued)

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

As at 31st December 2017, trade receivables of HK\$3,542,000 (2016: HK\$6,200,000) were impaired and were fully provided for. The individually impaired receivables mainly relate to customers which were in financial difficulties. The ageing analysis of these non-recoverable receivables based on due dates are as follows:

	2017 HK\$'000	2016 HK\$'000
Over 12 months	3,542	6,200

Movements of provision for impairment of trade receivables and bills receivables are as follows:

	2017 HK\$'000	2016 HK\$'000
At beginning of the year	6,200	6,805
Write off of receivables	(2,260)	(680)
Provision for impairment of receivables	1,142	87
Recovery of impaired receivables	(1,873)	–
Exchange difference	333	(12)
At end of the year	3,542	6,200

The creation and release of provision for impaired receivables has been included in administrative expenses in the consolidated income statement (Note 23). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying values of each class of receivable mentioned above. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements (Continued)

15 INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Finished goods	85,130	82,337
Less: Provision for impairment of inventories	(23,689)	(21,742)
Inventories, net	<u>61,441</u>	<u>60,595</u>

The provision for slow moving inventories charged to cost of goods sold amounted to HK\$1,806,000 (2016: HK\$2,340,000) (Note 23).

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK\$505,315,000 (2016: HK\$575,606,000) (Note 23).

16 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2017 HK\$'000	2016 HK\$'000
Restricted bank deposits (Note (a))	<u>19,307</u>	<u>24,680</u>
Cash at bank and in hand (Note (b))	<u>52,323</u>	<u>53,954</u>

(a) Restricted bank deposits of the Group are pledged to secure banking facilities granted to the Group. The effective interest rate on restricted bank deposits was 1.25% (2016: 3.91%) and these deposits have an average renewal period of 81 days (2016: 44 days). The carrying amounts of the Group's restricted bank deposits are mainly denominated in RMB and HK\$ (2016: RMB).

(b) Cash and cash equivalents for the purposes of the consolidated cash flow statement include the following:

	2017 HK\$'000	2016 HK\$'000
Cash at bank and in hand	52,323	53,954
Bank overdrafts	-	(846)
Cash and cash equivalents	<u>52,323</u>	<u>53,108</u>

Notes to the Consolidated Financial Statements (Continued)

16 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

The table below shows the bank deposits balance of the major counterparties as at 31st December 2017 and 2016.

	2017 HK\$'000	2016 HK\$'000
Secured restricted bank deposits		
– Listed financial institutions	<u>19,307</u>	<u>24,680</u>
Cash and cash equivalents		
Cash at banks and bank deposits		
– Listed financial institutions	52,000	53,292
– Non-listed financial institutions	<u>63</u>	<u>161</u>
	52,063	53,453
Cash in hand	<u>260</u>	<u>501</u>
Total	<u>52,323</u>	<u>53,954</u>

The carrying amounts of the Group's cash at bank and in hand are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
EUR	1,489	1,738
HK\$	3,419	4,014
JPY	11,939	19,846
USD	2,977	2,244
RMB	30,369	25,243
Other currencies	<u>2,130</u>	<u>869</u>
	<u>52,323</u>	<u>53,954</u>

Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

Notes to the Consolidated Financial Statements (Continued)

17 SHARE CAPITAL

	2017 HK\$'000	2016 HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
	Number of shares (in thousand)	Share capital HK\$'000
Issued and fully paid:		
At 1st January 2016	223,674	22,367
Exercise of options	<u>1,868</u>	<u>187</u>
At 31st December 2016	225,542	22,554
Exercise of options	<u>4,534</u>	<u>453</u>
At 31st December 2017	<u>230,076</u>	<u>23,007</u>

Share options

The Company adopted a share option scheme (the "Old Scheme") at a special general meeting held on 17th June 2003. At the annual general meeting of shareholders held on 15th May 2013, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted by the Company. The New Scheme continues to recognise and acknowledge the contributions of the Eligible Participants (as defined in the New Scheme) to the Group. The New Scheme is also designed to provide incentives and help the Group in retaining its existing employees and recruiting additional employees.

Pursuant to the New Scheme, the Company can grant options to Eligible Participants for a consideration of HK\$1 for each grant payable by the Eligible Participants to the Company. The total number of shares issued and to be issued upon exercise of options granted to each Eligible Participant (including exercised, cancelled and outstanding options) shall not exceed 10% of the shares in issue as at the date of such shareholder's approval. At the date of this report, the total number of options that can be granted was 12,546,406 representing approximately 5.45% of the number of issued shares.

Subscription price in relation to each option pursuant to the New Scheme shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which the option is offered to an Eligible Participant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Notes to the Consolidated Financial Statements (Continued)

17 SHARE CAPITAL (CONTINUED)

Share options (Continued)

The options are exercisable within the option period as determined by the Board of the Company. The New Scheme shall be valid and effective for a period of 10 years commencing from 15th May 2013, the date of the approval of the New Scheme.

Share options are granted to directors and to selected employees. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2017		2016	
	Average exercise price in HK\$ per share option	Number of share options (thousands)	Average exercise price in HK\$ per share option	Number of share options (thousands)
At 1st January	1.026	6,039	1.026	7,907
Exercised	1.026	(4,534)	1.026	(1,868)
Lapsed	1.026	(1,505)	-	-
At 31st December	1.026	-	1.026	6,039

Options exercised in 2017 resulted in 4,534,000 (2016: 1,868,000) shares being issued at HK\$1.026 (2016: HK\$1.026) each. The related weighted average share price at the time of exercise was HK\$1.45 (2016: HK\$1.50) each. No transaction costs has been borne by the Group.

Share options outstanding at the end of the year have the following expiry date and exercise price:

Expiry date	Exercise price in HK\$ per share option	Number of share options (thousands)	
		2017	2016
16th June 2017	1.026	-	6,039
		-	6,039

Notes to the Consolidated Financial Statements (Continued)

18 OTHER RESERVES

	Share premium HK\$'000	Land and building revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Merger reserve HK\$'000	Total HK\$'000
Balance at 1st January 2016						
Currency translation differences	31,582	165,999	(61,301)	9,908	11,310	157,498
Revaluation – gross (Note 7)	–	(51)	(5,921)	–	–	(5,972)
Revaluation – tax (Note 21)	–	17,449	–	–	–	17,449
Share of other comprehensive loss of associates (Note 10)	–	(1,494)	–	–	–	(1,494)
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	–	364	–	–	364
Net fair value gain in available-for-sale financial assets (Note 12)	–	(5,338)	–	–	–	(5,338)
Employee share option scheme:						
– exercise of options	1,730	–	–	4,246	–	4,246
	<u>33,312</u>	<u>176,565</u>	<u>(66,858)</u>	<u>14,154</u>	<u>11,310</u>	<u>168,483</u>
Balance at 31st December 2016	33,312	176,565	(66,858)	14,154	11,310	168,483
Balance at 1st January 2017						
Currency translation differences	33,312	176,565	(66,858)	14,154	11,310	168,483
Revaluation - gross (Note 7)	–	946	713	–	–	1,659
Revaluation - tax (Note 21)	–	27,980	–	–	–	27,980
Share of other comprehensive loss of associates (Note 10)	–	(3,489)	–	–	–	(3,489)
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	–	7,839	–	–	7,839
Net fair value gain in available-for-sale financial assets (Note 12)	–	(5,694)	–	–	–	(5,694)
Employee share option scheme:						
– exercise of options	4,198	–	–	81,358	–	81,358
	<u>37,510</u>	<u>196,308</u>	<u>(58,306)</u>	<u>95,512</u>	<u>11,310</u>	<u>282,334</u>
Balance at 31st December 2017	37,510	196,308	(58,306)	95,512	11,310	282,334

Notes to the Consolidated Financial Statements (Continued)

19 TRADE, BILLS PAYABLES, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2017 HK\$'000	2016 HK\$'000
Trade payables and bills payables	110,452	95,105
Other payables, accruals and deposits received (Note)	63,355	57,382
	173,807	152,487

Note: The balances mainly include deposit received from customers of HK\$40,459,000 (2016: HK\$27,537,000).

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

	2017 HK\$'000	2016 HK\$'000
Current	100,298	87,720
1 – 3 months	7,726	2,553
4 – 6 months	734	1,225
7 – 12 months	613	3,541
Over 12 months	1,081	66
	110,452	95,105

The carrying amounts of the trade payables and bills payables are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
JPY	31,445	36,338
EUR	9,249	10,267
USD	8,694	5,587
RMB	58,018	40,481
HK\$	163	90
Others	2,883	2,342
	110,452	95,105

Notes to the Consolidated Financial Statements (Continued)

20 BORROWINGS

As at 31st December 2017 and 2016, the group's borrowings were repayable as follows:

	2017 HK\$'000	2016 HK\$'000
Non-current		
Portions of term loans from bank due for repayment after one year	5,556	12,222
Current		
Bank overdrafts	–	846
Trust receipt loans	40,532	24,356
Portions of term loans from banks due for repayment within one year	96,722	102,883
Portions of term loans from banks due for repayment after one year which contain a repayable on demand clause	–	5,556
	<u>137,254</u>	<u>133,641</u>
Total borrowings	<u>142,810</u>	<u>145,863</u>

As at 31st December 2017, certain land and buildings, leasehold land, investment properties and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$262,565,000 (2016: HK\$244,301,000) were pledged to secure the banking facilities of the Group.

The facilities expiring within one year are annual facilities subject to review at various dates during 2018.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year		
– Term loans	102,278	120,661
– Others	40,532	25,202
	<u>142,810</u>	<u>145,863</u>

Notes to the Consolidated Financial Statements (Continued)

20 BORROWINGS (CONTINUED)

The fair values of the Group's borrowings approximate their carrying amounts at each balance sheet date. They are determined based on discounted cash flows using a rate based on the borrowing rate of 2.84% (2016: 2.6%) and are within level 2 of the fair value hierarchy.

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

	2017					2016				
	SGD	HK\$	US\$	EUR	JPY	SGD	HK\$	US\$	EUR	JPY
Bank overdrafts	-	-	-	-	-	5.50%	-	-	-	-
Trust receipts loans	-	-	3.71%	2.25%	1.82%	-	-	3.01%	2.25%	1.85%
Bank loans	-	3.10%	-	-	-	-	2.50%	-	-	-

The maturity of borrowings (without considering the "repayable on demand" clauses for 31st December 2017 and 2016) is as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 year	137,254	128,085
Between 1 and 2 years	5,556	12,222
Between 2 and 5 years	-	5,556
	142,810	145,863

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

	2017 HK\$'000	2016 HK\$'000
EUR	1,586	4,189
HK\$	102,278	120,661
JPY	17,388	804
USD	21,558	19,363
SGD	-	846
	142,810	145,863

Notes to the Consolidated Financial Statements (Continued)

21 DEFERRED INCOME TAX

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

	2017 HK\$'000	2016 HK\$'000
Accelerated tax depreciation		
At beginning of the year	26,044	24,578
Debited/(credited) to consolidated income statement (Note 26)	276	(28)
Debited directly to equity (Note 18)	3,489	1,494
At end of the year	<u>29,809</u>	<u>26,044</u>

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

	2017 HK\$'000	2016 HK\$'000
Land and building revaluation reserves in shareholders' equity (Note 18)	<u>3,489</u>	<u>1,494</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$13,283,000 (2016: HK\$12,148,000) in respect of losses amounting to HK\$78,073,000 (2016: HK\$71,413,000) that can be carried forward against future taxable income. All unrecognised tax loss have no expiry date (2016: Nil).

22 OTHER INCOME AND GAINS – NET

	2017 HK\$'000	2016 HK\$'000
Derivative instruments – forward contracts:		
– Realised and unrealised net fair value gain/(loss)	569	(2,810)
Rental income	2,175	1,625
Service income	7,299	8,735
Commission income	678	3,032
Net fair value gain on investment properties (Note 8)	3,034	–
Other income	4,539	5,162
Management fee income from an associate	1,565	1,505
	<u>19,859</u>	<u>17,249</u>

Notes to the Consolidated Financial Statements (Continued)

23 EXPENSES BY NATURE

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

	2017 HK\$'000	2016 HK\$'000
Auditors' remuneration		
– Audit services	2,651	2,640
– Non-audit services	257	449
Cost of inventories sold	505,315	575,606
Depreciation on property, plant and equipment	8,835	8,752
Amortisation on leasehold land (Note 6)	424	461
Operating lease rentals	1,621	1,319
Provision for slow moving inventories	1,806	2,340
Provision for impairment of trade and bills receivables	1,142	87
Recovery of impaired receivables	(1,873)	–
Foreign exchange (gain)/loss	(6,953)	3,447
Employee benefits expenses (including directors' remuneration) (Note 24)	57,617	57,769
Other expenses	47,425	63,518
Total cost of goods sold, selling and distribution costs and administrative expenses	<u>618,267</u>	<u>716,388</u>

24 EMPLOYEE BENEFITS EXPENSES

	2017 HK\$'000	2016 HK\$'000
Wages and salaries, including other termination benefits HK\$66,000 (2016: HK\$2,000)	50,932	51,295
Pension costs – defined contribution plans (Note (a))	6,685	6,474
	<u>57,617</u>	<u>57,769</u>

Notes to the Consolidated Financial Statements (Continued)

24 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Pensions – defined contribution plans

The Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified employees, including executive directors of the Company, in Hong Kong prior to 1st December 2000. The cost charged to the consolidated income statement represents contributions payable or paid to the funds by the Group at the rate of 5% of the salary with a current ceiling of HK\$1,500 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.

Commencing on 1st December 2000, the existing employees in Hong Kong may elect to join the Mandatory Provident Fund Scheme (“MPF Scheme”), and all new employees in Hong Kong are required to join the MPF Scheme. Under 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\$1,500 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. The MPF contributions charged to the consolidated income statement represent the contributions payable or paid to the funds by the Group.

Contributions totalling HK\$47,000 (2016: HK\$45,000) were payable to the funds at the year end.

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.

There is no forfeited contributions utilised during the year (2016: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2016: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining one (2016: one) individuals during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, allowances and benefits in kind	975	975
Discretionary bonuses	–	81
Pension costs – defined contribution plans	49	45
	1,024	1,101

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands (in HK dollar) HK\$1,000,001 – HK\$1,500,000	1	1
	1	1

Notes to the Consolidated Financial Statements (Continued)

25 FINANCE INCOME AND EXPENSES

	2017 HK\$'000	2016 HK\$'000
Finance expenses		
Interest expense on:		
– bank overdrafts, trust receipt loans and bank borrowings	(3,882)	(3,507)
Finance income		
Interest income on short-term bank deposits	576	665
Interest income on loan to an associate	899	1,102
	1,475	1,767
Finance expenses – net	(2,407)	(1,740)

26 INCOME TAX EXPENSE

The amount of taxation charged to the consolidated income statement represents:

	2017 HK\$'000	2016 HK\$'000
Current income tax		
– Hong Kong profits tax	366	168
– PRC and overseas taxation	4,283	1,450
– (Over)/under provision in previous years	(55)	250
Deferred income tax (Note 21)	276	(28)
	4,870	1,840

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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% (2016: 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% (2016: 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.

Notes to the Consolidated Financial Statements (Continued)

26 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profit of the consolidated entities are as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before income tax	32,901	25,513
Tax calculated at domestic tax rates applicable to profit in the respective countries	5,368	4,821
Income not subject to taxation	(5,333)	(6,210)
Expenses not deductible for taxation purposes	2,446	2,186
Tax losses for which no deferred income tax asset was recognised	1,880	874
Utilisation of previous unrecognised temporary difference	(1,001)	(1,226)
(Over)/under provision in previous years	(55)	250
Withholding tax	1,565	1,145
Income tax expense	4,870	1,840

27 REALISED AND UNREALISED FOREIGN EXCHANGE GAIN/LOSS

The realised exchange gain of HK\$449,000 and unrealised exchange gain of HK\$6,504,000 recognised in the consolidated income statement are included as administrative expenses for the year ended 31st December 2017 (2016: realised exchange gain of HK\$1,800,000 and unrealised exchange loss of HK\$5,247,000).

28 EARNINGS PER SHARE

(a) Basic

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

	2017	2016
Profit attributable to owners of the Company (HK\$'000)	28,031	23,673
Weighted average number of ordinary shares in issue (in thousands)	228,895	224,069
Basic earnings per share attributable to equity owners of the Company (HK cents per share)	12.25	10.57

Notes to the Consolidated Financial Statements (Continued)

28 EARNINGS PER SHARE (CONTINUED)

(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. The Company has one category of dilutive potential ordinary share: share options. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	2017	2016
Profit attributable to equity holders of the Company (HK\$'000)	28,031	23,673
Weighted average number of ordinary shares in issue (in thousands)	228,895	224,069
Adjustments for:		
– Share options (in thousands)	–	1,397
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	228,895	225,466
Diluted earnings per share (HK cents)	12.25	10.50

29 DIVIDENDS

The dividends paid in 2017 and 2016 were HK\$17,255,000 (HK7.5 cents per share) and HK\$11,225,000 (HK5.0 cents per share) respectively. A final dividend in respect of the year ended 31st December 2017 of HK3.5 cents per share, amounting to a total dividend of HK\$8,053,000, is to be proposed at the Annual General Meeting on 11th June 2018. These financial statements do not reflect this dividend payable.

	2017 HK\$'000	2016 HK\$'000
Interim, paid, of HK4.5 cents (2016: HK3.5 cents) per ordinary share	10,353	7,870
Final, proposed, of HK3.5 cents (2016: HK3.0 cents) per ordinary share	8,053	6,902
	18,406	14,772

Notes to the Consolidated Financial Statements (Continued)

30 CASH GENERATED FROM OPERATIONS

	2017 HK\$'000	2016 HK\$'000
Profit before income tax	32,901	25,513
Adjustments for:		
– Depreciation of property, plant and equipment (Note 7)	8,835	8,752
– Amortisation on leasehold land (Note 6)	424	461
– Loss on sale of property, plant and equipment (see Note (a) below)	–	245
– Fair value gain of investment properties	(3,034)	–
– Fair value (gain)/loss on derivative financial instruments (Note 22)	(569)	2,810
– Interest income	(1,475)	(1,767)
– Interest expense	3,882	3,507
– Unrealised exchange (gain)/loss	(6,953)	5,247
– Provision for slow moving inventories (Note 15)	1,806	2,340
– Provision for impairment of trade receivables (Note 14)	1,142	87
– Recovery of impaired receivables (Note 14)	(1,873)	–
– Share of profits of associates (Note 10)	(19,346)	(11,279)
– Dividend income from available-for-sale financial assets	(1,091)	(690)
Operating cash inflow before working capital changes:	14,649	35,226
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Inventories	1,035	(3,162)
– Trade receivables and bills receivables, other receivables, prepayments and deposits	(13,151)	15,332
– Trade payables and bills payables, trust receipt loans, other payables, accruals and deposits received	13,052	(19,096)
Cash generated from operations	15,585	28,300

Notes to the Consolidated Financial Statements (Continued)

30 CASH GENERATED FROM OPERATIONS (CONTINUED)

Note:

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

	2017 HK\$'000	2016 HK\$'000
Net book amount (Note 7)	–	258
Loss on sale of property, plant and equipment	–	(245)
Proceeds from sale of property, plant and equipment	–	13

- (b) Reconciliation of liabilities arising from financing activities

This section sets out an analysis of liabilities arising from financing activities and the movements in liabilities arising from financing activities for each of the years presented.

	Bank overdrafts HK\$'000	Borrowing due within 1 year HK\$'000	Borrowing due after 1 year HK\$'000	Total HK\$'000
As at 1st January 2017	846	127,239	17,778	145,863
Cash flows	(846)	10,053	(12,222)	(3,015)
Exchange difference	–	(38)	–	(38)
As at 31st December 2017	–	137,254	5,556	142,810
As at 1st January 2016	248	111,704	22,223	134,175
Cash flows	598	15,535	(4,445)	11,688
As at 31st December 2016	846	127,239	17,778	145,863

Notes to the Consolidated Financial Statements (Continued)

31 CONTINGENT LIABILITIES

	2017 HK\$'000	2016 HK\$'000
Letters of guarantee given to customers	<u>5,472</u>	<u>25,090</u>

Certain subsidiaries have given undertakings to banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided letters of guarantee to third parties on behalf of these subsidiaries.

32 COMMITMENTS

(a) Commitments under operating leases

As lessee

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2017 HK\$'000	2016 HK\$'000
Not later than one year	<u>477</u>	<u>474</u>

(b) Capital commitment

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2017 HK\$'000	2016 HK\$'000
Property, plant and equipment	<u>2,707</u>	<u>168</u>

Notes to the Consolidated Financial Statements (Continued)

33 RELATED PARTY TRANSACTIONS

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Island), which owns 64.08% of the Company's shares. The remaining 35.92% of the shares are widely held.

In addition to those disclosed elsewhere in the financial statements, the following transactions were care:

(a) Key management compensation

Key management includes directors (executive and non-executive) and members of executive committee. The compensation paid or payable to key management for employee services is shown below:

	2017 HK\$'000	2016 HK\$'000
Salaries and other short-term employee benefits	8,966	9,601
Pension costs – defined contribution plans	306	308
	<u>9,272</u>	<u>9,909</u>

(b) Sales and purchases of goods and services:

	2017 HK\$'000	2016 HK\$'000
Purchase of goods from associates		
– MLMC	2,976	427
– Prima	17,066	50,932
	<u>20,042</u>	<u>51,359</u>
Management fee income from an associate (Note 22)		
– MLMC	1,565	1,505
Customer referral fee from an associate		
– MLMC	–	1,742

The transactions were conducted in the normal course of business at price and terms mutually agreed between both parties.

Notes to the Consolidated Financial Statements (Continued)

33 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balance arising from sales and purchase of goods/services

	2017 HK\$'000	2016 HK\$'000
Receivables from an associate – MLMC	<u>2,766</u>	<u>213</u>

(d) Loan to an associate

The balance represents a loan made to an associate – OPS. The loan is unsecured, interest bearing at HIBOR plus 4.5% per annum and will not be repaid within the next twelve months but within five years from the reporting date. During the year, interest received from OPS amounted to HK\$899,000 (2016: HK\$1,102,000).

As at 31st December 2017, the carrying value of the loan to an associate was HK\$18,970,000 (2016: HK\$16,593,000). Based on assessment on the recoverability of the balance, management considers no impairment provision is necessary.

Notes to the Consolidated Financial Statements (Continued)

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

		As at 31st December	
		2017 HK\$'000	2016 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		92,327	92,327
Amounts due from subsidiaries		52,471	50,521
		144,798	142,848
Current assets			
Amounts due from subsidiaries		19,000	15,000
Other receivables and prepayments		244	314
Tax recoverable		21	–
Cash and cash equivalents		84	15
		19,349	15,329
Total assets		164,147	158,177
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		23,007	22,554
Other reserves	Note (a)	131,761	127,563
Retained earnings	Note (a)	9,345	8,013
Total equity		164,113	158,130
LIABILITIES			
Current liabilities			
Other payables		34	35
Tax payable		–	12
Total liabilities		34	47
Total equity and liabilities		164,147	158,177

The balance sheet of the Company was approved by the Board of Directors on 26th March 2018 and were signed on its behalf.

LEE Sou Leung, Joseph
Director

CHAN Ching Huen, Stanley
Director

Notes to the Consolidated Financial Statements (Continued)

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) Reserve movement of the Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2016	31,582	91,445	(1,676)	4,482	4,344	130,177
Profit for the year	-	-	-	-	14,894	14,894
Employee share option scheme						
– Exercise of share options	1,730	-	-	-	-	1,730
Dividend paid relating to 2015	-	-	-	-	(3,355)	(3,355)
Dividend paid relating to 2016	-	-	-	-	(7,870)	(7,870)
At 31st December 2016	33,312	91,445	(1,676)	4,482	8,013	135,576
At 1st January 2017	33,312	91,445	(1,676)	4,482	8,013	135,576
Profit for the year	-	-	-	-	18,587	18,587
Employee share option scheme						
– Exercise of share options	4,198	-	-	-	-	4,198
Dividend paid relating to 2016	-	-	-	-	(6,902)	(6,902)
Dividend paid relating to 2017	-	-	-	-	(10,353)	(10,353)
At 31st December 2017	37,510	91,445	(1,676)	4,482	9,345	141,106

Notes to the Consolidated Financial Statements (Continued)

35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' and chief executive's emoluments

The remuneration of every director is set out below:

For the year ended 31st December 2017

Name of Director	Fees HK\$'000	Salary (Note a) HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind (Note b) HK\$'000	Employer's contribution to retirement benefit scheme HK\$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<i>Chairman and Group Chief Executive Officer</i>							
Lee Sou Leung, Joseph	-	1,560	130	1,881	78	-	3,649
<i>Executive Directors</i>							
Chu Weiman	-	1,440	120	-	18	-	1,578
Chan Ching Huen, Stanley	-	1,236	130	324	18	-	1,708
Wong Man Shun, Michael	-	1,365	-	-	68	-	1,433
<i>Independent Non-executive Directors</i>							
Pike, Mark Terence	150	-	-	-	-	-	150
Lee Tai-chiu	150	-	-	-	-	-	150
Zavatti Samuel	150	-	-	-	-	-	150
Total	450	5,601	380	2,205	182	-	8,818

Notes to the Consolidated Financial Statements (Continued)

35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

For the year ended 31st December 2016

Name of Director	Fees HK\$'000	Salary (Note a) HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind (Note b) HK\$'000	Employer's contribution to retirement benefit scheme HK\$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$'000	Total HK\$'000
<i>Chairman and Group Chief Executive Officer</i>							
Lee Sou Leung, Joseph	-	1,560	120	1,887	72	-	3,639
<i>Executive Directors</i>							
Chu Weiman	-	1,360	210	-	18	-	1,588
Chan Ching Huen, Stanley	-	1,222	120	338	18	-	1,698
Wong Man Shun, Michael	-	1,365	353	-	63	-	1,781
<i>Independent Non-executive Directors</i>							
Pike, Mark Terence	150	-	-	-	-	-	150
Lee Tai-chiu	150	-	-	-	-	-	150
Zavatti Samuel	150	-	-	-	-	-	150
Total	450	5,507	803	2,225	171	-	9,156

Notes to the Consolidated Financial Statements (Continued)

35 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (CONTINUED)

(a) Directors' and chief executive's emoluments (Continued)

Notes:

- (a) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings.
- (b) Includes housing allowances and sundry expenses borne by the Group and estimated value of other non-cash benefits: accommodation provided by the Group.

There was no remuneration paid or receivable in respect of accepting office as director and director's other services in connection with the management of the affairs of the Company during the year (2016: Nil). None of the directors have waived any of the emoluments during the year ended 31st December 2017 and 2016.

(b) Directors' material interests in transactions, arrangement or contracts

No significant transactions, arrangements and contracts in related to the Company's business 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 (2016: Nil).

(c) Directors' retirement benefits

None of the directors received or will receive any retirement benefits under defined benefit scheme during the year (2016: Nil).

(d) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2016: Nil).

(e) Consideration provided to third parties for making available directors' services

During the year ended 31st December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

(f) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31st December 2017, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors (2016: Nil).

Five Year Financial Summary

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

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Results					
Sales	614,370	715,113	674,980	678,215	745,599
Profit before income tax	32,901	25,513	22,472	23,563	4,819
Income tax (expense)/credit	(4,870)	(1,840)	(1,014)	(998)	1,674
Profit for the year	28,031	23,673	21,458	22,565	6,493
Profit attributable to Equity shareholders	28,031	23,673	21,458	22,565	6,493
Non-controlling interest	-	-	-	-	-
Assets					
Property, plant and equipment	226,154	211,102	190,522	187,168	178,433
Leasehold land	15,056	16,473	8,332	8,895	9,359
Prepayments	1,132	391	19,029	7,449	1,705
Available for sale financial assets	12,863	12,863	-	-	-
Investments in associates	126,525	101,871	96,996	81,482	69,205
Loans to an associate	18,970	16,593	25,430	28,281	32,148
Current assets	414,071	313,030	301,842	345,613	421,674
Investment property	54,658	43,000	43,000	40,400	37,700
Total assets	869,429	715,323	685,151	699,288	750,224
Liabilities					
Current liabilities	315,053	288,820	301,294	326,840	387,274
Non-current liabilities	35,365	38,266	24,578	23,315	22,188
Total liabilities	350,418	327,086	325,872	350,155	409,462
Net assets	519,011	388,237	359,279	349,133	340,762