2011 Annual Report

Leeport

力豐（集團）有限公司

LEEPORT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0387)

ISO 9001:2008
CERTIFICATE NO. FS 84667

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr LEE Sou Leung, Joseph *(Chairman)*
Ms TAN, Lisa Marie *(Deputy Chairman)*
Mr CHAN Ching Huen, Stanley
Dr LUI Sun Wing

Independent Non-Executive Directors
Mr PIKE, Mark Terence
Mr NIMMO, Walter Gilbert Mearns
Professor Tai-Chiu LEE

COMPANY SECRETARY

Mr CHAN Ching Huen, Stanley

MEMBERS OF AUDIT COMMITTEE

Mr PIKE, Mark Terence
Mr NIMMO, Walter Gilbert Mearns
Professor Tai-Chiu LEE

MEMBERS OF REMUNERATION COMMITTEE

Mr LEE Sou Leung, Joseph
Ms TAN, Lisa Marie
Mr PIKE, Mark Terence
Mr NIMMO, Walter Gilbert Mearns
Professor Tai-Chiu LEE

MEMBERS OF NOMINATION COMMITTEE

Mr LEE Sou Leung, Joseph
Ms TAN, Lisa Marie
Mr PIKE, Mark Terence
Mr NIMMO, Walter Gilbert Mearns
Professor Tai-Chiu LEE

SOLICITORS

Stevenson, Wong & Co
Solicitors and Notaries

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Block 1
Golden Dragon Industrial Centre
152-160 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.leeport.com.hk

Chairman's Statement

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 2011, together with the comparative figures for the year ended 31st December 2010. The annual results have been reviewed by the Audit Committee of the Company.

FINANCIAL PERFORMANCE

Mitutoyo Corporation has now taken up 51% shareholding of Mitutoyo Leeport Metrology Corporation (previously called Leeport Metrology Corporation), a subsidiary of Leeport Group, with effect from 28th February 2012 and has become its major shareholder. In accordance with Hong Kong Financial Reporting Standard 5 (Non-current assets held for sale and discontinued operations), the assets and liabilities of disposed operation held for sales as at 31st December, 2011 should be presented separately in the consolidated balance sheet and the operating profit and other comprehensive income of 2011 with comparative figures of 2010 should be separately disclosed as discontinued operations (referring to business of Mitutoyo Leeport Metrology Corporation) and continuing operations in the consolidated income statement.

Turnover (Continuing operations and discontinued operations)

The business of the Group in 2011 maintains a strong momentum in growth due to the strong economic situation in China. In 2011, with the increase in new customers and consolidation of our established customer base, the Group achieved another successful year after the financial crisis in 2009.

The turnover in 2011 amounted to HK$1,225,509,000 (continuing operations: HK$1,025,831,000, discontinued operations: HK$199,678,000) (2010: HK$1,075,961,000 of which continuing operations amounted to HK$967,294,000, discontinued operations amounted to HK$108,667,000), representing an increase of 13.9% over 2010. The gross profit in 2011 amounted to HK$207,186,000 (continuing operations: HK$165,669,000, discontinued operations: HK$41,517,000) (2010: HK$182,255,000 of which continuing operations amounted to HK$165,767,000, discontinued operation amounted to HK$16,488,000) representing an increase of 13.7% over 2010.

The overall gross profit margin in 2011 was 16.9%, the same as in 2010 (The gross profit margin for continuing operations was 16.1% in 2011 and 17.1% in 2010. The decrease in the gross profit margin for continuing operations was due to the different product mix in year 2011 from previous year.)

Other Gains

Service income in 2011 and 2010 was HK$11,468,000 and HK$12,525,000 respectively. The commission income in 2011 was HK$9,004,000, much higher than the commission income of HK$1,136,000 in 2010. Commission income is the income received from suppliers for some of the customers' orders directly placed with the suppliers. This is one of the sales processes as agreed in the distributor agreements. This indicates that the actual business of the Group in 2011 was much better than in 2010.

Operating Expenses

Selling and distribution costs were HK$38,419,000 in 2011, compared with HK$28,415,000 in 2010, representing an increase of 35.2%.

The increase in the selling and distribution costs was due mainly to the logistics costs and commissions to sales people resulting from the increase of turnover.

Administrative expenses amounted to HK$125,282,000 in 2011, compared with HK$123,785,000 in 2010. Some of the administrative expenses increased during the year, e.g., the staff cost resulting from the additional headcount and the travelling expenses due to more business activities. The increase in expenses were offset by a reduction of certain bad debt provisions and a gain in exchange differences.

Finance costs in 2011 were HK$2,772,000, slightly lower than the amount of HK$3,078,000 in 2010. This was because the average trust receipt loan level throughout the year 2011 was lower than 2010.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company was HK$32,604,000 in 2011, compared with HK$25,199,000 in 2010, representing an increase of 29.4%. The basic earnings per share were HK14.93 cents in 2011, compared with HK11.70 cents in 2010, representing an increase of 27.6%

DIVIDENDS

An interim dividend of HK3.5 cents per ordinary share was paid to the shareholders of the Company on 26th September 2011.

The Directors recommended a final dividend of HK6.0 cents per ordinary share, totalling HK$13,233,000 (2010: HK4.5 cents per ordinary share). This recommendation is subject to the approval of shareholders at the forthcoming Annual General Meeting, to be held on 11th May 2012. Upon the approval of shareholders, the final dividend warrant will be payable on or before 29th May 2012 to shareholders of the Company whose names appear on the register of members on 21st May 2012. This proposed final dividend, together with the interim dividend paid by the Company, will make a total dividend of HK9.5 cents per ordinary share for the year ended 31st December 2011 (2010: HK7.5 cents per ordinary share).

BUSINESS REVIEW

All the statistics indicate that in 2011, China's economy continued to be outstanding compared with many other countries. The GDP growth rate was 9.2% for China in 2011 compared with 10.3% in 2010. Industrial production value grew by 13.9% in 2011 compared with 12.1% in 2010, and export value grew by 20.3% in 2011 compared with 31.3% in 2010.

The capital asset investment environment in China is still very active. For example, the value of industrial investment grew by 26% in 2011 over 2010, and the property development grew by 27% in 2011 over 2010. During 2011, the production value of some of the industries related to the business of the Group still achieved a high level of growth. For example, general machinery grew at a rate of 30.6%, transportation equipment by 27.2%, electric machinery and equipment by 44.6%, and telecommunication equipment and computers by 34.2%. However, the industry of automobile manufacturing grew by only 3% in 2011.

During 2011, the machine tool business in the world grew 35% as compared with 2010, with China now being firmly established as both the world's largest consumer and producer of machine tools. The consumption value of machine tools in China was USD39.1 billion in 2011, an increase of 33% as compared with USD29.4 billion in 2010. The production value of machine tools in China in 2011 was USD28.3 billion and an increase of 29% as compared with USD21.8 billion in 2010. The import value of machine tools in China in 2011 was USD13.2 billion, an increase of 34% as compared with USD 9.4 billion in 2010. The market for machine tools in China definitely remains the focus of all suppliers around the world.

The Group's business for machine tools and measuring instruments achieved an outstanding performance in 2011. However, the cutting tools supplier was affected by the tsunami in Japan, causing delays in shipments. The supply of goods is now virtually back to normal.

During 2011, the Group's business in Northern China improved, with more orders for certain new products and the acquisition of some new key accounts. In fact, 23% of the business was attributed to new customers in 2011. This was in line with the Group strategies for the development of new customers and new products as a key driver of growth. The sheetmetal machinery business in South East Asia continued to improve and make contribution to the business in this region.

FUTURE PLANS AND PROSPECTS

The China Premier, Wen Jiabao, reporting at the opening of the 11th National People's Congress in Beijing in March 2012, re-iterated the long-term strategies of the 12th National Five-year Economic Plan. The business of the Group will benefit in a few areas, e.g., the target to build seven million units of low-cost residential apartments in 2012. This high level of property construction will benefit the in-house power distribution equipment and lift manufacturing industries. The telecommunications industry will also continue to grow, thus leading to an increase in the demand for telecommunication equipment. Our sheetmetal machinery business will also benefit from the growing telecommunications industry.

The Chinese Government is no longer pursuing its former high GDP growth rate. The strategy is now to look for higher quality and greater efficiency in economic development. One of the key targets is the promotion of a new generation of information technology, the development of high-technology equipment and environmentally friendly cars, and the upgrading of traditional manufacturing technology. This will afford huge business opportunities for the Group in terms of machine tools, precision cutting tools, measuring instruments and electronic equipment.

The world leading measuring equipment manufacturer, Mitutoyo Corporation, which is a long-time business partner of the Group, became the major shareholder of one of the subsidiary of Leeport Group in early of 2012. In view of the strong involvement of Mitutoyo in the market, we foresee that the Group's measuring equipment business will expand quickly and will make a significant contribution to the Group's financial performance.

By the middle of 2012, the Group will also be a substantial shareholder of OPS Ingersoll, an elite machine tool builder in Germany. Leeport will become the exclusive distributor in China and South East Asia in early 2012. The partnership with another substantial shareholder of OPS Ingersoll, Guangdong Greatoo Moulds Inc., will create further synergy in this co-operative venture and will benefit the manufacture of OPS Ingersoll machine tools in China in the near future.

The Group will invest actively in Asia, especially in China. A number of new managers and new teams have been brought on board to develop new products and explore new territories. The addition of sales and service personnel is a key goal for 2012. More new offices and showrooms will be opened this year. Efforts to increase our market share in Central and Northern China will continue.

Given the uncertainty of the economy in Europe and the USA, the export business of some customers is actually slowing down. However, the Group will continue to search for new customers and key accounts in order to offset the slow-down of orders from our customers who depend heavily on exports. The business for 2012 is likely to be stable and we maintain high confidence in the China market. The Group continues to look for investment opportunities and the chance to enhance partnerships with other suppliers.

On behalf of the Board, I would like to express my gratitude to all our shareholders, customers, suppliers, bankers, business associates and staff in the past year. I thank them all for their support and their contributions to the company's successful business results in 2011.

Lee Sou Leung, Joseph
Chairman

Hong Kong, 20th March 2012

LIQUIDITY AND FINANCIAL RESOURCES

The balance of cash net of overdraft of the Group as at 31st December 2011 was HK$47,655,000 (2010: HK$58,973,000). The Group has maintained a good level of cash position. The Group's inventory balance as at 31st December 2011 was HK$125,051,000 (2010: HK$159,487,000). The turnover days of inventory was 60 and it was a reasonable level. The trade receivables and bills receivables balance was HK$141,533,000 as at 31st December 2011 (2010: HK$254,776,000). The turnover days of sales was 71 which was also a reasonable level. The trade payables and bills payables balance was HK$93,910,000 as at 31st December 2011 (2010: HK$175,078,000). The balance of short-term borrowings was HK$174,884,000 as at 31st December 2011 (2010: HK$121,291,000). More pledged loan for Japanese Yen was made in the year 2011.

The Group's net gearing ratio was approximately 21.8% as at 31st December 2011 (2010: 18.9%). The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2011, the Group had aggregate banking facilities of approximately HK$820,560,000 of which approximately HK$295,527,000 was utilised, bearing interest at prevailing market rates and secured by certain leasehold land, land and buildings and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK$265,446,000 (31st December 2010: HK$186,447,000). The Directors are confident that the Group is able to meet its operational and capital requirements.

CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

In 2011, the Group spent a total of HK$4,064,000 (2010: HK$969,000) in capital expenditure, which primarily consisted of property, plant and equipment. As at 31st December 2011, the Group had no material capital commitments. In the meantime, total of HK$31,415,000 (2010: HK$41,507,000) contingent liabilities in respect of letters of guarantee was given to customers.

EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

As at 31st December 2011, the Group has outstanding gross-settled foreign currency forward contracts to buy EUR2,780,000 for HKD28,262,000, buy JPY118,000,000 for HKD12,012,000 and buy AUD260,000 for HKD1,976,000 (2010: Buy EUR539,000 for HKD5,523,000, buy JPY267,200,000 for HKD25,085,000 and buy SGD500,000 for HKD2,961,000).

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 31st December 2011, certain leasehold land, land and buildings and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK$265,446,000 (2010: HK$186,447,000) were pledged to secure the banking facilities of the Group by way of a fixed charge.

EMPLOYEES

As at 31st December 2011, the Group had 537 employees (2010: 502). Of these, 141 were based in Hong Kong, 368 were based in mainland China, and 28 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses.

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr Lee Sou Leung, Joseph, aged 68, the founder and the managing director of the Group, and the chairman of the Board, is responsible for the strategic planning, business development and overall management of the Group. Mr Lee has over 40 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.

Ms Tan, Lisa Marie, aged 50, is responsible for human resources, administration, strategic planning and formulation of internal policies of the Group. Prior to joining the Group in June 1995, Ms Tan was a product manager in the retail banking division of an international bank in Hong Kong. Ms Tan graduated from California State Polytechnic University Pomona, USA with a Bachelor of Science Degree in Business Administration. Ms Tan is the wife of Mr Lee Sou Leung, Joseph.

Mr Chan Ching Huen, Stanley, aged 54, also the company secretary and the chief financial officer of the Group, is responsible for overseeing the Group's financial planning and control, and information management. Prior to joining the Group in October 2000, Mr Chan held various managerial positions in the finance departments of several US based multi-national corporations in Hong Kong. Mr Chan has many 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.

Dr. Lui Sun Wing, aged 61, was re-designated from independent non-executive director to executive director of the Group in July 2011. Dr. Lui was appointed by the Group as non-executive director since May 2003. He was the branch director of the Hong Kong Productivity Council between December 1992 and June 2000. Dr. Lui then was appointed as the Vice President of the Hong Kong Polytechnic University between July 2000 and June 2010. Dr. Lui also holds position of director, committee member, or advisor for various industrial and business associations. Dr. Lui has very broad experience in the industrial field. Currently, he is the independent non-executive director of Eva Precision Industrial Holdings Limited, Shanghai Electric Group Company Limited and non-executive director of Eco-Tek Holdings Limited, all listed companies in The Stock Exchange of Hong Kong Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Pike, Mark Terence, aged 55, is an associate member of the Institute of Chartered Accountants of Australia and the Hong Kong Institute of Certified Public Accountants and holds a Bachelor's Degree in Economics from the University of Sydney and a Postgraduate Certificate in Education from the University of Hong Kong. Mr Pike has worked in Hong Kong in the commercial and educational fields for many years. Mr Pike was appointed by the Group in May 2003.

Mr Nimmo, Walter Gilbert Mearns, aged 65, was an executive director of China Northern Enterprises Investment Fund Ltd, securities of which are listed on The Stock Exchange of Hong Kong Limited, during the period from 10th September 2003 to 2nd December 2004. Mr Nimmo has more than 35 years of professional experience in the areas of financial management, fund management and investment. He has obtained a degree in Economics in Cambridge University, UK and is a member of the Institute of Chartered Accountants of Scotland.

Professor Tai-Chiu Lee, aged 67, 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, Uxrbridge, UK. He worked as a graduate engineer at the Harrison & Sons in England before he joined the now Hong Kong Polytechnic University as a Lecturer, Principal Lecturer, Professor and Associate Head of department. Now, he is a Professor Research Fellow of the Industrial and Systems Engineering Department. Owing to his contribution in technology, he was awarded an Honorary Professor of the Shandong University of Technology and also appointed as 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 Honorary Consultant of the Hong Kong Metal Manufacturers Association.

SENIOR MANAGEMENT

Mr Leung Wai Lun, Alan, aged 52, Operations Director of the Group, is responsible for the enhancement of service operations and general support for the business development. Prior to joining the Group in December 2006, Mr. Leung had been Deputy Managing Director of a large technical service company, and has more than 20 years of solid experience in managing service operations including after sales service and quality assurance. Mr. Leung holds a Bachelor of Science degree in Mechanical Engineering from the University of Hong Kong, a Master degree of Business Administration from the Chinese University of Hong Kong, and membership of the Hong Kong Institution of Engineers, The Institute of Marine Engineering, Science & Technology (UK), The Institution of Engineering and Technology (UK), The Institute of Industrial Engineers (USA) and The Association of Chartered Certified Accountants (UK).

Mr Wong Man Shun, Michael, aged 47, the general manager of the metalcutting machinery division of the Group. Mr Wong holds a Bachelor of Science Degree in Engineering from the University of Hong Kong. Mr Wong joined the Group in 1986 and was promoted as director of Leeport Precision Machine Tool Company Limited on 1st January 2004.

Mr Ng Man Lung, aged 56, is the general manager of the metrology division of the Group. Mr Ng has over 30 years of experience in marketing measuring instruments. Mr Ng joined the Group in February 1975 and was promoted as director of Leeport Metrology (Hong Kong) Limited on 1st January 2004.

Mr Sa Wai Keung, aged 50, the 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 53, 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 Lam Chung Keung, aged 51, the general manager of Leeport Electronics Limited. Mr Lam holds a Degree of Master of Science in Engineering from the University of Hong Kong. Prior to joining the Group in 2001, he was the regional manager, responsible for the PRC market, for a supplier of factory automation headquartered in the US. He has many years of experience in the electronics industry.

Mr Lee Huat Eng, aged 55, the general manager of Leeport (Singapore) Pte. Ltd. and Leeport (Malaysia) Sdn. Bhd., is responsible for the marketing, management and business development in both Singapore and Malaysia. He holds a Bachelor's Degree in Commerce from Murdoch University, Western Australia and he is also an associate of the Australian Society of Certified Practising Accountants. Mr Lee joined the Group in August 1992.

Mr Chan Wo Yum, aged 59, the general manager of Leeport Tools Limited. Mr Chan has many years of experience in sales and marketing of cutting tools. He holds a Bachelor's Degree in Commerce from Curtin University of Technology in Australia. He joined the Group in 1977.

Mr Lau Yiu Man, Simon, aged 51, the general manager of professional tools division of the Group. Mr. Lau graduated from The Chinese University of Hong Kong and holds a Bachelor of Science degree followed by a Master of Business Administration degree from Hong Kong Polytechnic University. He has many years of sales and marketing experience substantially in industrial consumables of global brands along with consumer products. He joined the Group in February 2005.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31st December 2011.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 8 to the 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 2011 are set out in the consolidated income statement on page 32.

The details of dividends paid and declared during the year are set out in Note 30 to the consolidated financial statements.

The Directors recommend the payment of a final dividend of HK6.0 cents (2010: HK 4.5 cents) per ordinary share, totalling HK$13,233,000 (2010: HK$9,695,000).

RESERVES

Movements in reserves of the Group and of the Company during the year are set out in Note 17 to the consolidated financial statements.

DONATIONS

Charitable and other donations amounted to HK$109,000 were made by the Group during the year (2010: HK$Nil).

PROPERTY, PLANT AND EQUIPMENT

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

LEASEHOLD LAND

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2011, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$105,872,000 (2010: HK$102,323,000).

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 104.

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 2011 are set out in Note 19 to the consolidated financial statements.

SHARE OPTIONS

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

The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme and any other share option scheme of the Group is 3,038,000, representing 1.38% 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.

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.

Movement of share options during the year is set out in Note 16 to the consolidated financial statements.

DIRECTORS

The directors during the year were:

Executive directors

Mr. LEE Sou Leung, Joseph *(Chairman)*
Ms. TAN, Lisa Marie *(Deputy Chairman)*
Mr. CHAN Ching Huen, Stanley
Dr. LUI Sun Wing

Independent non-executive directors

Mr. PIKE, Mark Terence
Mr. NIMMO, Walter Gilbert Mearns
Professor Tai-Chiu LEE (appointed on 1st July 2011)

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.

Ms. Tan, Lisa Marie and Mr. Nimmo Walter Gilbert Mearns are subject to re-election at the forthcoming annual general meeting.

Professor Tai-Chiu Lee who was newly-appointed in year 2011 will also be subject to re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, 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.

DIRECTORS' INTERESTS IN CONTRACTS

A director, Mr. LEE Sou Leung, Joseph, has entered into lease agreements for the lease of office premises to one of the subsidiaries of the Group for the year amounted to HK$84,000. The directors are of the opinion that the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 9 to 11.

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

At 31st December 2011, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations and their associates (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company, were as follows:

		Number of ordinary shares of HK$0.10 each held					
Director		Personal interests	Family interests	Other interests	Share options (Note (e))	Total	Percentage
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	9,760,000 shares	816,000 shares (Note (b))	144,529,982 shares (Note (a))	Nil	155,105,982	70.33%
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	816,000 shares	9,760,000 shares (Note (c))	144,529,982 shares (Note (a))	580,000	155,685,982	70.59%
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	780,000 shares	Nil	Nil	Nil	780,000	0.35%
Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo")	Long position	Nil	402,445 shares (Note (d))	Nil	100,000	502,445	0.23%
Dr. LUI Sun Wing (Dr. Lui)	Long position	100,000	Nil	Nil	260,000	360,000	0.16%

(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 and Mr. Lee's family members. The aforesaid shares that Mr. Lee and Ms. Tan are deemed to be interested refer to the same parcel of shares.

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

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

(d) The 402,445 shares are beneficially owned by Mr. Nimmo's spouse.

(e) Information relating to the share options held by the directors is disclosed in the share options section in Note 16 to the consolidated financial statements.

SHARE OPTIONS

Other than as disclosed above, and other than those as disclosed in the share options section in Note 16 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.

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

At 31st December 2011, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors 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	18%
– five largest suppliers combined	69%

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

CONNECTED TRANSACTION

The Company has entered into the following sale and purchase agreement during the financial year:

Date: 21st January 2011

Parties:

Vendor: Leeport Machine Tool Company Limited, a company incorporated under the laws of Hong Kong which is a wholly-owned subsidiary of the Company

Purchaser: Mitutoyo Corporation, a company incorporated under the law of Japan

Assets to be disposed in Mitutoyo Leeport Metrology Corporation (the "Target Company "):

1. Phase I sale shares, representing 10% of the entire issued share capital of the Target Company ("Phase I Sale Shares"); and

2. Phase II sale shares, representing 31% of the entire issued share capital of Target Company ("Phase II Sale Shares").

The aggregate consideration for such disposal of HK$28,700,000 has been paid by the Purchaser to the Company in cash in the following phases:

1. HK$7,000,000 for the Phase I Sale Shares upon phase I completion which was completed in May 2011; and

2. HK$21,700,000 for the Phase II Sale Shares upon phase II completion which was completed on 28th February 2012.

The Board believes that the Purchaser after the purchase of additional shares in the Target Company will put more resources on the Target Company. The Target Company will be able to provide with its customer better products and services. By strengthening the alliance with the Purchaser, the Board believes the Target Company will be able to increase the revenue for the market in Hong Kong and the PRC.

The Purchaser was a substantial shareholder of the Target Company due to its holding of 10% of the issued share capital of the Target Company which was a subsidiary of the Company and such fact rendered it as a connected person of the Company under the Listing Rules. Accordingly, such disposal constituted a connected transaction of the Company as defined under Chapter 14A of the Listing Rules. An announcement and a circular dated 21st January 2011 and 21st February 2011 respectively containing details of the abovementioned connected transaction have been published and dispatched to the shareholders. A waiver of the shareholders' meeting has been made to the Stock Exchange pursuant to Rule 14A.43 of the Listing Rules and a written shareholders' approval has been obtained from a shareholder who held more than 50% of the issued share capital of the Company to approve the transaction on 21st January 2011.

CORPORATE GOVERNANCE

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31st December 2011 except for the following:

Code Provision A.2.1

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

Code Provision A.4.2

Professor Tai-Chiu Lee will retire and being eligible, offer himself for re-election as director at the forthcoming annual general meeting instead of the special general meeting held in December 2011.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31st December 2011.

AUDIT COMMITTEE

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

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the percentage of the ordinary shares in public hands exceed 25% as at 20th March 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PENSION SCHEME ARRANGEMENTS

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

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

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 2011 are set out in Note 24(a) to the consolidated financial statements.

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, 20th March 2012

Corporate Governance Report

The board of directors of the Company (the "Board") is committed to implementing effective corporate governance policies to ensure that all decisions are made in good faith and in accordance with the principles of transparency, fairness and integrity. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company has applied the principles and complied with the requirements of the code provisions in the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited save and except certain deviations as more specifically described below.

DIRECTORS

Directors' Securities Transactions

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

Board of Directors

The Board comprises:

Executive Directors	Mr. LEE Sou Leung, Joseph *(Chairman)* Ms. TAN, Lisa Marie *(Deputy Chairman)* Mr. CHAN Ching Huen, Stanley Dr. LUI Sun Wing
Independent Non-executive Directors	Mr. PIKE Mark Terence Mr. NIMMO, Walter Gilbert Mearns Professor Tai-Chiu LEE (appointed on 1st July 2011)

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

During the financial year ended 31st December 2011, 10 full Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31st December 2011	Attendance rate
Mr. LEE Sou Leung Joseph	10	100%
Ms. TAN, Lisa Marie	10	100%
Mr. CHAN Ching Huen Stanley	10	100%
Dr. LUI Sun Wing	10	100%
Mr. PIKE, Mark Terence	10	100%
Mr. NIMMO, Walter Gilbert Mearns	10	100%
Professor Tai-Chiu LEE (appointed on 1st July 2011)	3	100% (during the appointment period)

The Board is responsible for these types of decision:

- formulation of operational goals for the strategic direction of the Company;
- monitoring the financial performance of the Company;
- overseeing the performance of the management;
- ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed;
- setting the Company's values and standards;

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Professor Tai-Chiu LEE who was newly-appointed in year 2011 will retire and being eligible, offer himself for re-election at the forthcoming annual general meeting instead of the special general meeting held in December 2011.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 10th September 2005 comprising 3 independent non-executive directors. Dr. LUI has resigned as the chairman of the Remuneration Committee on 1st July 2011 and Mr. NIMMO has become the chairman of the committee since 1st July 2011. Mr. Lee Sou Leung, Joseph and Ms. Tan Lisa Marie, two existing executive directors of the Company, have been appointed as new members of the Remuneration Committee of the Company with effect from 20th March 2012.

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

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

(2) To review and approve the management's remuneration proposals with reference to corporate goals and objectives.

(3) To review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.

(4) To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

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

A full version of the terms of reference of the Remuneration Committee will be published on the Stock Exchange's website and the Company's website by the end of March 2012.

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2011 and during the meeting, the committee has reviewed the remuneration policy of the Group and the directors' remuneration in year 2010. The attendance of each member is set out as follows:

Name of director	Number of Committee meetings attended in the financial year ended 31st December 2011	Attendance rate
Mr. LEE Sou Leung Joseph	1	100%
Ms. TAN, Lisa Marie	1	100%
Dr. LUI Sun Wing *(member of the committee on the meeting date)*	1	100%
Mr. NIMMO, Walter Gilbert Mearns *(member of the committee)*	1	100%
Mr. PIKE, Mark Terence *(member of the committee)*	1	100%

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. The directors' responsibilities in the preparation of the consolidated financial statements and the auditor's responsibilities are set out in the Independent Auditor's Report.

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted during the year ended 31st December 2011 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

AUDIT COMMITTEE

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

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

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

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

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

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

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

A full version of the terms of reference of the Audit Committee will be published on the Stock Exchange's website and the Company's website by the end of March 2012.

Meeting of the Audit Committee shall be held at least twice a year. 2 meetings were held in 2011. The attendance of each member is set out as follows:

Name of director	Number of Committee meetings attended in the financial year ended 31st December 2011	Attendance rate
Mr. NIMMO, Walter Gilbert Mearns	2	100%
Mr. PIKE, Mark Terence	2	100%
Dr. LUI Sun Wing (resigned on 1st July 2011)	1	100% (during the appointment period)
Professor Tai-Chiu LEE (appointed on 1st July 2011)	1	100% (during the appointment period)

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

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

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

– Re-appointment of external auditors.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 20th March 2012 comprising Mr. Lee Sou Leung, Joseph, Ms. Tan Lisa Marie and the existing three independent non-executive directors.

A full version of the terms of reference of the Nomination Committee will be published on the Stock Exchange's website and the Company's website by the end of March 2012.

AUDITORS' REMUNERATION

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

For the year ended 31st December 2011, the fees paid and payable to the auditors were primarily for audit services as there were no material non-audit service assignments undertaken by them.

Independent Auditor's Report

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Leeport (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 103, which comprise the consolidated and company balance sheets as at 31st December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair views in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

AUDITOR'S RESPONSIBILITY (CONTINUED)

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20th March 2012

Consolidated Balance Sheet

As at 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**207,885**	171,140
Leasehold land	6	**6,947**	7,190
		214,832	178,330
Current assets			
Inventories	13	**125,051**	159,487
Trade receivables and bills receivables	12	**141,533**	254,776
Other receivables, prepayments and deposits	12	**49,193**	53,420
Available-for-sale financial assets	10	**7,236**	–
Derivative financial instruments	11	**55**	549
Tax recoverable		**–**	1,062
Restricted bank deposits	14	**100,697**	45,014
Cash and cash equivalents	14	**52,802**	62,525
		476,567	576,833
Assets of disposal group classified as held for sale	15	**116,128**	–
		592,695	576,833
Total assets		**807,527**	755,163
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**22,055**	21,544
Other reserves	17	**211,503**	169,016
Retained earnings			
– Proposed final dividend		**13,233**	9,695
– Others		**121,729**	105,184
		368,520	305,439
Non-controlling interests		**14,853**	5,781
Total equity		**383,373**	311,220

Consolidated Balance Sheet (Continued)

As at 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	20	**18,519**	15,284
Current liabilities			
Trade payables and bills payables	18	**93,910**	175,078
Other payables, accruals and deposits received	18	**79,967**	132,290
Derivative financial instruments	11	**510**	–
Borrowings	19	**174,884**	121,291
Tax payable		**24**	–
		349,295	428,659
Liabilities of disposal group classified as held for sale	15	**56,340**	–
		405,635	428,659
Total liabilities		**424,154**	443,943
Total equity and liabilities		**807,527**	755,163
Net current assets		**187,060**	148,174
Total assets less current liabilities		**401,892**	326,504

The financial statements on pages 29 to 103 were approved by the Board of Directors on 20th March 2012 and were signed on its behalf

LEE Sou Leung, Joseph
Director

TAN, Lisa Marie
Director

The notes on pages 38 to 103 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	8	**91,645**	91,645
Current assets			
Amounts due from subsidiaries	8	**83,318**	73,408
Other receivables and prepayments	12	**344**	332
Tax recoverable		**187**	–
Cash and cash equivalents	14	**15**	22
		83,864	73,762
Total assets		**175,509**	165,407
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**22,055**	21,544
Other reserves	17	**138,975**	132,787
Retained earnings			
– Proposed final dividend		**13,233**	9,695
– Others		**1,194**	1,183
Total equity		**175,457**	165,209
LIABILITIES			
Current liabilities			
Other payables	18	**52**	91
Current income tax liabilities		**–**	107
Total liabilities		**52**	198
Total equity and liabilities		**175,509**	165,407
Net current assets		**83,812**	73,564
Total assets less current liabilities		**175,457**	165,209

The financial statements on pages 29 to 103 were approved by the Board of Directors on 20th March 2012 and were signed on its behalf

LEE Sou Leung, Joseph
Director

TAN, Lisa Marie
Director

The notes on pages 38 to 103 are an integral part of this consolidated financial statement.

Consolidated Income Statement

For the Year ended 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
Continuing operations			
Sales	5	**1,025,831**	967,294
Cost of goods sold	23	**(860,162)**	(801,527)
Gross profit		**165,669**	165,767
Other income and gains - net	22	**28,588**	24,526
Selling and distribution costs	23	**(38,419)**	(28,415)
Administrative expenses	23	**(125,282)**	(123,785)
Operating profit		**30,556**	38,093
Finance costs	25	**(2,772)**	(3,078)
Profit before income tax		**27,784**	35,015
Income tax expense	26	**(4,815)**	(1,500)
Profit for the year from continuing operations		**22,969**	33,515
Discontinued operations			
Profit/(loss) for the year from discontinued operations	15	**12,041**	(9,196)
Profit for the year		**35,010**	24,319
Attributable to:			
Owners of the Company		**32,604**	25,199
Non-controlling interests		**2,406**	(880)
		35,010	24,319
Profit attributable to owners of the Company arises from:			
Continuing operations		**22,969**	33,515
Discontinued operations		**9,635**	(8,316)
		32,604	25,199

Consolidated Income Statement (Continued)

For the Year ended 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
Earnings/(loss) per share from continuing and discontinued operations attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic earnings/(loss) per share	29		
From continuing operations		**HK10.52 cents**	HK15.56 cents
From discontinued operations		**HK4.41 cents**	HK(3.86) cents
From profit of the year		**HK14.93 cents**	HK11.70 cents
Diluted earnings/(loss) per share	29		
From continuing operations		**HK10.47 cents**	HK15.43 cents
From discontinued operations		**HK4.40 cents**	HK(3.83) cents
From profit of the year		**HK14.87 cents**	HK11.60 cents
Dividends	30	**20,952**	16,158

The notes on pages 38 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the Year ended 31st December 2011

	Note	2011 HK$'000	2010 HK$'000
Profit for the year		**35,010**	24,319
Other comprehensive income			
Gain on revaluation of land and buildings	17	**34,593**	21,345
Movement of deferred tax	17	**(2,201)**	(2,539)
Change in value of available-for-sale financial assets	17	**(1,539)**	–
Currency translation differences		**13,377**	5,620
Other comprehensive income, net of tax		**44,230**	24,426
Total comprehensive income for the year		**79,240**	48,745
Attributable to:			
Owners of the Company		**76,092**	49,313
Non-controlling interests		**3,148**	(568)
Total comprehensive income for the year		**79,240**	48,745
Total comprehensive income attributable to owners of the Company arises from:			
Continuing operations		**62,269**	53,746
Discontinued operations		**13,823**	(4,433)
		76,092	49,313

The notes on pages 38 to 103 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year ended 31st December 2011

	Note	Attributable to owners of the Company				
		Share capital (Note 16) HK$'000	Other reserves (Note 17) HK$'000	Retained earnings HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st January 2010		21,544	146,291	93,620	6,349	267,804
Comprehensive income						
Profit/(loss)		–	–	25,199	(880)	24,319
Other comprehensive income						
Gain on revaluation of land and buildings		–	21,345	–	–	21,345
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	17	–	(2,523)	2,523	–	–
Movement of deferred tax		–	(2,539)	–	–	(2,539)
Currency translation differences		–	5,308	–	312	5,620
Total other comprehensive income, net of tax		–	21,591	2,523	312	24,426
Total comprehensive income		–	21,591	27,722	(568)	48,745
Total contributions by and distributions to owners of the Company recognised directly in equity						
Employees share option scheme:						
Share option scheme – value of services provided		–	1,134	–	–	1,134
Dividend paid relating to 2010	30	–	–	(6,463)	–	(6,463)
Total transaction with owners		–	1,134	(6,463)	–	(5,329)
Balance at 31st December 2010		21,544	169,016	114,879	5,781	311,220

Consolidated Statement of Changes in Equity (Continued)

For the Year ended 31st December 2011

	Note	Attributable to owners of the Company				
		Share capital (Note 16) HK$'000	Other reserves (Note 17) HK$'000	Retained earnings HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1st January 2011		**21,544**	**169,016**	**114,879**	**5,781**	**311,220**
Comprehensive income						
Profit		**–**	**–**	**32,604**	**2,406**	**35,010**
Other comprehensive income						
Gain on revaluation of land and buildings		**–**	**34,593**	**–**	**–**	**34,593**
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	17	**–**	**(3,341)**	**3,341**	**–**	**–**
Movement of deferred tax		**–**	**(2,201)**	**–**	**–**	**(2,201)**
Available-for-sale financial assets		**–**	**(1,539)**	**–**	**–**	**(1,539)**
Currency translation differences		**–**	**12,635**	**–**	**742**	**13,377**
Total other comprehensive income, net of tax		**–**	**40,147**	**3,341**	**742**	**44,230**
Total comprehensive income		**–**	**40,147**	**35,945**	**3,148**	**79,240**
Total contributions by and distributions to owners of the Company recognised directly in equity						
Employees share option scheme:						
Share option scheme						
– value of services provided		**–**	**412**	**–**	**–**	**412**
– proceeds from shares issued	16	**511**	**2,602**	**–**	**–**	**3,113**
Dividend paid relating to 2010		**–**	**–**	**(9,893)**	**–**	**(9,893)**
Dividend paid relating to 2011	30	**–**	**–**	**(7,719)**	**–**	**(7,719)**
Total contributions by and distributions to owners of the company		**511**	**3,014**	**(17,612)**	**–**	**(14,087)**
Changes in ownership interests in subsidiaries without change of control	34	**–**	**(674)**	**1,750**	**5,924**	**7,000**
Total transaction with owners		**511**	**2,340**	**(15,862)**	**5,924**	**(7,087)**
Balance at 31st December 2011		**22,055**	**211,503**	**134,962**	**14,853**	**383,373**

The notes on pages 38 to 103 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the Year ended 31st December 2011

	Note	**2011 HK$'000**	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	31	**64,727**	50,408
Interest paid		**(3,141)**	(3,227)
Income tax (paid)/refund		**(1,955)**	304
Net cash generated from operating activities		**59,631**	47,485
Cash flows from investing activities			
Purchase of property, plant and equipment	7	**(4,064)**	(969)
Proceeds from sale of property, plant and equipment	31	**838**	580
Proceeds from disposal of interest in a subsidiary without loss of control	34	**7,000**	–
Purchases of available-for-sale financial assets	10	**(8,775)**	–
Interest received		**895**	322
(Increase)/decrease in restricted bank deposits		**(55,683)**	15,013
Net cash (used in)/generated from investing activities		**(59,789)**	14,946
Cash flows from financing activities			
Proceeds from/(repayment of) collateralised borrowings and bank loans		**41,135**	(57,247)
Proceeds from issuance of ordinary shares	16	**3,113**	–
Dividends paid to the Company's shareholders		**(17,612)**	(6,463)
Net cash generated from/(used in) financing activities		**26,636**	(63,710)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**26,478**	(1,279)
Cash, cash equivalents and bank overdrafts at beginning of the year		**58,973**	57,600
Effect of the exchange rate for the year		**711**	2,652
Cash, cash equivalents and bank overdrafts at end of the year, including discontinued operations		**86,162**	58,973
Less: cash, cash equivalents at end of the year of discontinued operations	15	**(38,507)**	–
Cash, cash equivalents and bank overdrafts at end of the year	14(b)	**47,655**	58,973

The notes on pages 38 to 103 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20th March 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) New and amended standards and interpretations mandatory for first time for the financial year beginning on or after 1st January 2011 that either have no significant impact or are not currently relevant to the Group is set out below:

HKAS 1 (Amendment)	Presentation of financial statement
HKAS 24 (Revised)	Related party disclosures
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 32 (Amendment)	Classification of rights issues
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HKFRS 3 (Amendment)	Business combinations
HK (IFRIC) Int 13	Customer loyalty programmes
HK (IFRIC) Int 14	Prepayments of a minimum funding requirement
HK (IFRIC) Int 19	Extinguishing financial liabilities with equity instruments

(b) Other new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1st January 2011 that not currently relevant to the Group and have not been early adopted:

HKAS 1 (Amendment)	Presentation of Financial statement [2]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets [1]
HKAS 19 (2011)	Employee Benefits [2]
HKFRS 9	Financial instrument [3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time adopters [1]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets [1]
HKFRS 10	Consolidated Financial Statements [2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of interests in Other Entities [2]
HKFRS 13	Fair Value Measurement [2]

1 Effective for the Group for annual periods beginning on or after 1st January 2012
2 Effective for the Group for annual periods beginning on or after 1st January 2013
3 Effective for the Group for annual periods beginning on or after 1st January 2015

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations that have been issued but are not effective for annual periods beginning on or after 1st January 2011, and does not expect there will be a significant impact to the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

During the year, there have been no business combinations in the Group.

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

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 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.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). As the Company is listed on the Main Board of the Stock Exchanges of Hong Kong, the directors considers that it will be more appropriate to adopt Hong Kong dollar as the Group's and the Company's presentation currency. The Company's functional currency is Japanese Yen ("JPY").

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

(iii) all resulting exchange differences are recognised as other comprehensive income.

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. Exchange differences arising are recognised in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (Continued)

(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.

2.5 Property, plant and equipment

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	4%
Leasehold land classified as finance lease	1-3%
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 2.6).

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 fair value reserve are transferred to retained earnings.

2.6 Impairment of non-financial assets

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

2.7 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. The assets and liabilities of disposal group have been classified as "assets held-for-sale" and "liabilities held-for-sale" in the consolidated balance sheet at the reporting date. The comparative figures have not been restated. The post-tax profit or loss of the discontinued operations has been presented in a single amount in the consolidated income statement. The comparatives figures have been restated to be consistent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, 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.

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', `restricted bank deposits' and `cash and cash equivalents' in the balance sheet.

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.

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 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 and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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 income statement as `gains and losses from investment securities'.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (Continued)

Impairment of financial assets

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.

2.9 Derivative financial instruments

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

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

Changes in the fair value of all derivative instruments are recognised immediately in the income statement within `other income and gains - net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 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.

2.16 Current and deferred income tax

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Current and deferred income tax (Continued)

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 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 operate 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.

(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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Employee benefits (Continued)

(d) *Share-based payments (Continued)*

Equity-settled share-based payment transactions (Continued)

- 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Provisions

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

2.19 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Leases (as the lessee for operating leases)

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

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.

2.21 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.

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 interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

(a) Market risk

Foreign currency risk

Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. 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 functional currency of the Company and certain subsidiaries are Japanese Yen. The consolidated financial statements are presented in HK dollars.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) *Market risk (Continued)*

Foreign currency risk (Continued)

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 or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. As at 31st December 2011, the foreign exposure of group entities with functional currency other than Japanese Yen is insignificant. The foreign exposure of group entities with functional currency of Japanese Yen is mainly exposed to Renminbi, HK dollars and USD. The net monetary assets/(liabilities) of these subsidiaries denominated in Renminbi, HK dollars and USD expressed in terms of HK dollars are HK$54,180,000 (2010: HK$55,287,000), HK$(12,086,000) (2010: HK$15,962,000) and HK$9,817,000 (2010: HK$5,577,000) respectively.

As at 31st December 2011, a 5% strengthening of the Yen against Renminbi, HK dollars and USD would have decreased/(increased) post-tax profit for the year by HK$2,709,000 (2010: HK$2,764,000), HK$(604,000) (2010: HK$798,000) and HK$491,000 (2010: HK$279,000) respectively. A 5% weakening of Yen against Renminbi, HK dollars and USD would have had the equal but opposite effect on these currencies to the amounts shown above, on the basis that all other variables remain constant.

(b) *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. The Group considers its maximum exposure to credit risk at the reporting dates is the carrying value of each class of financial assets as disclosed in Note 9(a).

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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	
	2011	2010
	HK$'000	HK$'000
Trade and bills receivables		
Customers accepted within past 12 months	**29,530**	63,556
Customers accepted beyond the past 12 months	**52,676**	107,870
Total	**82,206**	171,426

(c) Liquidity risk

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

At 31st December, the Group had the following banking facilities with banks:

	As at 31st December	
	2011	2010
	HK$'000	HK$'000
Banking facilities available	**820,560**	802,730
Banking facilities utilised	**(295,527)**	(264,439)
Undrawn banking facilities	**525,033**	538,291

The table below analyses the Group's 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	On demand HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
Group				
At 31st December 2011				
Bank overdrafts (Note 19)	**5,147**	**–**	**–**	**–**
Term loans subject to a repayment on demand clause (Note 19)	**97,659**	**–**	**–**	**–**
Other bank loans (Note 19)	**–**	**72,078**	**–**	**–**
Derivative financial instruments (Note 11)	**–**	**510**	**–**	**–**
Trade and bills payables (Note 18)	**–**	**93,910**	**–**	**–**
Other payables	**–**	**62,304**	**–**	**–**
	102,806	**228,802**	**–**	**–**
At 31st December 2010				
Bank overdrafts (Note 19)	3,552	–	–	–
Term loans subject to a repayment on demand clause (Note 19)	61,071	–	–	–
Other bank loans (Note 19)	–	56,668	–	–
Trade and bills payables (Note 18)	–	175,078	–	–
Other payables	–	121,586	–	–
	64,623	353,332	–	–
Company				
At 31st December 2011				
Other payables	**–**	**52**	**–**	**–**
At 31st December 2010				
Other payables	–	91	–	–

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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
Group	
At 31st December 2011	
Forward foreign exchange contracts – held for trading:	
Outflow	**42,250**
Inflow	**41,795**
At 31st December 2010	
Forward foreign exchange contracts – held for trading:	
Outflow	33,569
Inflow	34,118
Company	
At 31st December 2011	
Forward foreign exchange contracts – held for trading:	
Outflow	**–**
Inflow	**–**
At 31st December 2010	
Forward foreign exchange contracts – held for trading:	
Outflow	–
Inflow	–

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) *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 19.

During the year end, the borrowings of the Group at variable rates were denominated in HKD, USD, EURO ("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 shift would be a maximum increase/decrease of HK$371,000 for the year ended 31st December 2011 (2010: HK$381,000).

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. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (Continued)

The gearing ratio at 31st December 2011 and 2010 were as follows:–

	As at 31st December	
	2011	2010
	HK$'000	HK$'000
Total borrowings (Note 19)	**174,884**	121,291
Less: Cash and cash equivalents (Note 14 and 15)	**(91,309)**	(62,525)
Net debt	**83,575**	58,766
Total equity	**383,373**	311,220
Gearing ratio	**21.8%**	18.9%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31st December 2011.

	Level 1 HK$'000	Total HK$'000
Assets		
Financial assets at fair value through profit or loss		
– Trading derivatives	55	55
Available-for-sale financial assets		
– Equity securities	7,236	7,236
Total assets	7,291	7,291

	Level 1 HK$'000	Total HK$'000
Liabilities		
Financial assets at fair value through profit or loss		
– Trading derivatives	510	510
Total liabilities	510	510

The following table presents the Group's assets and liabilities that are measured at fair value as at 31st December 2010.

	Level 1 HK$'000	Total HK$'000
Assets		
Financial assets at fair value through profit or loss		
– Trading derivatives	549	549
Total assets	549	549

The fair value of financial instruments traded in active markets is 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 and liabilities held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Europe equity investments classified as available-for-sale.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Income taxes

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

(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.

(c) Warranty provision

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

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

(d) Write down of inventories to net realisable value

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.

5 SEGMENT INFORMATION

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

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

The Group is principally engaged in the trading, installation and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronic equipment in three main geographical areas, namely the PRC, Hong Kong and other countries (principally Singapore). The PRC, for the purpose of this consolidated financial statement, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

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

	Continuing operations For the year ended 31st December 2011				Discontinued operations For the year ended 31st December 2011			
	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000
Sales	831,964	110,242	83,625	1,025,831	84,933	112,962	1,783	199,678
Segment results	26,826	2,354	1,376	30,556	9,458	2,845	107	12,410
Finance costs				(2,772)				(369)
Profit before income tax				27,784				12,041
Income tax expense				(4,815)				–
Profit for the year				22,969				12,041

5 SEGMENT INFORMATION (CONTINUED)

	Continuing operations For the year ended 31st December 2010				Discontinued operations For the year ended 31st December 2010			
	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000
Sales	736,774	174,548	55,972	967,294	40,210	63,623	4,834	108,667
Segment results	28,832	8,468	793	38,093	(5,976)	(2,879)	(192)	(9,047)
Finance costs				(3,078)				(149)
Profit/(loss) before income tax				35,015				(9,196)
Income tax expense				(1,500)				–
Profit/(loss) for the year				33,515				(9,196)

There are no sales or other transactions between the geographical segments.

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

Assets

	2011 HK$'000	2010 HK$'000
Total assets:		
The PRC	**365,787**	391,208
Hong Kong	**378,859**	319,044
Other countries (Note (a))	**62,881**	44,911
	807,527	755,163

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

The total assets of disposal group classified as held for sale are mainly located in Hong Kong. As at 31st December 2011, the total assets of disposal group was HK$116,128,000.

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

5 SEGMENT INFORMATION (CONTINUED)

Assets (Continued)

	2011 HK$'000	2010 HK$'000
Capital expenditure:		
The PRC	**644**	249
Hong Kong	**3,414**	607
Other countries (Note (a))	**6**	113
	4,064	969

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

The capital expenditure of disposal group classified as held for sales are mainly located in Hong Kong. During the year ended 31st December 2011, the total capital expenditure by the disposal group was HK$27,000.

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

Note:

(a) Other countries mainly include Taiwan, Singapore, United States, Macau, Greece, Germany, United Kingdom, Italy, Japan and Malaysia.

The entity is domiciled in Bermuda. The result of its sales from external customers for the years ended 31st December 2011 and 2010 and the total of non-current assets as at 31st December 2011 and 2010 were wholly located in other countries.

6 LEASEHOLD LAND

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

	Group	
	2011 HK$'000	2010 HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**6,947**	7,190

6 LEASEHOLD LAND (CONTINUED)

Bank borrowings are secured on leasehold land for the carrying amount of HK$1,739,000 (2010: HK$1,803,000) (Note 19).

	Group	
	2011	2010
	HK$'000	HK$'000
At 1st January	**7,190**	7,206
Exchange differences	**(18)**	197
Amortisation (Note 23)	**(225)**	(213)
At 31st December	**6,947**	7,190

7 PROPERTY, PLANT AND EQUIPMENT-GROUP

	Land and buildings	Leasehold improve-ments	Plant, machinery furniture and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2010					
Cost or valuation	128,655	27,246	66,863	1,687	224,451
Accumulated depreciation	–	(17,425)	(51,952)	(1,593)	(70,970)
Net book amount	128,655	9,821	14,911	94	153,481
Year ended 31st December 2010					
Opening net book amount	128,655	9,821	14,911	94	153,481
Exchange differences	8,056	(639)	332	(14)	7,735
Revaluation gain (Note 17)	21,345	–	–	–	21,345
Additions	–	571	398	–	969
Disposals (Note 31)	–	–	(528)	–	(528)
Depreciation (Note 15 and 23)	(3,935)	(2,001)	(5,877)	(49)	(11,862)
Closing net book amount	154,121	7,752	9,236	31	171,140

7 PROPERTY, PLANT AND EQUIPMENT-GROUP (CONTINUED)

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31st December 2010					
Cost or valuation	154,121	28,298	69,430	1,792	253,641
Accumulated depreciation	–	(20,546)	(60,194)	(1,761)	(82,501)
Net book amount	154,121	7,752	9,236	31	171,140
Year ended 31st December 2011					
Opening net book amount	**154,121**	**7,752**	**9,236**	**31**	**171,140**
Exchange differences	**9,241**	**419**	**394**	**(1)**	**10,053**
Revaluation gain (Note 17)	**34,593**	**–**	**–**	**–**	**34,593**
Additions	**–**	**2,720**	**1,344**	**–**	**4,064**
Disposals (Note 31)	**–**	**–**	**(438)**	**–**	**(438)**
Depreciation (Note 15 and 23)	**(4,890)**	**(2,337)**	**(3,382)**	**(20)**	**(10,629)**
Transferred to disposal group classified as held for sale (Note 15)	**–**	**–**	**(898)**	**–**	**(898)**
Closing net book amount	**193,065**	**8,554**	**6,256**	**10**	**207,885**
At 31st December 2011					
Cost or valuation	**193,065**	**32,802**	**62,827**	**576**	**289,270**
Accumulated depreciation	**–**	**(24,248)**	**(56,571)**	**(566)**	**(81,385)**
Net book amount	**193,065**	**8,554**	**6,256**	**10**	**207,885**

The Group's land and buildings located in Hong Kong, the PRC and Singapore were revalued at 31st December 2011. Valuations of land and buildings located in Hong Kong and the PRC were made on the basis of open market value by Cushman & Wakefield Valuation Advisory Services (HK) Ltd, a member of the Hong Kong Institute of Surveyors. The land and buildings of the Group located in Singapore were revalued as at 31st December 2011 on the basis of their open market value by Associated Property Consultant Pte Ltd., an independent firm of professional valuers. The increase or decrease in carrying amount arising on revaluation net of applicable deferred income taxes was credited or charged to other reserves respectively in shareholders' equity (Note 17).

7 PROPERTY, PLANT AND EQUIPMENT-GROUP (CONTINUED)

Depreciation expense of HK$10,629,000 (2010: HK$11,862,000) has been charged in administrative expenses (Note 15 and Note 23).

Lease rental amounting to HK$5,186,000 (2010: HK$5,151,000) is included in the consolidated income statement (Note 15 and Note 23).

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

	Group	
	2011	2010
	HK$'000	HK$'000
Cost	**74,911**	71,698
Accumulated depreciation	**(15,804)**	(14,263)
Net book amount	**59,107**	57,435

Bank borrowings are secured on land and buildings for the carrying amount of HK$163,010,000 (2010: HK$139,630,000) (Note 19).

The analysis of cost or valuation as at 31st December 2011 of the above assets is as follows:

	Group				
	Land and buildings	**Leasehold improve-ments**	**Plant, machinery, furniture and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At cost	–	32,802	62,827	576	96,205
At valuation	193,065	–	–	–	193,065
	193,065	32,802	62,827	576	289,270

7 PROPERTY, PLANT AND EQUIPMENT-GROUP (CONTINUED)

The analysis of cost or valuation as at 31st December 2010 of the above assets is as follows:

	Group				
	Land and buildings HK$'000	**Leasehold Improve-ments** HK$'000	**Plant, machinery, furniture and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At cost	–	28,298	69,430	1,792	99,520
At valuation	154,121	–	–	–	154,121
	154,121	28,298	69,430	1,792	253,641

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2011 **HK$'000**	2010 HK$'000
Non-current		
Unlisted shares, at cost	**91,645**	91,645
Current		
Amounts due from subsidiaries (Note (b))	**83,318**	73,408

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

(a) Investments in subsidiaries

The following is a list of the subsidiaries at 31st December 2011:

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

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Issued/registered and fully paid capital	Interest Held
Leeport Machine Tool Trading (China) Limited (Note (i))	PRC, limited liability company	Trading of machines, tools and measuring instruments in the PRC	Registered and fully paid capital of RMB6,000,000	100%
Leeport (Singapore) Pte Ltd (Note (i))	Singapore, limited liability company	Trading of machine tools and related products in Singapore	1,000,000 ordinary shares of S$1 each	100%
Leeport Machinery (Shanghai) Company Limited (Note (i))	PRC, limited liability company	Trading of machines, tools and measuring instruments in the PRC	Registered and fully paid capital of US$1,000,000	100%
Leeport Metalforming Machinery Limited	Hong Kong, limited liability company	Trading of metalforming machines in Hong Kong	50,000 ordinary shares of HK$10 each	100%
Mitutoyo Leeport Metrology Corporation (Note (ii))	British Virgin Islands, limited liability company	Investment holding in Hong Kong	7,000,000 ordinary shares of US$1 each	80%
Mitutoyo Leeport Metrology (Hong Kong) Limited (Note (iii))	Hong Kong, limited liability company	Trading of measuring instruments in Hong Kong	1,000,000 ordinary shares of HK$10 each	80%
Leeport Precision Machine Tool Company Limited	Hong Kong, limited liability company	Trading of metalcutting machines in Hong Kong	5,000,000 ordinary shares of HK$1 each	100%
Leeport Technology Limited	Hong Kong, limited liability company	Trading of rapid prototyping equipment and plastic injection machines in Hong Kong	100,000 ordinary shares of HK$10 each	100%
Leeport Tools Limited	Hong Kong, limited liability company	Trading of cutting tools in Hong Kong	10,000 ordinary shares of HK$100 each	100%

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation/ establishment and type of legal entity	Principal activities and place of operation	Issued/registered and fully paid capital	Interest Held
Leeport Metrology (Dongguan) Limited (Note (i))	PRC, limited liability company	Provision of metrology maintenance service in the PRC	Registered and fully paid capital of US$483,060	80%
Rapman Limited	Hong Kong, limited liability company	Manufacturing of rapid prototypes	100,000 ordinary shares of HK$10 each	100%
Rapman (Dongguan) Limited (Note (i))	PRC, limited liability company	Manufacturing of rapid prototypes	Registered and fully paid capital of HK$3,500,000	100%
World Leader Limited	Hong Kong, limited liability company	Property holding in the PRC	1 ordinary share of HK$1 each	100%
Leeport Metrology Macao Commercial Offshore Limited (Note (i))	Macau, limited liability company	Trading of measuring instruments	1 ordinary share of MOP100,000 each	80%
Leeport Tools Macao Commercial Offshore Limited (Note (i))	Macau, limited liability company	Trading of cutting tools	1 ordinary share of MOP100,000 each	100%

[1] Shares held directly by the Company

Note:

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

(ii) Formerly known as Leeport Metrology Corporation.

(iii) Formerly known as Leeport Metrology (Hong Kong) Limited.

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

(b) Amounts due from subsidiaries

The amounts are unsecured, interest-free and repayable on demand. The amounts are denominated in HK dollars and there is no provision made for the amounts due from subsidiaries.

9 FINANCIAL INSTRUMENTS BY CATEGORY

(a)

	Group			
	Loans and receivables HK$'000	Available-for-sale HK$'000	Derivatives not used for hedging HK$'000	Total HK$'000
Assets as per consolidated balance sheet				
At 31st December 2011				
Derivative financial instruments (Note 11)	**–**	**–**	**55**	**55**
Trade receivables and bills receivables (Note 12)	**141,533**	**–**	**–**	**141,533**
Other receivables	**33,267**	**–**	**–**	**33,267**
Available-for-sale financial assets (Note 10)	**–**	**7,236**	**–**	**7,236**
Restricted bank deposits (Note 14)	**100,697**	**–**	**–**	**100,697**
Cash and cash equivalents (Note 14)	**52,802**	**–**	**–**	**52,802**
Total	**328,299**	**7,236**	**55**	**335,590**
At 31st December 2010				
Derivative financial instruments (Note 11)	–	–	549	549
Trade receivables and bills receivables (Note 12)	254,776	–	–	254,776
Other receivables	33,838	–	–	33,838
Restricted bank deposits (Note 14)	45,014	–	–	45,014
Cash and cash equivalents (Note 14)	62,525	–	–	62,525
Total	396,153	–	549	396,702

9 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

(a) (Continued)

	Group		
	Financial liabilities at amortised cost HK$'000	Derivatives not used for hedging HK$'000	Total HK$'000
Liabilities as per consolidated balance sheet			
At 31st December 2011			
Borrowings (Note 19)	**174,884**	**–**	**174,884**
Derivative financial instruments (Note 11)	**–**	**510**	**510**
Trade payables and bills payables (Note 18)	**93,910**	**–**	**93,910**
Other payables	**62,304**	**–**	**62,304**
Total	**331,098**	**510**	**331,608**
At 31st December 2010			
Borrowings (Note 19)	121,291	–	121,291
Trade payables and bills payables (Note 18)	175,078	–	175,078
Other payables	121,586	–	121,586
Total	417,955	–	417,955

9 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

(b)

	Company Loans and Receivables HK$'000
Assets as per balance sheet	
At 31st December 2011	
Amounts due from subsidiaries (Note 8)	**83,318**
Cash and cash equivalents (Note 14)	**15**
Total	**83,333**
At 31st December 2010	
Amounts due from subsidiaries (Note 8)	73,408
Cash and cash equivalents (Note 14)	22
Total	73,430

	Company Financial liabilities at amortised cost HK$'000
Liabilities as per balance sheet	
At 31st December 2011	
Other payables	**52**
Total	**52**
At 31st December 2010	
Other payables	91
Total	91

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2011 HK$'000	2010 HK$'000
At beginning of the year	–	–
Additions	8,775	–
Net losses transferred to equity (Note 17)	(1,539)	–
At end of the year	7,236	–

Available-for-sale financial assets include the following:

	Group 2011 HK$'000	2010 HK$'000
Listed securities:		
– Equity securities-Europe	7,236	–

Available-for-sale financial assets are denominated in the following currency:

	Group 2011 HK$'000	2010 HK$'000
EUR	7,236	–

11 DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2011		2010	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Forward foreign exchange contracts				
– non-hedge instruments	55	510	549	–

Derivatives holding for trading purpose are classified as a current asset or liability. As at 31st December 2011, the Group has outstanding gross-settled foreign currency forward contracts to buy EUR2,780,000 for HKD28,262,000, buy JPY118,000,000 for HKD12,012,000 and buy AUD260,000 for HKD1,976,000 (2010: Buy EUR539,000 for HKD5,523,000, buy JPY267,200,000 for HKD25,085,000 and buy SGD500,000 for HKD2,961,000).

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables and bills receivables	**146,394**	259,651	**–**	–
Less: provision for impairment of receivables	**(4,861)**	(4,875)	**–**	–
Trade receivables and bills receivables-net	**141,533**	254,776	**–**	–
Other receivables, prepayments and deposits	**49,193**	53,420	**344**	332
	190,726	308,196	**344**	332

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

At 31st December 2011 and 2010, the ageing analysis of trade receivables and bills receivables by due dates are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current	**82,206**	171,426
1-3 months	**34,257**	64,762
4-6 months	**9,314**	7,762
7-12 months	**11,856**	7,307
Over 12 months	**8,761**	8,394
	146,394	259,651
Less: provision for impairment of receivables	**(4,861)**	(4,875)
	141,533	254,776

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

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

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 receivables and bills receivables are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
EUR	**29,918**	19,779
HKD	**6,420**	25,326
JPY	**25,225**	65,985
USD	**17,019**	10,164
RMB	**52,239**	119,544
Other currencies	**10,712**	13,978
	141,533	254,776

As of 31st December 2011, trade receivables of HK$59,327,000 (2010: HK$83,350,000) 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 date are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
1-3 months	**34,257**	64,762
4-6 months	**9,314**	7,762
7-12 months	**11,856**	7,307
Over 12 months	**3,900**	3,519
	59,327	83,350

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

As at 31st December 2011, trade receivables of HK$4,861,000 (2010: HK$4,875,000) were impaired and were fully provided for. The individually impaired receivables mainly relate to smaller customers which were in financial difficulties. The ageing analysis of these non-recoverable receivables based on due date are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Over 12 months	**4,861**	4,875

The Group has recognised a net loss of HK$177,000 (2010: HK$2,642,000) for the impairment of its trade receivables and bills receivables during the year ended 31st December 2011. The net loss has been included in administrative expenses in the consolidated income statement.

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

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of the year	**4,875**	9,591
Receivables written off during the year as uncollectible	**–**	(7,358)
Provision for impairment of receivables	**316**	2,918
Recovery of impaired receivables	**(139)**	(276)
Transferred to disposal group classified as held for sale	**(191)**	–
At end of the year	**4,861**	4,875

The creation and release of provision for impaired receivables has been included in administrative expenses in the consolidated income statement (Note 15 and 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 value of each class of receivable (excluding prepayments) mentioned above. The Group does not hold any collateral as security.

13 INVENTORIES

	Group 2011 HK$'000	Group 2010 HK$'000
Merchandise	**125,051**	159,487

The reversal of slow moving inventories recognised as an income and included in cost of goods sold amounted to HK$3,650,000 (2010: provision of HK$12,843,000) (Note 15 and Note 23).

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$1,013,908,000 (2010: HK$872,318,000) (Note 15 and Note 23).

14 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Restricted bank deposits (Note (a))	**100,697**	45,014	**–**	–
Cash at bank and in hand (Note (b))	**52,802**	62,525	**15**	22

(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 0.75% (2010: 0.36%) and these deposits have an average renewal period of 16 days (2010: 8 days).

(b) The bank balances of the Group amounting to HK$32,815,000 (2010: HK$31,118,000) are placed with certain banks in the PRC. The remittance of these balances is subject to the foreign exchange control restrictions imposed by the PRC government.

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

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Cash and cash equivalents	**52,802**	62,525	**15**	22
Bank overdrafts (Note 19)	**(5,147)**	(3,552)	**–**	–
	47,655	58,973	**15**	22

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

The table below shows the bank deposits balance of the major counterparties as of 31st December 2011 and 2010.

	Group	
	2011	2010
	HK$'000	HK$'000
Cash and cash equivalents		
Cash at banks and bank deposits		
– Listed financial institutions	**52,043**	61,533
– Non-listed financial institutions	**180**	528
	52,223	62,061
Cash in hand	**579**	464
Total	**52,802**	62,525
Secured restricted bank deposits		
– Listed financial institutions	**100,697**	45,014

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

	Group	
	2011	2010
	HK$'000	HK$'000
EUR	**2,065**	4,811
HKD	**4,127**	9,029
JPY	**6,159**	9,769
USD	**12,214**	5,700
RMB	**24,523**	28,605
Other currencies	**3,714**	4,611
	52,802	62,525

15 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS – GROUP

The assets and liabilities related to Mitutoyo Leeport Metrology Corporation, a 80% owned subsidiary of the Company, have been presented as held for sale following the approval of the Group's management on 18th January 2011 to sell Mitutoyo Leeport Metrology Corporation. The transaction was completed on 28th February 2012 and Mitutoyo Leeport Metrology Corporation has became an 49% associated company of the Group.

	Group	
	2011	2010
	HK$'000	HK$'000
Operating cash flows	**36,257**	(11,946)
Investing cash flows	**2,200**	148
Financing cash flows	**(6,399)**	599
Total cash flows	**32,058**	(11,199)

(a) Assets of disposal group classified as held for sale

	Group	
	2011	2010
	HK$'000	HK$'000
Property, plant and equipment	**898**	–
Trade receivables	**50,510**	–
Inventories	**25,874**	–
Cash and cash equivalents	**38,507**	–
Other current assets	**339**	–
Total	**116,128**	–

(b) Liabilities of disposal group classified as held for sale

	Group	
	2011	2010
	HK$'000	HK$'000
Trade and bills payable	**47,282**	–
Other current liabilities	**9,058**	–
Total	**56,340**	–

15 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS – GROUP (CONTINUED)

(c) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group

	2011 HK$'000	2010 HK$'000
Revenue	**199,678**	108,667
Interest income	**10**	–
Cost of inventories sold (Note 13)	**(157,502)**	(87,966)
Depreciation of property, plant and equipment (Note 7)	**(662)**	(1,327)
Net provision for impairment of trade receivables (Note 12)	**(7)**	(4)
Reversal/(provision) for slow moving inventories (Note 13)	**59**	(3,547)
Operating leases rental (Note 7)	**(882)**	(546)
Realised exchange (loss)/gain	**(870)**	823
Unrealised exchange loss	**(4,849)**	(6,689)
Finance cost	**(369)**	(149)
Other expenses – net	**(22,565)**	(18,458)
Profit/(loss) before income tax of discontinued operations	**12,041**	(9,196)
Income tax expense	**–**	–
Profit/(loss) for the year from discontinued operations	**12,041**	(9,196)
Profit/(loss) for the year from discontinued operations attributable to:		
– Owners of the company	**9,635**	(8,316)
– Non-controlling interests	**2,406**	(880)
Profit/(loss) for the year from discontinued operations	**12,041**	(9,196)

16 SHARE CAPITAL

	2011 HK$'000	2010 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000

	Number of shares (in thousand)	Share capital HK$'000
Issued and fully paid:		
At 1st January 2011		
215,444,062 ordinary shares of HK$0.10 each	215,444	21,544
5,102,000 ordinary shares of HK$0.10 each issued on exercise of share option	5,102	511
At 31st December 2011		
220,546,062 ordinary shares of HK$0.10 each	220,546	22,055

During the year ended 31st December 2011, 5,102,000 shares of the Company were issued upon the exercise of share options at exercise price of HK$0.61, and resulting in approximately HK$2,602,000 credited to share premium.

Share options

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

On 29th March 2010, 7,980,000 share options have been offered and granted to directors and employees with an exercise price of HK$0.61 per share. The closing price of the shares on 26th March 2010 (immediately before 29th March 2010, the date those options granted) was HK$0.60 per share.

On 4th July 2011, 260,000 share options have been offered and granted to a director namely Dr. Lui Sun Wing with an exercise price of HK$0.96 per share. The closing price of the shares on the date of grant was HK$0.96 per share and the average closing price of the shares for the five business days immediately preceding the date of grant was HK$0.93 per share. The closing price of the shares on 30th June 2011 (immediately before 4th July 2011, the date his options granted) was HK$0.97 per share.

16 SHARE CAPITAL (CONTINUED)

The Company has been using the Black–Scholes Valuation model to value the share options granted. The key parameters used in the model and the corresponding fair value of the options granted during 2010 and 2011 are as follows:

Date of granted	Share Option 1 29th March 2010	Share Option 2 4th July 2011
Number of share options granted	7,980,000	260,000
Total option value (HK$)	1,915,200	67,600
Share price at date of grant (HK$)	0.61	0.96
Exercise price (HK$)	0.61	0.96
Expected life of options	2 years	2 years
Annualised volatility	76%	68%
Risk free interest rate	0.72%	0.33%
Dividend payout rate	0%	7.89%

The exercise period of share option 1 is from 29th March 2011 to 28th March 2012 (both dates inclusive). Pursuant to the share option scheme, these share options were fully vested on 29th March 2011. All options are exercisable as at 31st December 2011. The expiry date of the options is 28th March 2012.

The exercise period of share option 2 is from 2nd July 2012 to 1st July 2013 (both dates inclusive). Pursuant to the share option scheme, these share options will be fully vested on 2nd July 2012.

The share-based payment recognised in the consolidated income statement for these share options granted to directors and employees for the year ended 31st December 2011 is HK$412,000 (2010: HK$1,134,000) (Note 17).

16 SHARE CAPITAL (CONTINUED)

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

Eligible participants	Date of grant	Exercise Price HK$	At beginning of the year	Granted during the year	Exercised during the year	At end of the year
Director						
LEE Sou Leung, Joseph (Mr. Lee)	29th March 2010	0.61	580,000	–	(580,000)	–
TAN, Lisa Marie (Ms. Tan)	29th March 2010	0.61	580,000	–	–	580,000
CHAN Ching Huen, Stanley (Mr. Chan)	29th March 2010	0.61	580,000	–	(580,000)	–
LUI Sun Wing (Dr. Lui)	29th March 2010	0.61	100,000	–	(100,000)	–
	4th July 2011	0.96	–	260,000	–	260,000
NIMMO, Walter Gilbert Mearns (Mr. Nimmo)	29th March 2010	0.61	100,000	–	–	100,000
Employees (excluding directors)	29th March 2010	0.61	5,940,000	–	(3,842,000)	2,098,000
			7,880,000	260,000	(5,102,000)	3,038,000

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$0.99.

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

17 OTHER RESERVES – GROUP AND COMPANY

	Group					
	Share premium HK$'000	Building revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Merger reserve HK$'000	Total HK$'000
Balance at 1st January 2010	26,480	62,892	44,566	1,043	11,310	146,291
Currency translation differences	–	354	4,954	–	–	5,308
Revaluation - gross (Note 7)	–	21,345	–	–	–	21,345
Revaluation - tax (Note 20)	–	(2,539)	–	–	–	(2,539)
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	–	(2,523)	–	–	–	(2,523)
Share option scheme – value of services provided (Note 16)	–	–	–	1,134	–	1,134
Balance at 31st December 2010	26,480	79,529	49,520	2,177	11,310	169,016
Balance at 1st January 2011	**26,480**	**79,529**	**49,520**	**2,177**	**11,310**	**169,016**
Currency translation differences	**–**	**(40)**	**12,675**	**–**	**–**	**12,635**
Revaluation - gross (Note 7)	**–**	**34,593**	**–**	**–**	**–**	**34,593**
Revaluation - tax (Note 20)	**–**	**(2,201)**	**–**	**–**	**–**	**(2,201)**
Transfer of property revaluation reserve to retained earnings on depreciation of buildings	**–**	**(3,341)**	**–**	**–**	**–**	**(3,341)**
Available-for-sale financial assets (Note 10)	**–**	**–**	**–**	**(1,539)**	**–**	**(1,539)**
Changes in ownership interests in subsidiaries without change of control	**–**	**–**	**(2,188)**	**1,514**	**–**	**(674)**
Exercise of options	**2,602**	**–**	**–**	**–**	**–**	**2,602**
Share option scheme – value of services provided (Note 16)	**–**	**–**	**–**	**412**	**–**	**412**
Balance at 31st December 2011	**29,082**	**108,540**	**60,007**	**2,564**	**11,310**	**211,503**

17 OTHER RESERVES (CONTINUED)

	Company				
	Share premium HK$'000	Contributed surplus HK$'000 (Note (a))	Exchange reserve HK$'000	Other reserve HK$'000	Total HK$'000
Balance at 1st January 2010	26,480	91,445	8,310	1,043	127,278
Share option scheme					
– value of services provided	–	–	–	1,134	1,134
Currency translation difference	–	–	4,375	–	4,375
Balance at 31st December 2010	26,480	91,445	12,685	2,177	132,787
Balance at 1st January 2011	**26,480**	**91,445**	**12,685**	**2,177**	**132,787**
Share option scheme					
– value of services provided	**–**	**–**	**–**	**412**	**412**
Exercise of options	**2,602**	**–**	**–**	**–**	**2,602**
Currency translation difference	**–**	**–**	**3,174**	**–**	**3,174**
Balance at 31st December 2011	**29,082**	**91,445**	**15,859**	**2,589**	**138,975**

Notes:

(a) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Group's reorganisation. Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(b) Distributable reserves of the Company at 31st December 2011 amounted to HK$105,872,000 (2010: HK$102,323,000).

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables and bills payables	**93,910**	175,078	**–**	–
Other payables, accruals and deposits received	**79,967**	132,290	**52**	91
	173,877	307,368	**52**	91

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

	Group	
	2011	2010
	HK$'000	HK$'000
Current	**90,902**	168,961
1-3 months	**1,768**	5,133
4-6 months	**23**	14
7-12 months	**30**	1
Over 12 months	**1,187**	969
	93,910	175,078

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

	Group	
	2011	2010
	HK$'000	HK$'000
JPY	**31,448**	116,097
EUR	**20,573**	12,453
USD	**11,882**	21,269
RMB	**22,808**	19,447
HKD	**3,393**	1,906
Others	**3,806**	3,906
	93,910	175,078

19 BORROWINGS

	Group 2011 HK$'000	2010 HK$'000
Current		
Collateralised borrowings	**4,547**	–
Trust receipt loans	**67,531**	56,668
Portion of term loans from banks due for repayment within one year	**97,659**	55,090
Portion of term loans from banks due for repayment after one year which contain a repayment on demand clause	**–**	5,981
Bank overdrafts (Note 14(b))	**5,147**	3,552
Total borrowings	**174,884**	121,291

Bank borrowings are secured by the leasehold land (Note 6), land and building (Note 7) and restricted bank deposits (Note 14) of the Group.

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:

	Group 2011 HK$'000	2010 HK$'000
Within 1 year		
– Bank loans	**97,659**	55,090
– Others	**77,225**	60,220
	174,884	115,310
1 – 5 years		
– Bank loans	**–**	5,981
	174,884	121,291

The carrying amounts of borrowings approximate their fair value.

19 BORROWINGS (CONTINUED)

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

	2011					2010				
	HK$	US$	EUR	JPY	Others	HK$	US$	EUR	JPY	Others
Collateralised borrowings	–	3.43%	–	–	–	–	–	–	–	–
Bank overdrafts	5.61%	–	–	–	–	–	–	–	–	5.75%
Trust receipts loans	–	3.30%	3.74%	1.88%	–	–	–	2.36%	1.68%	–
Bank loans	2.81%	–	–	1.18%	–	1.85%	–	–	–	–

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

	Group	
	2011 HK$'000	2010 HK$'000
EUR	17,836	7,981
HKD	71,563	41,700
JPY	76,762	68,058
USD	8,723	–
Other currencies	–	3,552
	174,884	121,291

The facilities expiring within one year are annual facilities subject to review at various dates during year 2012.

20 DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Accelerated tax depreciation		
At 1st January	15,284	12,261
Exchange differences	(5)	5
Charged to income statement (Note 26)	1,039	479
Charged directly to equity (Note 17)	2,201	2,539
At 31st December	18,519	15,284

20 DEFERRED INCOME TAX (CONTINUED)

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

	Group	
	2011	2010
	HK$'000	HK$'000
Building revaluation reserves in shareholders' equity (Note 17)	**2,201**	2,539

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$4,747,000 (2010: HK$6,846,000) in respect of losses amounting to HK$28,767,000 (2010: HK$41,347,000) that can be carried forward against future taxable income. Losses amounting to HK$28,767,000 have no expiry period (2010: HK$41,068,000 have no expiry period and HK$279,000 expiring within five years).

21 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1st January	**4,468**	6,341
Provision made during the year	**9,479**	8,297
Provision utilised during the year	**(8,910)**	(10,170)
Transferred to disposal group classified as held for sale	**(674)**	–
At 31st December	**4,363**	4,468

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

22 OTHER INCOME AND GAINS-NET

	Group 2011 HK$'000	2010 HK$'000
Derivative instruments - forward contracts:		
– Realised and unrealised net fair value (loss)/gain	**(1,004)**	788
Interest income	**885**	322
Investment (loss)/income	**(119)**	1,110
Service income	**11,468**	12,525
Commission income	**9,004**	1,136
Other income	**1,559**	3,770
Management fee income from disposal group (Note a)	**6,676**	5,985
	28,588	24,526

Note:

(a) The amount represents the management fee received from disposal group, which is recurring in nature and will be continued after the disposal.

23 EXPENSES BY NATURE

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

	Group	
	2011	2010
	HK$'000	HK$'000
Auditors' remuneration	**2,685**	1,771
Cost of inventories sold (Note 13)	**856,406**	784,352
Depreciation on property, plant and equipment (Note 7)	**9,967**	10,535
Amortisation on leasehold land (Note 6)	**225**	213
Operating lease rentals (Note 7)	**4,304**	4,605
(Reversal of)/provision for slow moving inventories (Note 13)	**(3,591)**	9,296
Net provision for impairment of trade and bills receivables (Note 12)	**170**	2,638
Foreign exchange (gain)/loss (Note 27)	**(2,175)**	5,576
Employee benefits expenses (including directors' remuneration) (Note 24)	**74,698**	66,356
Other expenses	**81,174**	68,385
Total cost of sales, selling and distribution costs and administrative expenses	**1,023,863**	953,727

24 EMPLOYEE BENEFITS EXPENSES

	Group	
	2011	2010
	HK$'000	HK$'000
Wages and salaries, including other termination benefits HK$103,000 (2010: Nil)	**67,585**	58,204
Pension costs-defined contribution plans (Note (a))	**6,701**	7,018
Share-based compensation	**412**	1,134
	74,698	66,356

24 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Pensions-defined contribution plans

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

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

Contributions totalling HK$86,000 (2010: HK$85,000) 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 (2010: HK$Nil)

24 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2011 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors						
Lee Sou Leung, Joseph	–	1,365	210	86	63	1,724
Tan, Lisa Marie	–	640	–	–	30	670
Chan Ching Huen, Stanley	–	948	210	414	12	1,584
Lui Sun Wing	–	360	–	–	5	365
Non-executive directors						
Lui Sun Wing	75	–	–	–	–	75
Pike, Mark Terence	150	–	–	–	–	150
Nimmo, Walter Gilbert Mearns	150	–	–	–	–	150
Tai-chiu Lee	75	–	–	–	–	75

The remuneration of every director for the year ended 31st December 2010 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors						
Lee Sou Leung, Joseph	–	1,365	150	86	63	1,664
Tan, Lisa Marie	–	611	–	–	28	639
Chan Ching Huen, Stanley	–	935	150	378	12	1,475
Non-executive directors						
Lui Sun Wing	100	–	–	–	–	100
Pike, Mark Terence	100	–	–	–	–	100
Nimmo, Walter Gilbert Mearns	100	–	–	–	–	100

24 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

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

Note:

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2010: three) individuals during the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,908**	2,475
Discretionary bonuses	**1,654**	1,309
Pension costs-defined contribution plans	**98**	199
Share-based compensation	**33**	99
	4,693	4,082

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Emolument bands		
HK$1,000,000 – HK$1,500,000	**1**	3
HK$1,500,001 – HK$2,000,000	**2**	–
	3	3

25 FINANCE COSTS

	Group 2011 HK$'000	2010 HK$'000
Interest expense on:		
– bank overdrafts, trust receipt loans and bank borrowings wholly repayable within five years	**2,772**	3,078

26 INCOME TAX EXPENSE

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

	Group 2011 HK$'000	2010 HK$'000
Current income tax		
– Hong Kong profits tax	**33**	629
– PRC and overseas taxation	**3,029**	619
– Under/(over) provision in previous years	**714**	(227)
Deferred income tax (Note 20)	**1,039**	479
	4,815	1,500

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.

EIT tax in the PRC has been provided at the rate of 25% (2010: 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% (2010: 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.

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 profits of the consolidated entities are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Profit before income tax	**27,784**	35,015
Tax calculated at domestic tax rates applicable to profits in the respective countries	**5,471**	7,356
Income not subject to taxation	**(6,851)**	(16,421)
Expenses not deductible for taxation purposes	**8,475**	10,133
Tax losses for which no deferred income tax asset was recognised	**286**	1,497
Utilisation of previous unrecognised temporary difference	**(2,351)**	(1,989)
Under/(over) provision in previous years		
– Hong Kong profits tax	**714**	(227)
– Deferred income tax	**(929)**	1,151
Income tax expense	**4,815**	1,500

27 REALISED AND UNREALISED FOREIGN EXCHANGE GAIN/LOSS

The realised exchange gain of HK$2,679,000 and unrealised exchange loss of HK$504,000 recognised in the consolidated income statement are included as administrative expenses for the year ended 31st December 2011 (2010: realised exchange loss of HK$4,277,000 and unrealised exchange loss of HK$1,299,000).

28 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$21,161,000 (2010: HK$15,901,000).

29 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	2011	2010
Profit attributable to equity holders of the Company (HK$'000)	**22,969**	33,515
Profit/(loss) from discontinued operations attributable to equity holders of the Company (HK$'000)	**9,635**	(8,316)
	32,604	25,199
Weighted average number of ordinary shares in issue (in thousands)	**218,338**	215,444
Basic earnings/(loss) per share attributable to the equity holders of the Company (HK cents per share)		
– From continuing operations	**10.52**	15.56
– From discontinued operations	**4.41**	(3.86)

(b) Diluted

The 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 shares only: share options. A calculation was made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as (a) is compared with the number of shares that would have been issued assuming the exercise of the share options.

The diluted earnings/(loss) per share is based on the weighted average number of ordinary shares, including the adjustment for share options granted during the period, of 219,208,000.

The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share for the year ended 31st December 2011.

29 EARNINGS PER SHARE (CONTINUED)

(b) Diluted (Continued)

	2011	2010
Weighted average number of ordinary shares in issue (in thousands)	**218,338**	215,444
Adjustment for:		
– Share options (in thousands)	**870**	1,807
Weighted average number of ordinary shares for diluted earnings/(loss) per share (in thousands)	**219,208**	217,251
Diluted earnings/(loss) per share attributable to the equity holders of the Company (HK cents per share)		
– From continuing operations	**10.47**	15.43
– From discontinued operations	**4.40**	(3.83)

30 DIVIDENDS

There was an interim dividend paid for the year ended 31st December 2011, amounting to HK$7,719,000 (2010: HK$6,463,000). Final dividend of HK6.0 cents for the year ended 31st December 2011 (2010: HK4.5 cents) is to be proposed at the annual general meeting on 11th May 2012. These financial statements do not reflect this dividend payable.

	2011 HK$'000	2010 HK$'000
Interim, paid, of HK3.5 cents (2010: HK3.0 cents) per ordinary share	**7,719**	6,463
Final, proposed, of HK6.0 cents (2010: HK4.5 cents) per ordinary share	**13,233**	9,695
	20,952	16,158

The aggregate amounts of the dividends paid and proposed during 2011 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

31 CASH GENERATED FROM OPERATIONS

	Group 2011 HK$'000	Group 2010 HK$'000
Profit before income tax including discontinued operations	**39,825**	25,819
Adjustments for:		
– Share-based compensation (Note 16)	**412**	1,134
– Depreciation of property, plant and equipment (Note 7)	**10,629**	11,862
– Amortisation on leasehold land (Note 6)	**225**	213
– Gain on sale of property, plant and equipment (see Note (a) below)	**(400)**	(52)
– Fair value loss/(gain) on derivative financial instruments (Note 22)	**1,004**	(788)
– Interest income (Note 15 and 22)	**(895)**	(322)
– Interest expense (Note 15 and 25)	**3,141**	3,227
– Unrealised exchange loss (Note 15 and 27)	**5,353**	7,988
– (Reversal of)/provision for inventories (Note 13)	**(3,650)**	12,843
– Net impairment losses for trade receivables (Note 12)	**177**	2,642
Changes in working capital (excluding the effects of exchange differences on consolidation):		
– Decrease in inventories	**12,292**	10,466
– Decrease/(increase) in trade receivables and bills receivables, other receivables, prepayments and deposits	**64,149**	(136,820)
– (Decrease)/increase in trade payables and bills payables, trust receipt loans, other payables, accruals and deposits received	**(67,535)**	112,196
Cash generated from operations	**64,727**	50,408

Note:

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

	Group 2011 HK$'000	Group 2010 HK$'000
Net book amount (Note 7)	**438**	528
Gain on sale of property, plant and equipment	**400**	52
Proceeds from sale of property, plant and equipment	**838**	580

32 CONTINGENT LIABILITIES

	Group 2011 HK$'000	2010 HK$'000
Letters of guarantee given to customers	**31,415**	41,507

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. As at 31st December 2011, the amount of guarantees outstanding was HK$31,415,000 (2010: HK$41,507,000).

33 COMMITMENTS

Commitments under operating leases

As lessee

At 31st December 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group 2011 HK$'000	2010 HK$'000
Not later than one year	**3,951**	2,716
Later than one year but not later than five years	**1,114**	1,435
	5,065	4,151

34 CHANGES IN OWNERSHIP INTERESTS IN A SUBSIDIARY WITHOUT CHANGE OF CONTROL

(a) Disposal of interest in a subsidiary without loss of control

On 12th May 2011, the Company disposed of 10% of interest in Mitutoyo Leeport Metrology Corporation ("MLMC") at a consideration of HK$7,000,000. The Group recognised an increase in non-controlling interests of HK$5,924,000 and an increase in equity attributable to owners of the Company of HK$1,076,000. The effect of changes in the ownership interest of MLMC on the equity attributable to owners of the Company during the year are summarised as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount of non-controlling interests disposed of	**(5,924)**	–
Consideration received from non-controlling interests	**7,000**	–
Gain on disposal within equity	**1,076**	–

There was no transaction with non-controlling interests in 2010.

(b) Effects of changes in ownership interests in a subsidiary without change of control on the equity attributable to owners of the Company for the year ended 31st December 2011

	Group
	2011
	HK$'000
Total comprehensive income for the year attributable to the owners of the Company	**76,092**
Changes in equity attributable to owners of the Company arising from:	
– Disposal of interests in a subsidiary	**1,076**
	77,168

35 RELATED PARTY TRANSACTIONS

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Island), which owns 65.53% of the Company's shares. The remaining 34.47% of the shares are widely held.

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

		Group	
	Note	**2011** **HK$'000**	2010 HK$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	**84**	84

(a) The Group has entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces in China for the year ended 31st December 2011 amounted to HK$84,000 (2010: HK$84,000). In the opinion of the directors, such transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

(b) Key management compensation

Key management includes directors (executive and non-executive), members of Executive Committee and the Company Secretary. The compensation paid or payable to key management for employee service is shown below:

	Group	
	2011 **HK$'000**	2010 HK$'000
Salaries and other short-term employee benefits	**14,507**	12,673
Pension costs-defined contribution plans	**347**	312
Share-based compensation	**220**	544
	15,074	13,529

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) The Company has entered into a deed of guarantee with DBS Bank (Hong Kong) Limited and Hang Seng Bank Limited, on 22nd June 2006 and 8th June 2009 respectively whereby the Company guarantees to secure the repayment of various banking facilities granted to the Company's wholly-owned subsidiary, Leeport Machine Tool Company Limited ("LMTCL") and the Company's non-wholly-owned subsidiary, Mitutoyo Leeport Metrology (Hong Kong) Limited ("MLMHK") in the total amount of HK$75 million (2010: HK$159 million). The Company holds 80% equity interests indirectly in MLMHK while the remaining 20% equity interests are held by a third party minority shareholder. These guarantees provided by the Company have the effect of granting financial assistance to MLMHK as a non-wholly owned subsidiary and the minority shareholder of MLMHK has not provided guarantees in proportion to its equity interests in MLMHK. The aforesaid banking facilities guaranteed by the Company will be used for general corporate purpose and as general working capital of LMTCL and MLMHK (as the case may be). The directors consider that the aforesaid guarantees are provided upon normal commercial terms and are in the interest of the Company and of its shareholders as a whole.

36 EVENTS AFTER BALANCE SHEET DATE

On 21st January 2011, the Group has entered into the sale and purchase agreements with Mitutoyo Corporation, a company incorporated in Japan, in which the Group conditionally agreed to sell and Mitutoyo Corporation conditionally agreed to purchase an aggregate of 41% of the issued share capital of a subsidiary company, Mitutoyo Leeport Metrology Corporation ("MLMC"), a company incorporated in British Virgin Islands. The total consideration of the disposal transaction was HK$28,700,000. During the year, the Group has disposed 10% shareholding of MLMC to Mitutoyo Corporation (Please refer to note 34 for details). Subsequent to the year end, the Group has disposed a further of 31% shareholding of MLMC to Mitutoyo Corporation on 28th February 2012. Upon the completion of transaction, MLMC became an 49% associated company of the Group.

Five Year Financial Summary

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

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Results					
Sales	**1,225,509**	1,075,961	758,562	1,037,212	846,236
Profit/(loss) before income tax	**39,825**	25,819	(36,197)	6,006	26,631
Income tax (expense)/credit	**(4,815)**	(1,500)	919	(85)	(3,548)
Profit/(loss) for the year	**35,010**	24,319	(35,278)	5,921	23,083
Profit/(loss) attributable to Equity shareholders	**32,604**	25,199	(34,348)	7,896	23,406
Non-controlling interest	**2,406**	(880)	(930)	(1,975)	(323)
Assets					
Property, plant and equipment	**207,885**	171,140	153,481	129,434	136,462
Leasehold land	**6,947**	7,190	7,206	7,354	7,583
Current assets	**592,695**	576,833	484,321	581,129	575,217
Total assets	**807,527**	755,163	645,008	717,917	719,262
Liabilities					
Current liabilities	**405,635**	428,659	364,943	427,516	454,699
Non-current liabilities	**18,519**	15,284	12,261	7,427	10,886
Total liabilities	**424,154**	443,943	377,204	434,943	465,585
Net assets	**368,520**	305,439	261,455	277,375	246,108