

# REPORT OF THE DIRECTORS

The directors submit their first annual report together with the audited accounts for the year ended 31st December 2003.

## 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 15 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 19.

The details of dividends paid and declared during the year are set out in note 8 to the accounts.

At a meeting held on 19th June 2003, the directors of a subsidiary declared a special dividend totalling HK\$8,000,000 to its then shareholders.

The directors recommend the payment of a final dividend of HK 9 cents ordinary share, totalling HK\$18,000,000.

## Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 24 to the accounts.

## Fixed assets

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

## Share capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

## Donations

Charitable donations made by the Group during the year amounted to HK\$9,000.

## Distributable reserves

Distributable reserves of the Company at 31st December 2003, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$109,507,000.

### **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 61.

### **Purchase, sale or redemption of securities**

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

### **Share Options**

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

The total number of shares of the Company issuable upon exercise of all options granted and may be granted under the Scheme and any other share option scheme of the Group is 20,000,000, representing 10% of the issued shares of the Company as at the date of this annual report, and such limit is subject to renewal with shareholders' approval. The maximum number of shares issuable upon exercise of the options granted to each eligible participant under the Scheme and any other share option scheme of the Group in any twelve-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval.

# REPORT OF THE DIRECTORS

## Share Options (Continued)

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 independent non-executive director. 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.

Share options were first granted under the Scheme during the year and the details of which are as follows:

Eligible participants	Date of grant	Exercise price	Number of shares issuable under share options			
			At beginning of year	Granted during the year	Exercised during the year	At end of year
a) Director						
Mr CHAN Ching Huen, Stanley	19th December 2003	HK\$0.87	–	200,000	–	200,000
b) Employees (excluding directors)	19th December 2003	HK\$0.87	–	4,212,000	–	4,212,000
			–	4,412,000	–	4,412,000

### Share Options (Continued)

The closing price of the Company's shares on 18th December 2003, immediately before the date of grant of the above share options was HK\$0.87. The exercise period of the above share options is from 19th December 2004 to 18th December 2005 (both dates inclusive).

The directors consider it inappropriate to disclose the value of share options granted under the Scheme. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. Moreover, the terms of the Scheme stipulate that the options granted should not be assigned, and no holder of the share options shall in any way sell, transfer, charge, mortgage or create any interest in favour of any third party over or in relation to any share option. The directors believe that any calculation of the value of share options as at the date of this report based on a number of speculative assumptions would not be meaningful.

### Directors

The directors during the year were:

#### Executive directors

Mr LEE Sou Leung, Joseph (Chairman)	(Appointed on 25th March 2003)
Ms TAN, Lisa Marie (Deputy Chairman)	(Appointed on 25th March 2003)
Mr CHAN Ching Huen, Stanley	(Appointed on 25th March 2003)

#### Independent non-executive directors

Dr LUI Sun Wing	(Appointed on 7th May 2003)
Mr PIKE, Mark Terence	(Appointed on 7th May 2003)

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 greater than one third) will retire from office by rotation at each annual general meeting provided that no director holding office as chairman shall be subject to retirement by rotation, or be taken into account in determining the number of directors to retire. In accordance with Article 87(1), none of the remaining two executive directors (other than the chairman) is subject to retirement by rotation at the forthcoming annual general meeting.

Mr PIKE, Mark Terence and Dr LUI Sun Wing are independent non-executive directors and were appointed for a one-year term expiring on 6th May 2004. They are subject to re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS

## Directors' service contracts

Each of the executive director has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by each party thereto giving to the other party three months' prior notice in writing, or three months' basic salary in lieu of notice, which notice period shall not expire at any time during the first year.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## Directors' interests in contracts

A director, Mr LEE Sou Leung, Joseph, has entered into lease agreements for the lease of office premises to two of the subsidiaries of the Group, and the total rental for the year ended 31st December 2003 amounted to HK\$168,000. The directors are of the opinion that the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

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

## Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 8-9.

### 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 2003, the interests and short positions of each director, chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (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:

Director	Name of Company		Number of shares	Percentage that the long/short position in shares represents to the issued share capital of the Company	Capacity
Mr LEE Sou Leung, Joseph	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Settlor/founder
		Short position	Nil	–	
Ms TAN, Lisa Marie	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Beneficiary of a trust
		Short position	Nil	–	

Note: The 133,700,000 Shares are held by Peak Power Technology Limited in its capacity as the trustee of The Lee Family Unit Trust holding the same for the benefit of holders of units issued by The Lee Family Unit Trust. Of the entire 100,000 units in issue, 99,999 units are held by HSBC International Trustee Limited in the capacity of the trustee of The LMT Trust and the remaining 1 unit is held by Ms Loretta TONG Yuk Yin (an aunt of Ms TAN, Lisa Marie). HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms TAN, Lisa Marie and Mr LEE Sou Leung, Joseph's family members. The aforesaid shares that Mr LEE Sou Leung, Joseph and Ms TAN, Lisa Marie are deemed to be interested refer to the same parcel of shares.

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

### Substantial shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

At 31st December 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

# REPORT OF THE DIRECTORS

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Major customers and suppliers

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

Purchases	
– the largest supplier	22%
– five largest suppliers combined	62%

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 transactions

Save as disclosed in the section headed "Directors' interests in contracts", the details of other connected transactions are set out as follows:

1. On 31st October 2003, the Company entered into a deed of guarantee with UFJ Bank Limited whereby the Company would guarantee in favour of UFJ Bank Limited to secure the repayment of various banking facilities granted to the Company's wholly-owned subsidiary, Leeport Machine Tool Company Limited ("LMTCL") and the Company's non-wholly-owned subsidiary, Leeport Metrology (Hong Kong) Limited ("LMHK") in the amount of HK\$30 million;
2. On 31st October 2003, the Company entered into a deed of guarantee with Dah Sing Bank Limited whereby the Company would guarantee in favour of Dah Sing Bank Limited to secure the repayment of various banking facilities granted to LMTCL and LMHK in the amount of HK\$21 million; and
3. On 12th December 2003, the Company entered into a deed of guarantee with DBS Bank (Hong Kong) Limited whereby the Company would guarantee in favour of DBS Bank (Hong Kong) Limited to secure the repayment of various banking facilities granted to LMTCL and LMHK in the amount of HK\$20 million.

The aforesaid banking facilities guaranteed by the Company will be used for general corporate purpose and as general working capital of LMTCL and LMHK (as the case may be). The directors consider that the aforesaid guarantees are provided upon normal commercial terms and are in the interest of the Company and of its shareholders as a whole.

### **Connected transactions (Continued)**

The Company indirectly holds 90% equity interests of LMHK while the other shareholder holding the remaining 10% is only a connected person of the Company by virtue of its substantial shareholding in LMHK. These guarantees provided by the Company have the effect of granting financial assistance to LMHK as a non-wholly-owned subsidiary, which constitute connected transactions for the Company under the rule 14.25(2)(a) of the Listing Rules. The Company is required by the Listing Rules to disclose the relevant details of these guarantees in this annual report.

### **Compliance with the Code of Best Practice of the Listing Rules**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time since the Listing Date.

### **Audit Committee**

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

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

### **Subsequent events**

On 10th February 2004, the Group disposed of its investment property with carrying value of HK\$16,000,000 as at 31st December 2003 to a third party company at a consideration of HK\$18,000,000. Please refer to details set out in notes 1(d)(i) and 31 to the accounts.

### **Auditors**

The accounts 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, 27th March 2004