

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

- (i) The Company was incorporated in Bermuda on 21st March 2003. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10th July 2003.

Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 16th June 2003. The Reorganisation involved companies under common control and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting years presented.

- (ii) No balance sheet of the Company at 31st December 2002 is presented in the accounts, as the Company was not yet incorporated on that date.
- (iii) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention as modified by the revaluation of leasehold properties and investment properties.

In the current year, the Group adopted Statements of Standard Accounting Practice ("SSAP") No.12 "Income Taxes" issued by HKSA which is effective for accounting periods commencing on 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting the new accounting policy is set out in notes 1(d)(i) and 1(l) below.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power, has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

## 1 Principal accounting policies (Continued)

### (b) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

In accordance with SSAP 30, "Business Combinations", goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### (d) Fixed assets

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods of greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (i) Investment properties (Continued)

The accounting policy adopted in the prior years was that upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to retained earnings and is shown as a movement in reserves. In the current year, the Group has adopted a change in accounting policy that upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account. This has been applied retrospectively but there was no disposal of investment property during this year and the comparatives presented above have not been restated as there was no disposal of investment property in prior years. The directors believe that the change in accounting policy reflects more meaningfully the gain or loss arising from disposal of investment properties in the profit and loss account. As detailed in note 31 to the accounts, on 10th February 2004, the Group disposed of its investment property with carrying amount of HK\$16,000,000 as at 31st December 2003 to a third party company at a consideration of HK\$18,000,000. The total gain on disposal recognised in the profit and loss account for the year ending 31st December 2004 will be HK\$4,668,000, comprising of HK\$2,668,000 which will be released from the investment property revaluation reserve and HK\$2,000,000 which is the difference between the net sales proceeds and the carrying amount of the investment property as at the date of disposal.

Had the Group not changed the accounting policy, HK\$2,000,000 will be recognised as the gain on disposal of investment property in the profit and loss account for the year ending 31st December 2004, whereas HK\$2,668,000 will be released from the investment property revaluation reserve to retained earnings and will be shown as a movement in reserves.

#### (ii) Leasehold properties

Leasehold properties are interests in land and buildings other than investment properties and are stated at valuation, being open market value for existing use at the date of revaluation, less accumulated amortisation or depreciation. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Amortisation of leasehold land is calculated to write off its carrying cost over the unexpired periods of the leases on a straight-line basis.

Depreciation of leasehold buildings is calculated to write off on a straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 4% per annum.

## 1 Principal accounting policies (Continued)

### (d) Fixed assets (Continued)

#### (iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciation at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	10%
Plant, machinery, furniture and equipment	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (e) Assets under leases

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (e) Assets under leases (Continued)

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (f) Investments securities

Investment securities held for long-term purpose are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all direct costs of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, bank loans which are within three months of maturity when acquired and bank overdrafts which are repayable on demand.

### (j) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a warranty provision for repairs or replacement of products still under warranty at the balance sheet date. The provision is calculated based on past history of the level of repairs and replacements.

## 1 Principal accounting policies (Continued)

### (k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (l) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 24 to the accounts, opening retained earnings at 1st January 2002 and 2003 have been reduced by HK\$423,000 and HK\$727,000 respectively and opening other properties revaluation reserve at 1st January 2002 and 2003 have been reduced by HK\$969,000 and HK\$721,000 respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in and deferred tax liabilities at 31st December 2002 by HK\$1,448,000. The profit for the year ended 31st December 2002 has been reduced by HK\$304,000 and the amount credited to equity for the year ended 31st December 2002 has been increased by HK\$248,000 respectively.

# NOTES TO THE ACCOUNTS

## 1 Principal accounting policies (Continued)

### (m) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) Bonus

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

#### (iii) Pension obligations

The Group participates in a number of defined contribution plans which are available to all qualified employees, the assets of which are generally held in separate trustee administered funds. The pension plans are funded by payments from employees and by relevant Group companies. Contributions to the schemes by the Group are charged to the profit and loss account as incurred.

### (n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income under service agreements is recognised on a straight-line basis over the life of the agreement. Other service income is recognised when the services are rendered.

## 1 Principal accounting policies (Continued)

### (p) Revenue recognition (Continued)

Commission income is recognised when the services are rendered.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (q) Dividends

Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

### (r) Segmental reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, trade receivables and bills receivables, other receivables, prepayments and deposits, pledged bank deposits and cash and bank balances, and mainly exclude amount due from a director and other prepayments for investment in a subsidiary. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, current portion of long-term liabilities, minority interests and long-term liabilities. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.



# NOTES TO THE ACCOUNTS

## 2 Turnover and revenues

The Group is principally engaged in the trading, installation and after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods, net of returns and discounts	519,675	451,967
Other revenues		
Service income	4,247	4,342
Commission income	6,620	2,709
Rental income	732	738
Interest income	262	427
Other income	95	75
	11,956	8,291
Total revenues	531,631	460,258

### 3 Segment information

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

The Group is principally engaged in the trading, installation and after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment, in three main geographical areas, namely the People's Republic of China (the "PRC"), Hong Kong and Southeast Asia and other countries (principally Singapore). The PRC, for the purpose of these accounts, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

	2003			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	236,762	228,606	54,307	519,675
Segment results	11,510	23,990	1,431	36,931
Finance costs				(2,715)
Profit before taxation				34,216
Taxation				(2,978)
Profit after taxation				31,238
Minority interests				(210)
Profit attributable to shareholders				31,028
Segment assets	95,946	189,211	43,406	328,563
Segment liabilities	75,847	69,524	19,406	164,777
Unallocated liabilities				16,013
Minority interests				5,670
				186,460
Capital expenditure	2,224	2,412	661	5,297
Depreciation	1,837	4,114	518	6,469

# NOTES TO THE ACCOUNTS

## 3 Segment information (Continued)

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

	2002			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	188,002	226,846	37,119	451,967
Segment results	8,960	23,584	1,536	34,080
Finance costs				(2,714)
Profit before taxation				31,366
Taxation				(3,162)
Profit attributable to shareholders				28,204
Segment assets	75,667	166,223	21,544	263,434
Unallocated assets				540
				263,974
Segment liabilities	65,892	78,521	9,899	154,312
Unallocated liabilities				16,009
Minority interests				–
				170,321
Capital expenditure	4,387	20,365	209	24,961
Depreciation	1,124	3,422	323	4,869

### (b) Secondary reporting format – business segments

No business segment analysis is presented as the Group has been operating in a single business segment, which is the trading of machines, tools, accessories and measuring instruments, throughout the year.

## 4 Operating profit

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Gain on disposal of a subsidiary	186	–
Gain on disposal of fixed assets	–	25
Charging		
Auditors' remuneration	964	437
Cost of inventories sold	386,001	325,319
Deficit on revaluation of leasehold properties	802	–
Depreciation:		
Owned fixed assets	6,425	4,780
Leased fixed assets	44	89
Exchange loss	78	94
Operating lease rentals in respect of land and buildings	2,445	3,209
Provision for slow moving inventories	43	720
Provision for bad and doubtful debts	829	2,830
Staff costs (including directors' remuneration) (note 10)	49,344	46,232

## 5 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings:		
Wholly repayable within five years	2,297	2,350
Not wholly repayable within five years	405	337
Interest element of finance leases	13	27
	2,715	2,714

# NOTES TO THE ACCOUNTS

## 6 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– Current	2,819	2,500
– Overprovision in previous years	(314)	(574)
	2,505	1,926
Overseas taxation		
– Current	120	373
– Overprovision in previous years	(23)	(20)
	97	353
Deferred taxation relating to the origination and reversal of temporary differences (note 25)	197	883
Deferred taxation resulting from an increase in tax rate (note 25)	179	–
	376	883
	2,978	3,162

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

Overseas taxation is mainly attributable to the subsidiary operating in Singapore. Singapore profits tax has been provided at the rate of 22% (2002: 22%) respectively on the estimated profit for the year.

Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	34,216	31,366
Calculated at a taxation rate of 17.5% (2002: 16%)	5,988	5,019
Effect of different taxation rates in other countries	(508)	99
Income not subject to taxation	(8,233)	(8,289)
Expenses not deductible for taxation purposes	6,639	6,983
Tax losses not recognised	10	415
Utilisation of previously unrecognised tax losses	(760)	(471)
Overprovision of profits tax in prior years	(337)	(594)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	179	–
Taxation charge	2,978	3,162

## 7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$18,062,000.

## 8 Dividends

	2003 HK\$'000	2002 HK\$'000
Dividends paid or declared by a subsidiary to its then shareholders before the Reorganisation (note (a)):		
Interim, paid		10,000
Final, proposed	–	5,000
Special, paid	8,000	–
Dividends declared by the Company (note (b)):		
Final, proposed, of HK 9 cents (2002: Nil) per ordinary share	18,000	–
	<b>26,000</b>	15,000

Note:

- (a) The dividend rates and the number of shares ranking for the dividends mentioned above are not presented as such information is not considered meaningful for the purpose of these accounts.
- (b) At a board meeting held on 27th March 2004, the directors proposed a final dividend of HK 9 cents per ordinary share for the year ended 31st December 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

## 9 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$31,028,000 (2002: HK\$28,204,000).

The basic earnings per share is based on the weighted average number of 178,137,000 (2002: 158,000,000) ordinary shares in issue during the year. The diluted earnings per share is based on 178,172,000 (2002: 158,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 35,000 (2002: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 10 Staff costs (including directors' remuneration)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	46,758	43,695
Unutilised annual leave	148	422
Retirement benefit costs (note 12)	2,438	2,115
	<b>49,344</b>	46,232

# NOTES TO THE ACCOUNTS

## 11 Emoluments for directors and highest paid individuals

### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Executive		
Fee	–	–
Other emoluments	2,897	2,832
Discretionary bonuses	200	1,110
Retirement benefit scheme contributions	96	95
Non-executive		
Fee	130	–
	<b>3,323</b>	<b>4,037</b>

Apart from the emoluments paid by the Group as above, two of the leasehold properties of the Group in Hong Kong have been provided to two of the directors as their residency forming part of their emoluments.

None of the directors of the Company waived any emoluments paid by the Group during the year (2002: Nil).

The emoluments of the directors of the Company fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	–	1
	<b>3</b>	<b>3</b>

## 11 Emoluments for directors and highest paid individuals (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two directors (2002: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,880	2,463
Discretionary bonuses	2,278	967
Retirement benefit scheme contributions	76	89
	4,234	3,519

The emoluments of the remaining three individuals fell within the following bands:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	2	3
HK\$1,500,001 to HK\$2,000,000	1	–
	3	3

- (c) During the year, no emoluments were paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12 Retirement benefit costs

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 profit and loss account 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 profit and loss account represent the contributions payable to the funds by the Group.



# NOTES TO THE ACCOUNTS

## 12 Retirement benefit costs (Continued)

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

The details of pension scheme contributions for the directors and employees, net of forfeited contributions, which have been dealt with in the consolidated profit and loss account of the Group for the year, are as follows:

	2003 HK\$'000	2002 HK\$'000
Gross scheme contributions	2,438	2,115
Less: Forfeited contributions utilised to offset contributions for the year	—	—
Net scheme contributions	2,438	2,115

### 13 Fixed assets

	Group					
	Investment properties HK\$'000	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant, machinery furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At 1st January 2003	14,600	43,673	9,887	19,776	1,839	89,775
Exchange adjustments	–	70	4	12	1	87
Additions	–	–	181	5,116	–	5,297
Revaluation	1,400	(2,873)	–	–	–	(1,473)
Disposal of a subsidiary	–	–	–	(219)	–	(219)
Other disposals	–	–	(57)	(1,852)	(464)	(2,373)
At 31st December 2003	16,000	40,870	10,015	22,833	1,376	91,094
Accumulated depreciation						
At 1st January 2003	–	807	2,733	8,303	1,192	13,035
Exchange adjustments	–	2	1	5	–	8
Charge for the year	–	1,080	1,592	3,620	177	6,469
Revaluation	–	(1,088)	–	–	–	(1,088)
Disposals of a subsidiary	–	–	–	(149)	–	(149)
Other disposals	–	–	(57)	(1,838)	(464)	(2,359)
At 31st December 2003	–	801	4,269	9,941	905	15,916
Net book value						
At 31st December 2003	16,000	40,069	5,746	12,892	471	75,178
At 31st December 2002	14,600	42,866	7,154	11,473	647	76,740
The analysis of cost or valuation at 31st December 2003 of the above assets is as follows:						
At cost	–	–	10,015	22,833	1,376	34,224
At 31st March 2003 professional valuation	–	40,870	–	–	–	40,870
At 31st December 2003 professional valuation	16,000	–	–	–	–	16,000
	16,000	40,870	10,015	22,833	1,376	91,094

# NOTES TO THE ACCOUNTS

## 13 Fixed assets (Continued)

The analysis of cost or valuation at 31st December 2002 of the above assets is as follows:

	Group					Total HK\$'000
	Investment properties HK\$'000	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant, machinery furniture and equipment HK\$'000	Motor vehicles HK\$'000	
At cost	–	3,791	9,887	19,776	1,839	35,293
At 30th November 2001 professional valuation	–	5,852	–	–	–	5,852
At 31st December 2001 professional valuation	–	19,630	–	–	–	19,630
At 31st December 2002 professional valuation	14,600	14,400	–	–	–	29,000
	14,600	43,673	9,887	19,776	1,839	89,775
Net book value of leased assets:						
At 31st December 2003	–	–	–	–	–	–
At 31st December 2002	–	–	–	178	–	178

The Group's interests in leasehold land and buildings at their net book value are analysed as follows:

	Group 2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	43,303	43,838
Leases of between 10 to 50 years	7,813	8,084
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	4,953	5,544
	56,069	57,466

- Investment properties of the Group were revalued at 31st December 2003 on the basis of their open market value by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The revaluation surplus was credited to investment properties revaluation reserve in shareholders' equity (note 24).
- Leasehold properties of the Group were revalued as at 31st March 2003 on the basis of their open market values by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. In the opinion of the directors, the carrying amount of leasehold properties of the Group stated at revalued amount as at 31st March 2003 were not materially different from their open market value as at 31st December 2003.  
  
The total revaluation deficit of the above leasehold properties for the year ended 31st December 2003 amounted to HK\$1,785,000, HK\$983,000 has been taken to other properties revaluation reserve (note 24) to set off previous valuation, whereas the remaining HK\$802,000 has been charged to the profit and loss account. The effect of applicable deferred income taxes arising from the revaluation deficit has resulted in an increase in other properties revaluation reserve at 31st December 2003 by HK\$23,000 (note 24).
- The carrying amount of leasehold properties of the Group would have been HK\$38,792,000, at 31st December 2003 (2002: HK\$39,848,000) had they been stated at cost less accumulated depreciation.
- Certain properties of the Group with an aggregate net book value of approximately HK\$55,170,000 at 31st December 2003 (2002: HK\$56,574,000) have been pledged to banks to secure banking facilities granted to the Group (note 28).

## 14 Investment securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost	1,172	1,172
Less: Provision for impairment losses	(1,172)	(1,172)
	—	—

## 15 Investments in subsidiaries

### (a) Investments in subsidiaries

	Company 2003 HK\$'000
Unlisted shares, at cost	91,645
Amounts due from subsidiaries (note (b))	35,207
	126,852

The following is a list of the subsidiaries at 31st December 2003:

Name	Principal activities and place of operation	Place of incorporation/ establishment	Issued/registered and fully paid capital	Interest held
Leeport Group Limited (note(i))	Investment holding in Hong Kong	British Virgin Islands	50,000 ordinary shares of US\$1 each	*100%
Formtek Machinery Company Limited(note (i))	Trading of machine tools in Taiwan	Taiwan	800,000 ordinary shares of NT\$10 each	100%
Leeda Machinery Limited	Inactive	Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Leeport Electronics Limited	Trading of electronics equipment in Hong Kong	Hong Kong	200,000 ordinary shares of HK\$10 each	100%
Leeport Machine Tool Company Limited	Trading of machines, tools, accessories and measuring instruments in Hong Kong	Hong Kong	1,000,000 ordinary shares of HK\$10 each	100%
Leeport Macao Commercial Offshore Limited (note (i))	Trading of machines, tools, accessories and measuring instruments in Macau	Macau	1 ordinary share of MOP100,000 each	100%

# NOTES TO THE ACCOUNTS

## 15 Investments in subsidiaries (Continued)

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

Name	Principal activities and place of operation	Place of incorporation/ establishment	Issued/registered and fully paid capital	Interest held
Leeport (Malaysia) Sdn. Bhd. (note (i))	Distribution and repair of machine tools and accessories in Malaysia	Malaysia	350,000 ordinary shares of RM1 each	100%
Leeport Machine Tool (Shenzhen) Company Limited (note (i))	Trading of machines, tools and measuring instruments in the PRC	The PRC, wholly owned foreign enterprise	Registered and fully paid capital of HK\$2,000,000	100%
Leeport (Singapore) Pte. Ltd. (note (i))	Trading of machine tools and related products in Singapore	Singapore	1,000,000 ordinary shares of S\$1 each	100%
Leeport Machinery (Shanghai) Company Limited (note (i))	Trading of machines, tools and measuring instruments in the PRC	The PRC, wholly owned foreign enterprise	Registered and fully paid capital of US\$250,000	100%
Leeport Metalforming Machinery Limited	Inactive	Hong Kong	50,000 ordinary shares of HK\$10 each	100%
Leeport Metrology Corporation	Investment holding in Hong Kong	British Virgin Islands	7,000,000 ordinary shares of US\$1 each	90%
Leeport Metrology (Hong Kong) Limited (formerly known as Leeport Metrology Limited)	Trading of measuring instruments in Hong Kong	Hong Kong	2 ordinary shares of HK\$10 each	90%
Leeport Technology Limited	Inactive	Hong Kong	2 ordinary shares of HK\$10 each	100%
Leeport Tools Limited	Inactive	Hong Kong	10,000 ordinary shares of HK\$100 each	100%
Rapman Limited	Inactive	Hong Kong	2 ordinary shares of HK\$10 each	100%
Leeport Precision Machine Tool Company Limited	Inactive	Hong Kong	2 ordinary shares of HK\$1 each	100%

\* Shares held directly by the Company

Note:

- (i) PricewaterhouseCoopers Hong Kong is not the statutory auditors of these companies. The aggregate net assets of these subsidiaries amounted to approximately 9% of the Group's net assets.

### (b) Amounts due from subsidiaries

The amounts are unsecured, interest-free and have no fixed terms of repayment.

## 16 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Merchandise	65,481	55,546

At 31st December 2003, the carrying amount of inventories held by the Group carried at net realisable value amounted to HK\$1,861,000 (2002: HK\$2,119,000).

## 17 Amount due from a director

The amount due is of non-trade nature and is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the amount due from a director are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Mr LEE Sou Leung, Joseph	–	149

Maximum amount outstanding during the year is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Mr LEE Sou Leung, Joseph	149	149

## 18 Trade receivables and bills receivable

At 31st December 2003, the ageing analysis of trade receivables and bills receivable is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	80,365	63,761
1 – 3 months	36,649	26,651
4 – 6 months	8,791	5,729
7 – 12 months	2,387	8,527
Over 12 months	13,638	13,288
	141,830	117,956
Less: provision	(13,635)	(12,980)
	128,195	104,976

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.

# NOTES TO THE ACCOUNTS

## 19 Cash and bank balances

	Group	
	2003 HK\$'000	2002 HK\$'000
Restricted balances (note (a))	4,524	1,421
Unrestricted balances	48,653	17,345
Bank balances and cash	53,177	18,766

(a) These bank balances are denominated in Renminbi and placed with certain banks in the PRC. The remittance of these is subject to the foreign exchange control restrictions imposed by the PRC government.

## 20 Trade payables and bills payable

At 31st December 2003, the ageing analysis of trade payables and bills payable is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	72,552	38,181
1 – 3 months	9,097	8,033
4 – 6 months	809	3,239
7 – 12 months	103	687
Over 12 months	192	–
	82,753	50,140

## 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 warranty 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	
	2003 HK\$'000	2002 HK\$'000
At 1st January	3,486	2,454
Additional provision	6,315	5,966
Less: Amounts utilised	(5,640)	(4,934)
At 31st December	4,161	3,486

## 22 Long-term liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
Obligations under finance leases		
Wholly repayable within five years (note (a))	–	77
Bank loans – secured		
Not wholly repayable within five years (note (b))	11,832	12,911
	11,832	12,988
Current portion of long-term liabilities		
Obligations under finance leases	–	(77)
Bank loans – secured	(1,114)	(1,079)
	(1,114)	(1,156)
Long-term liabilities	10,718	11,832

- (a) The Group's obligations under finance leases in respect of plant, machineries, furniture and equipment are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	–	89
	–	89
Future finance charges on finance leases	–	(12)
Present value of finance lease liabilities	–	77
The present value of finance lease liabilities is as follows:		
Within one year	–	77

- (b) The Group's bank loans are repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	1,114	1,079
In the second year	1,148	1,114
In the third to fifth year	3,672	3,558
After the fifth year	5,898	7,160
	11,832	12,911

The long-term bank loans bear interest at prevailing market rates. Details of securities for banking facilities are set out in note 28 below.



# NOTES TO THE ACCOUNTS

## 23 Share capital

	Ordinary shares at HK\$0.1 each	
	No. of shares	HK\$'000
Authorised:		
At the date of incorporation (note (a))	1,000,000	100
Increase in authorised ordinary share capital (note (b)(i))	999,000,000	99,900
At 31st December 2003	1,000,000,000	100,000
Issued and fully paid:		
At the date of incorporation (note (a))	—	—
Issue of shares arising from the Reorganisation (note (a) and (b) (ii))	2,000,000	200
Issue of shares by placing and public offer (note (c))	42,000,000	4,200
Capitalisation issue (note (d))	156,000,000	15,600
At 31st December 2003	200,000,000	20,000

Details of the changes in the Company's share capital for the year ended 31st December 2003 are as follows:

- (a) The Company was incorporated on 21st March 2003 with an authorised capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. 1,000,000 shares were allotted and issued nil paid to Mr LEE Sou Leung, Joseph on 25th March 2003.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company on 16th June 2003,
  - (i) the authorised share capital for the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares; and
  - (ii) the Company issued 1,000,000 new ordinary shares which, together with the 1,000,000 shares issued to Mr Lee Sou Leung, Joseph on 25th March 2003, were credited as fully paid as consideration for the acquisition of subsidiaries pursuant to the Reorganisation as set out in note 1(a)(i).
- (c) On 7th July 2003, 42,000,000 shares of HK\$0.1 each were issued to the public at a price of HK\$0.84 per share (the "New Issue") for cash consideration of HK\$35,280,000. The excess of HK\$31,080,000 over the par value of the shares issued was credited to the share premium account.
- (d) Also on 7th July 2003, 156,000,000 shares of HK\$0.1 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 17th June 2003 by debiting an amount of HK\$15,600,000 of the share premium account of the Company arising from the New Issue.
- (e) The share capital presented in the consolidated balance sheet as at 31st December 2002 represented the share capital of the Company, arising from the transactions as described in notes (a) and (b)(ii) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as set out in note 1(a)(i).

## 23 Share capital (Continued)

- (f) Pursuant to the written resolution passed by all the then shareholders of the Company on 17th June 2003, the Company had adopted a share option scheme. The movements in the number of share options outstanding during the year are as follows:

Date of grant	Exercise price	Number of share options			At end of year	Exercise period
		At beginning of year	Granted during the year	Exercised during the year		
19th December 2003	HK\$0.87	–	4,412,000	–	4,412,000	19th December 2004 to 18th December 2005

Each option entitles the holder to subscribe for one share of HK\$0.1 each in the Company at the predetermined exercise price.

No share options were lapsed or cancelled during the year.

# NOTES TO THE ACCOUNTS

## 24 Reserves

	Group						Total HK\$'000
	Share issuance costs	Investment properties revaluation reserve	Other properties revaluation reserve	Exchange reserve	Merger reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January 2002, as previously reported	–	1,668	7,470	(754)	11,310	57,193	76,887
Changes in accounting policy							
– provision of net deferred tax liabilities (note 1(l))	–	–	(969)	–	–	(423)	(1,392)
At 1st January 2002, as restated	–	1,668	6,501	(754)	11,310	56,770	75,495
Share issuance costs	(2,711)	–	–	–	–	–	(2,711)
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	–	–	154	(154)	–	–	–
Exchange differences on translation of accounts of foreign subsidiaries	–	–	–	550	–	–	550
Transfer of revaluation reserve realised through disposal of a leasehold property	–	–	(3,516)	–	–	3,516	–
Revaluation deficit of an investment property	–	(400)	–	–	–	–	(400)
Revaluation surplus of leasehold properties	–	–	2,067	–	–	–	2,067
Transfer of revaluation reserve realised through depreciation to retained profits	–	–	(102)	–	–	102	–
Movements of deferred taxes	–	–	248	–	–	–	248
Profit attributable to shareholders	–	–	–	–	–	28,204	28,204
2002 interim dividend paid	–	–	–	–	–	(10,000)	(10,000)
At 31st December 2002	(2,711)	1,268	5,352	(358)	11,310	78,592	93,453
Representing:							
2002 final dividend proposed						5,000	
Others						73,592	
Retained earnings as at 31st December 2002						78,592	

## 24 Reserves (Continued)

[illegible]

# NOTES TO THE ACCOUNTS

## 24 Reserves (Continued)

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000 (note (a))	Retained earnings HK\$'000	
At 1st January 2003	–	–	–	–
Issue of shares (note 23(c))	31,080	–	–	31,080
Capitalisation issue (note 23(d))	(15,600)	–	–	(15,600)
Contributed surplus arising on the Reorganisation (note 1(a)(i))	–	91,445	–	91,445
Share issuance costs	(8,158)	–	–	(8,158)
Profit attributable to shareholders (note 7)	–	–	18,062	18,062
At 31st December 2003	7,322	91,445	18,062	116,829
Representing:				
2003 final dividend proposed			18,000	
Others			62	
Retained earnings as at 31st December 2003			18,062	

### 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 Reorganisation. Under the Companies Act 1981 of Bermuda (as amended), 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 2003 amounted to HK\$109,507,000 (2002: Nil).

## 25 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1st January	2,686	2,048
Exchange differences	4	3
Deferred taxation charged to consolidated profit and loss account (note 6)	376	883
Taxation credited from equity	(23)	(248)
At 31st December	3,043	2,686

The deferred taxation credited from equity during the year is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fair value reserves in shareholders' equity – properties (note 24)	(23)	(248)

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$31,923,000 (2002 :HK\$35,018,000) to carry forward against future taxable income.

# NOTES TO THE ACCOUNTS

## 25 Deferred taxation (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

<b>Deferred tax liabilities</b>	<b>Accelerated tax depreciation and total</b>	
	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
At 1st January	<b>2,686</b>	2,048
Charged to consolidated profit and loss account	<b>376</b>	883
Credited from equity	<b>(23)</b>	(248)
Exchange differences	<b>4</b>	3
As at 31 December	<b>3,043</b>	2,686

<b>Deferred tax assets</b>	<b>Tax losses and total</b>	
	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
At 1st January	—	—
Charged to consolidated profit and loss account	—	—
Credited from equity	—	—
Exchange differences	—	—
As at 31 December	—	—

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
Deferred tax assets	—	—
Deferred tax liabilities	<b>3,043</b>	2,686
	<b>3,043</b>	2,686
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	—	—
Deferred tax liabilities to be settled after more than 12 months	<b>3,043</b>	2,686

## 26 Commitments

### (a) Capital commitments

- (i) Commitments for investment securities:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted obligations for investment securities	775	775

- (ii) Commitments for investment in a subsidiary:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted obligations for investment in a subsidiary in the PRC	–	1,700

### (b) Commitments under operating leases

- (i) As lessor

At 31st December 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	712	732
Later than one year but not later than five years	–	712
	712	1,444

- (ii) As lessee

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,220	1,917
Later than one year but not later than five years	108	740
	1,328	2,657



# NOTES TO THE ACCOUNTS

## 26 Commitments (Continued)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Commitments for foreign currency forward contracts	45,037	50,042

## 27 Contingent liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
Letters of guarantee given to customers	13,270	5,797
Bills of exchange discounted with recourse	10,257	12,380
	23,527	18,177

## 28 Banking facilities

As at 31st December 2003, the Group's banking facilities totalling approximately HK\$418 million (2002: HK\$285 million) were secured by the following:

- (a) fixed deposits of the Group amounting to HK\$1,000,000 (2002: HK\$3,201,000);
- (b) certain properties held by the Group with net book value of approximately HK\$55,170,000 (2002: HK\$56,574,000) (note 13(d)); and
- (c) corporate guarantees given by the Company.

## 29 Notes to consolidated cash flow statements

### (a) Reconciliation of profit before taxation to net cash inflow from operating activities

	Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	34,216	31,366
Depreciation of fixed assets	6,469	4,869
Deficit on revaluation of leasehold properties	802	–
Gain on disposal of fixed assets	–	(25)
Gain on disposal of a subsidiary	(186)	–
Interest income	(262)	(427)
Interest expense	2,715	2,714
Effect of foreign exchange rates	149	154
Operating profit before working capital changes	43,903	38,651
Increase in inventories	(10,258)	(12,227)
Increase in trade receivables and bills receivable, other receivables, prepayments and deposits	(25,612)	(10,052)
Increase in trade payables and bills payable, trust receipt loans, other payables, accruals and deposits received	15,486	21,596
Movement in amount due from a director	149	(4,257)
Cash generated from operations	23,668	33,711
Interest received	262	427
Interest paid	(2,702)	(2,687)
Interest element of finance leases	(13)	(27)
Dividends paid	(13,000)	(10,000)
Hong Kong profits tax paid	(1,359)	(3,788)
Overseas taxation paid	(446)	(247)
Net cash inflow from operating activities	6,410	17,389

# NOTES TO THE ACCOUNTS

## 29 Notes to consolidated cash flow statements (Continued)

### (b) Analysis of changes in financing during the year

	Share capital including share premium HK\$'000	Share issuance costs HK\$'000	Minority interests HK\$'000	Bank loans HK\$'000	Obligation under finance leases HK\$'000
At 1st January 2002	200	–	–	6,751	210
Cash inflows/(outflows) from financing, net	–	(2,711)	–	6,160	(133)
At 31st December 2002	200	(2,711)	–	12,911	77
At 1st January 2003	200	(2,711)	–	12,911	77
Minority interest's share of profits	–	–	210	–	–
Cash inflows/(outflows) from financing, net	35,280	(5,447)	5,460	(1,079)	(77)
Transfers	(8,158)	8,158	–	–	–
At 31st December 2003	27,322	–	5,670	11,832	–

### (c) Disposal of a subsidiary

On 28th February 2003, the Group disposed of its entire interest in GFTZ Leeport Trading Co., Ltd. to a third party company at a consideration of HK\$1,600,000.

The assets and liabilities disposed of are as follows:

	HK\$'000
Fixed assets	70
Inventories	323
Trade receivables, other receivables, prepayments and deposits	1,457
Cash and bank balances	647
Other payables and accruals	(1,074)
Exchange reserve (note 24)	(9)
Net assets disposed of	1,414
Gain on disposal of a subsidiary (note 4)	186
Sale proceeds	1,600
Less: cash and cash equivalents of the subsidiary disposed of	(647)
Net cash inflow in respect of the disposal of a subsidiary	953

### 30 Related party transactions

Other than those as disclosed in other notes to the accounts, the Group has entered into the following significant transactions with related parties during the year:

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	168	790
Sales to a related company, 東莞市力豐機械有限公司 (Leeport Dongguan (translated but not the registered name))	(b)	—	995
Purchase of a property from a director, Mr LEE Sou Leung, Joseph	(c)	—	3,700
Sale of a property to a director, Mr LEE Sou Leung, Joseph and related parties, Ms SO LEE Yee Wan, Maria and Mr LEE Sou Fai, Paul	(c)	—	5,350

- (a) Two of the subsidiaries of the Group have entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces. In the opinion of the directors, 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.
- (b) Mr LEE Sou Leung, Joseph and Mr LEE Yik Sun, a brother of Mr LEE Sou Leung, Joseph had beneficial interests in Leeport Dongguan. The transactions were charged based on terms mutually agreed between relevant parties. Mr LEE Sou Leung, Joseph and Mr LEE Yik Sun have disposed of all their beneficial interest in Leeport Dongguan to independent third parties on 9th August 2002. The total of approximately HK\$995,000 for the year ended 31st December 2002 represented transactions which occurred up to 9th August 2002.
- (c) One of the subsidiaries of the Group has purchased a leasehold property from a director, Mr LEE Sou Leung, Joseph during the year ended 31st December 2002. That subsidiary of the Group has also sold a leasehold property to a director, Mr LEE Sou Leung, Joseph and related parties, Ms SO LEE Yee Wan, Maria and Mr LEE Sou Fai, Paul during the year ended 31st December 2002. Both transactions were entered into based on open market valuation at the time of the transactions.
- (d) At 31st December 2003, the Company has entered into deeds of guarantee with several banks whereby the Company guarantees in favour of these banks to secure the repayment of various banking facilities granted to the Company's wholly-owned subsidiary, Leeport Machine Tool Company Limited ("LMTCL") and the Company's non-wholly-owned subsidiary, Leeport Metrology (Hong Kong) Limited ("LMHK") in the total amount of HK\$71 million (2002: Nil). The Company holds 90% equity interests indirectly in LMHK while the remaining 10% equity interests are held by a third party minority shareholder. These guarantees provided by the Company have the effect of granting financial assistance to LMHK as a non-wholly owned subsidiary and the minority shareholder of LMHK has not provided guarantees in proportion to its equity interests in LMHK. The aforesaid banking facilities guaranteed by the Company will be used for general corporate purpose and as general working capital of LMTCL and LMHK (as the case may be). The directors consider that the aforesaid guarantees are provided upon normal commercial terms and are in the interest of the Company and of its shareholders as a whole.

# NOTES TO THE ACCOUNTS

## 31 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 (Note 1(d)(i)).

## 32 Approval of accounts

The accounts were approved by the board of directors on 27th March 2004.