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 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 has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 25th April 2006.

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 and financial assets and financial liabilities (including derivative instruments) at fair value through profit and 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36, 38, 40 and HKAS-Int 21 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, 38, 40 and HKAS-Int 21 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods. The Group did not recognise any prior year adjustment for the adoption of HKFRS 2 as all of its share options granted after 7th November 2002 had vested prior to 1st January 2005 and there was no new share options granted during the year.

The adoption of HKFRS 3 results in a change in the accounting policy for business combination and goodwill. Until 31st December 2004, goodwill was:

– Amortised on a straight line basis over its estimated useful life of not more than 20 years;

– Assessed for an indication of impairment at each balance sheet date; and

– Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1st January 2005;

– Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and

– If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

– HKFRS 3 – prospectively after 1st January 2005.

The adoption of revised HKAS 17 resulted in reclassification of leasehold land from property, plant and equipment:

	2005 HK$'000	2004 HK$'000
Decrease in property, plant and equipment	**34,462**	29,213
Increase in leasehold land	**34,462**	29,213

The adoption of HKASs 32 and 39 resulted in a decrease in opening reserves at 1st January 2005 by HK$18,000 and the details of the adjustments to the consolidated balance sheet at 31st December 2005 and for the year then ended are as follows:

	2005 HK$'000
Increase in derivative financial instruments (assets)	**691**
Increase in derivative financial instruments (liabilities)	**368**
Increase in retained earnings	**323**

There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 2 and HKFRS 3.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective has been made. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains A Lease

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator 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.

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 by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

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

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. All other repairs and maintenance are expensed 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 expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	4%
Leasehold improvements	10%
Plant, machinery, furniture and equipment	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business in which the goodwill arose.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

2.8 Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, as investment securities held for long term purpose and are stated at cost less any provision for impairment losses.

From 1st January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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

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

Regular purchases and sales of investments are recognised on 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 carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

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

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 carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other gains-net' in the period in which they arise. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity. 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 or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in income statement.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Accounting for derivative financial instruments

From 1st January 2004 to 31st December 2004:

There is no accounting policy for derivative financial instruments.

From 1st January 2005 onwards:

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.

2.10 Inventories

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

2.11 Trade and other receivable

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. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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.

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.

2.15 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 investments in subsidiaries, except 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.

2.16 Employee benefits

(a) 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 or paternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Employee benefits (Continued)

(b) *Bonus plans*

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.

(c) *Pension obligations*

The Group participates in a number of defined contribution plans 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 compensation*

The Group operates an equity-settled, share-based compensation plan. 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 over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provisions

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

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 at the level of repairs and replacements.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

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.

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 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 continue unwinding the discount as interest income.

2.19 Operating leases

Leases in which a significant portion of all 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 in the income statement on a straight-line basis over the period of the lease.

2.20 Dividend distribution

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

2.21 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 of more uncertain future events not wholly within the control of the Company. 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 consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Contingent liabilities and contingent assets (Continued)

A contingent asset is a possible asset 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 Company.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements, where necessary, when an inflow of economic benefit is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market 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.

Risk management is carried out by the finance department (the "Finance Department") led by the Chief Financial Officer of the Group. The Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units to cope with overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

Foreign exchange risk

The Group operates in different countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts. 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. The Finance Department is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history or made in cash.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable 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 Finance Department aims to maintain flexibility in funding by keeping committed credit lines available.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contract is determined using quoted forward exchange rates at the balance sheet date.

The nominal values less impairment provision of trade receivables and bills receivables, other receivables, prepayments and deposits, trade payables and bills payables, other payables, accruals and deposits received are assumed to approximate their fair values.

Notes to the Consolidated Financial Statements

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 judgment 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 trade and other receivables*

Significant judgement is exercised in the assessment of the collectibility of trade and other receivables from customers. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customers' payment trend including subsequent payments and customers' financial position.

(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 costs.

(d) *Fair value of derivatives instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Notes to the Consolidated Financial Statements

5 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 electronic 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 financial statements, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

	2005			
	The PRC HK$'000	Hong Kong HK$'000	Southeast Asia and other countries HK$'000	Total HK$'000
Sales	409,149	325,175	65,889	800,213
Segment results	33,623	28,269	3,525	65,417
Finance costs				(7,647)
Profit before income tax				57,770
Income tax expense				(5,393)
Profit for the year				52,377
Segment assets	236,459	340,323	41,637	618,419
Segment liabilities	159,237	211,710	27,373	398,320
Unallocated liabilities				8,950
				407,270
Capital expenditure	19,342	7,181	179	26,702
Depreciation	1,137	5,316	248	6,701

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

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

	2004			
	The PRC HK$'000	Hong Kong HK$'000	Southeast Asia and other countries HK$'000	Total HK$'000
Sales	341,514	276,597	43,155	661,266
Segment results	27,572	20,983	1,627	50,182
Finance costs				(2,336)
Profit before income tax				47,846
Income tax expense				(3,217)
Profit for the year				44,629
Segment assets	139,790	221,838	38,399	400,027
Segment liabilities	108,236	91,324	14,123	213,683
Unallocated liabilities				7,566
				221,249
Capital expenditure	2,654	2,629	319	5,602
Depreciation	2,107	3,852	420	6,379

(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.

Notes to the Consolidated Financial Statements

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	
	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
Leases of over 50 years	**24,783**	24,980
Leases of between 10 to 50 years	**1,908**	1,953
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**7,771**	2,280
	34,462	29,213

Bank borrowings are secured on leasehold land for the carrying amount of HK$3,950,000 (2004: HK$ 4,058,000) (Note 18).

	Group	
	2005 HK$'000	2004 HK$'000
Opening	**29,213**	29,366
Additions	**5,737**	–
Exchange differences	**(44)**	90
Amortisation of prepaid operating lease payment	**(444)**	(243)
	34,462	29,213

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Investment properties HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st January 2004						
Cost or valuation	16,000	11,055	10,015	22,833	1,376	61,279
Accumulated depreciation	–	(352)	(4,269)	(9,941)	(905)	(15,467)
Net book amount	16,000	10,703	5,746	12,892	471	45,812
Year ended 31st December 2004						
Opening net book amount	16,000	10,703	5,746	12,892	471	45,812
Exchange differences	–	121	6	33	–	160
Revaluation surplus (Note 16)	–	22,097	–	–	–	22,097
Additions	–	–	62	4,692	848	5,602
Disposals (Note 31)	(16,000)	–	–	–	–	(16,000)
Depreciation	–	(833)	(894)	(4,387)	(265)	(6,379)
Closing net book amount	–	32,088	4,920	13,230	1,054	51,292
At 31st December 2004						
Cost or valuation	–	32,088	10,088	27,463	1,731	71,370
Accumulated depreciation	–	–	(5,168)	(14,233)	(677)	(20,078)
Net book amount	–	32,088	4,920	13,230	1,054	51,292
Year ended 31st December 2005						
Opening net book amount	**–**	**32,088**	**4,920**	**13,230**	**1,054**	**51,292**
Exchange differences	**–**	**(76)**	**18**	**14**	**1**	**(43)**
Revaluation surplus (Note 16)	**–**	**7,229**	**–**	**–**	**–**	**7,229**
Acquisition of a subsidiary (Note 34)	**–**	**–**	**–**	**1,841**	**–**	**1,841**
Additions	**–**	**3,798**	**8,808**	**8,359**	**–**	**20,965**
Disposals (Note 31)	**–**	**–**	**–**	**(26)**	**–**	**(26)**
Depreciation	**–**	**(876)**	**(642)**	**(4,851)**	**(332)**	**(6,701)**
Closing net book amount	**–**	**42,163**	**13,104**	**18,567**	**723**	**74,557**
At 31st December 2005						
Cost or valuation	**–**	**42,163**	**18,921**	**37,542**	**1,733**	**100,359**
Accumulated depreciation	**–**	**–**	**(5,817)**	**(18,975)**	**(1,010)**	**(25,802)**
Net book amount	**–**	**42,163**	**13,104**	**18,567**	**723**	**74,557**

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's buildings in Hong Kong and the PRC were revalued at 31st December 2005. Valuations were made on the basis of open market value by Jones Lang LaSalle Limited, a member of the Hong Kong Institute of Surveyors. The buildings of the Group outside Hong Kong and the PRC were revalued as at 31st December 2005 on the basis of their open market value by Dickson Property Consultant Pte Ltd., an independent firm of professional valuers. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 16).

Depreciation expense of HK$6,701,000 (2004: HK$6,379,000) has been expensed in administrative expenses.

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

	Group	
	2005 HK$'000	2004 HK$'000
Cost	**17,649**	13,851
Accumulated depreciation	**(6,733)**	(6,059)
Net book amount	**10,916**	7,792

Bank borrowings are secured on buildings for the carrying amount of HK$16,254,000 (2004: HK$11,942,000) (Note 18).

The analysis of cost or valuation at 31st December 2005 of the above assets is as follows:

	Group				
	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	18,921	37,542	1,733	58,196
At 31st December 2005 professional valuation	42,163	–	–	–	42,163
	42,163	18,921	37,542	1,733	100,359

Notes to the Consolidated Financial Statements

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of cost or valuation at 31st December 2004 of the above assets is as follows:

	Group				
	Buildings HK$'000	Leasehold improvements HK$'000	Plant, machinery furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	10,088	27,463	1,731	39,282
At 31st December 2004 professional valuation	32,088	–	–	–	32,088
	32,088	10,088	27,463	1,731	71,370

8 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2005 HK$'000	2004 HK$'000
Non-current		
Unlisted shares, at cost	**91,645**	91,645
Current		
Amounts due from subsidiaries (note (b))	**50,680**	41,869
	142,325	133,514

The following is a list of the subsidiaries at 31st December 2005:

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	[1]100%
Formtek Machinery Company Limited (note (i))	Trading of metalforming machines and tools in Taiwan	Taiwan	800,000 ordinary shares of NT$10 each	100%

Notes to the Consolidated Financial Statements

8 INVESTMENTS IN AND AMOUNTS DUE FROM 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
Leeda Machinery Limited	Trading of machines in Hong Kong	Hong Kong	10,000 ordinary shares of HK$1 each	100%
Leeport Cutting Tools Corporation (note (i))	Inactive	British Virgin Islands	10,000 ordinary shares of US$1 each	100%
Leeport Electronics Limited	Trading of electronic equipment in Hong Kong	Hong Kong	200,000 ordinary shares of HK$10 each	100%
Leeport Machine Tool Company Limited	Investment holding 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%
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 capital of HK$10,000,000 and paid capital HK$5,200,000	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	Registered and fully paid capital of US$1,000,000	98%
Leeport Metalforming Machinery Limited	Trading of metalforming machines in Hong Kong	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	Trading of measuring instruments in Hong Kong	Hong Kong	1,000,000 ordinary shares of HK$10 each	90%
Leeport Precision Machine Tool Company Limited	Trading of metalcutting machines in Hong Kong	Hong Kong	5,000,000 ordinary shares of HK$1 each	100%

Notes to the Consolidated Financial Statements

8 INVESTMENTS IN AND AMOUNTS DUE FROM 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 Technology Limited	Trading of rapid prototyping equipment and plastic injection machines in Hong Kong	Hong Kong	100,000 ordinary shares of HK$10 each	100%
Leeport Tools Limited	Trading of cutting tools in Hong Kong	Hong Kong	10,000 ordinary shares of HK$100 each	100%
Mitutoyo Metrology (Dongguan) Limited (note (i))	Provision of metrology maintenance service in the PRC	The PRC	Registered and fully paid capital of US$483,000	90%
Rapman Limited	Manufacturing of rapid prototypes	Hong Kong	100,000 ordinary shares of HK$10 each	100%
Rapman (Dongguan) Limited (note (i))	Manufacturing of rapid prototypes	The PRC, wholly owned foreign enterprise	Registered and paid capital of HK$3,500,000	100%
World Leader Limited	Property holding in the PRC	Hong Kong	1 ordinary share of HK$1 each	100%

[1] 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 25% of the Group's net assets.

(b) Amounts due from subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

9 AVAILABLE-FOR-SALES FINANCIAL ASSETS

	Group 2005 HK$'000
Unlisted shares	**1,172**
Less: provision for impairment losses	**(1,172)**
	–

Notes to the Consolidated Financial Statements

10 INVESTMENT SECURITIES

	Group 2004 HK$'000
Unlisted shares	1,172
Less: provision for impairment losses	(1,172)
	–

11 DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2005	
	Assets HK$'000	Liabilities HK$'000
Forward foreign exchange contracts – non-hedge instruments	**691**	(368)

12 TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trade receivables and bills receivables	**225,749**	151,248	–	–
Less: provision for impairment of receivables	**(6,132)**	(10,791)	–	–
Trade receivables and bills receivables – net	**219,617**	140,457	–	–
Other receivables, prepayments and deposits	**23,803**	21,801	**360**	129
	243,420	162,258	**360**	129

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

Notes to the Consolidated Financial Statements

12 TRADE AND OTHER RECEIVABLES (Continued)

At 31st December 2005 and 2004, the ageing analysis of trade receivables and bills receivables is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current	**119,318**	70,588
1 – 3 months	**68,675**	49,970
4 – 6 months	**11,621**	7,380
7 – 12 months	**17,707**	4,806
Over 12 months	**8,428**	18,504
	225,749	151,248
Less: provision for impairment of receivables	**(6,132)**	(10,791)
	219,617	140,457

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.

Certain subsidiaries of the Group transferred receivables balances amounting to HK$12,449,000 to certain banks in exchange for cash during the year ended 31st December 2005. The transactions have been accounted for as collateralised borrowings (Note 18).

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

The Group has recognised a loss of HK$104,000 (2004: HK$403,000) for the impairment of its trade receivables and bills receivables during the year ended 31st December 2005. The loss has been included in administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements

13 INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Merchandise	**162,308**	78,038

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$607,664,000 (2004: HK$503,785,000).

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**29,387**	72,135	**275**	1,484
Short-term bank deposits	**2,869**	7,091	**–**	–
	32,256	79,226	**275**	1,484
Analysed as follows:				
Restricted balances (note (a))	**7,395**	5,811	**–**	–
Unrestricted balances	**24,861**	73,415	**275**	1,484
	32,256	79,226	**275**	1,484

(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.

The effective interest rate on short-term bank deposits was 3.95% (2004: 2.66%); these deposits have an average maturity of 7 days (2004:18 days).

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**32,256**	79,226	**275**	1,484
Bank overdrafts (Note 18)	**(429)**	(4,730)	**–**	–
	31,827	74,496	**275**	1,484

Notes to the Consolidated Financial Statements

15 SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
203,880,000 (2004: 200,284,000) ordinary shares of HK$0.10 each	**20,388**	20,028

	Number of shares (thousands)	Ordinary shares HK$'000
At 1st January 2004	200,000	20,000
Share option scheme		
– proceeds from shares issued	284	28
At 31st December 2004	200,284	20,028
Share option scheme		
– proceeds from shares issued	3,596	360
At 31st December 2005	203,880	20,388

Share options

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 share option scheme. Unless otherwise determined by the directors, the share option 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.

Notes to the Consolidated Financial Statements

15 SHARE CAPITAL (Continued)

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

	2005		2004	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**0.87**	**4,060**	0.87	4,412
Exercised	**0.87**	**(3,596)**	0.87	(284)
Lapsed	**–**	**(464)**	–	(68)
At 31 December		**–**	0.87	4,060

Options exercised in 2005 resulted in 3,596,000 shares (2004: 284,000 shares) being issued at HK$0.87 each (2004: HK$0.87 each). The related weighted average share price at the time of exercise was HK$1.41 (2004: HK$1.04) per share.

Notes to the Consolidated Financial Statements

16 RESERVES

	Group					
	Share premium HK$'000	Investment properties revaluation reserve HK$'000	Buildings revaluation reserve HK$'000	Exchange reserve HK$'000	Merger reserve HK$'000	Total HK$'000
Balance at 1st January 2004	7,322	2,668	4,383	(241)	11,310	25,442
Issue of shares	219	–	–	–	–	219
Currency translation differences	–	–	5	555	–	560
Disposal of an investment property	–	(2,668)	–	–	–	(2,668)
Revaluation surplus of buildings	–	–	22,097	–	–	22,097
Revaluation-tax	–	–	(3,860)	–	–	(3,860)
Depreciation transfer on buildings	–	–	(38)	–	–	(38)
Balance at 31st December 2004	7,541	–	22,587	314	11,310	41,752
Balance at 1st January 2005	7,541	–	22,587	314	11,310	41,752
Issue of shares	2,769	–	–	–	–	2,769
Currency translation differences	–	–	(20)	(119)	–	(139)
Revaluation surplus of buildings	–	–	7,229	–	–	7,229
Revaluation-tax	–	–	(1,099)	–	–	(1,099)
Depreciation transfer on buildings	–	–	(63)	–	–	(63)
Balance at 31st December 2005	10,310	–	28,634	195	11,310	50,449

Notes to the Consolidated Financial Statements

16 RESERVES (Continued)

		Company	
	Share premium	Contributed surplus	Total
	HK$'000	HK$'000 (note (a))	HK$'000
Balance at 1st January 2004	7,322	91,445	98,767
Issue of shares	219	–	219
Balance at 31st December 2004	7,541	91,445	98,986
Balance at 1st January 2005	7,541	91,445	98,986
Issue of shares	2,769	–	2,769
Balance at 31st December 2005	10,310	91,445	101,755

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 2005 amounted to HK$112,053,000 (2004: HK$107,515,000).

17 TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Trade payables and bills payables	**116,233**	59,197	**–**	–
Other payables, accruals and deposits received	**49,682**	42,930	**200**	43
	165,915	102,127	**200**	43

The carrying amounts of trade payables and bills payables, other payables, accruals and deposits received approximate their fair value.

Notes to the Consolidated Financial Statements

17 TRADE AND OTHER PAYABLES (Continued)

At 31st December 2005 and 2004, the ageing analysis of trade payables and bills payables is as follows:

	Group	
	2005 **HK$'000**	2004 HK$'000
Current	**82,536**	50,920
1 – 3 months	**29,676**	5,961
4 – 6 months	**3,352**	787
7 – 12 months	**–**	1,187
Over 12 months	**669**	342
	116,233	59,197

18 BORROWINGS

	Group	
	2005 **HK$'000**	2004 HK$'000
Current		
Bank overdrafts (Note 14)	**429**	4,730
Collateralised borrowings (Note 12)	**12,449**	–
Trust receipts loans	**155,846**	106,826
Bank loans	**63,313**	–
Total borrowings	**232,037**	111,556

Total borrowings include secured liabilities (bank overdrafts, collateralised borrowings, trust receipt loans and bank loans) of HK$232,037,000 (2004: HK$111,556,000). Bank overdrafts, trust receipt loans and bank loans are secured by the leasehold land (Note 6), buildings (Notes 7) and pledged bank deposits (Note 30) of the Group. Collateralised borrowings are secured by trade receivables (Note 12).

As at 31st December 2005, the Group has no non-current borrowing (2004: Nil).

The maturity of all borrowings is within one year (2004: one year).

Notes to the Consolidated Financial Statements

18 BORROWINGS (Continued)

The effective interest rates at the balance sheet date were as follows:

	2005				2004			
	HK$	US$	EUR	JPY	HK$	US$	EUR	JPY
Bank overdrafts	**7.42%**	**–**	**–**	**–**	5.90%	–	–	–
Collateralised borrowings	**7.87%**	**6.29%**	**4.27%**	**1.89%**	–	–	–	–
Trust receipts loans	**8.25%**	**6.76%**	**5.33%**	**1.64%**	–	5.35%	3.15%	1.84%
Bank loans	**5.15%**	**–**	**–**	**–**	–	–	–	–

The carrying amounts of the borrowings approximate their fair value.

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

	Group	
	2005 HK$'000	2004 HK$'000
Hong Kong dollar	**65,376**	4,730
US dollar	**26,305**	13,986
EURO	**13,035**	15,906
Japanese Yen	**127,321**	76,934
	232,037	111,556

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

Notes to the Consolidated Financial Statements

19 DEFERRED INCOME TAX

Deferred income tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	Group	
	2005	2004
	HK$'000	HK$'000
At 1st January	**6,320**	3,043
Exchange differences	**–**	3
Deferred taxation credited from consolidated income statement (note 25)	**(232)**	(586)
Taxation charged to equity (note 16)	**1,099**	3,860
At 31st December	**7,187**	6,320

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

	Group	
	2005	2004
	HK$'000	HK$'000
Fair value reserves in shareholders' equity – buildings (note 16)	**1,099**	3,860

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$11,940,000 (2004: HK$18,414,000) to carry forward against future taxable income.

Notes to the Consolidated Financial Statements

19 DEFERRED INCOME TAX (Continued)

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

	Accelerated tax depreciation	
Deferred income tax liabilities	**2005 HK$'000**	2004 HK$'000
At 1st January	**6,320**	3,043
Credited from consolidated income statement	**(232)**	(586)
Charged to equity	**1,099**	3,860
Exchange differences	**–**	3
As at 31 December	**7,187**	6,320

Deferred income 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:

	2005 HK$'000	2004 HK$'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**7,187**	6,320
	7,187	6,320
The amounts shown in the consolidated balance sheet include the following:		
Deferred income tax assets to be recovered after more than 12 months	**–**	–
Deferred income tax liabilities to be settled after more than 12 months	**7,187**	6,320

Notes to the Consolidated Financial Statements

20 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

Included in other payables, accruals and deposit 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	
	2005 **HK$'000**	2004 HK$'000
At 1st January	**4,654**	4,161
Expensed in the consolidated income statement:		
– Additional provisions	**10,003**	9,798
– Used during the year	**(10,183)**	(9,305)
As at 31st December	**4,474**	4,654

Analysis of total provisions:

	Group	
	2005 **HK$'000**	2004 HK$'000
Non-current	**–**	–
Current	**4,474**	4,654
	4,474	4,654

Notes to the Consolidated Financial Statements

21 OTHER GAINS-NET

	2005 HK$'000	2004 HK$'000
Derivative instruments - forward contacts:		
- Net fair value gain (realised and unrealised)	**341**	–
Interest income	**782**	471
Investment income	**1,123**	471
Service income	**8,582**	5,258
Commission income	**8,290**	7,929
Rental income	**–**	114
Other income	**560**	105
	18,555	13,877

22 EXPENSES BY NATURE

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

	2005 HK$'000	2004 HK$'000
Auditors' remuneration	**1,577**	1,094
Cost of inventories sold	**607,664**	503,785
Depreciation on property, plant and equipment	**6,701**	6,379
Amortisation on leasehold land	**444**	243
Operating lease rentals in respect of land and buildings	**4,339**	2,460
Provision for slow moving inventories	**2,106**	1,327
Provision for bad and doubtful debts	**104**	403
Employee benefit expenses (including directors' remuneration) (note 23)	**69,157**	56,457

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES

	2005 HK$'000	2004 HK$'000
Wages and salaries, including directors' emolument	**64,463**	53,527
Unutilised annual leave	**128**	–
Pension costs – defined contribution plans (Note a)	**4,566**	2,930
	69,157	56,457

(a) Pensions – defined contribution plans

The Group operated a defined contribution retirement scheme, an Occupational Retirement Scheme, for qualified employees, including executive directors of the Company, in Hong Kong prior to 1st December 2000. The cost charged to the 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 in the Company'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 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.

There is no forfeited contributions utilised during the year (2004: Nil), leaving nil balance available at the year-end (2004: Nil) to reduce future contributions.

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Director								
Lee Sou Leung, Joseph	–	1,300	300	–	185	60	–	1,845
Lisa Marie Tan	–	549	–	–	–	25	–	574
Chan Ching Huen, Stanley	–	898	150	–	265	12	–	1,325
Lui Sun Wing	100	–	–	–	–	–	–	100
Pike Mark Terence	100	–	–	–	–	–	–	100
Nimmo, Walter Gilbert Mearns	100	–	–	–	–	–	–	100

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Inducement fees HK$'000	Other benefits(a) HK$'000	Employer's contribution to pension scheme HK$'000	Compensation for loss of office as director HK$'000	Total HK$'000
Director								
Lee Sou Leung, Joseph	–	1,300	120	–	188	60	–	1,668
Lisa Marie Tan	–	520	–	–	–	24	–	544
Chan Ching Huen, Stanley	–	856	120	–	264	12	–	1,252
Lui Sun Wing	100	–	–	–	–	–	–	100
Pike Mark Terence	100	–	–	–	–	–	–	100
Nimmo, Walter Gilbert Mearns	25	–	–	–	–	–	–	25

Notes:

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

Notes to the Consolidated Financial Statements

23 EMPLOYEE BENEFITS EXPENSES (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,942**	2,424
Discretionary bonuses	**2,534**	2,268
Pension costs - defined contribution plans	**87**	81
	4,563	4,773

The emoluments fell within the following bands:

	Number of individuals	
	2005 HK$'000	2004 HK$'000
Emolument bands		
Nil to HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**1**	1

24 FINANCE COSTS

	Group	
	2005 HK$'000	2004 HK$'000
Interest expense:		
– bank borrowings: bank overdrafts, collateralised borrowings, trust receipt loans and bank loans wholly repayable within five years	**7,647**	2,336

Notes to the Consolidated Financial Statements

25 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated income statement represents:

	Group	
	2005 **HK$'000**	2004 HK$'000
Current income tax		
– Hong Kong profits tax	**4,675**	3,610
– Overseas taxation	**492**	193
Under-provision in previous years		
– Hong Kong profits tax	**455**	–
– Overseas taxation	**3**	–
Deferred income tax (Note 19)	**(232)**	(586)
	5,393	3,217

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

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

Notes to the Consolidated Financial Statements

25 INCOME TAX EXPENSE (Continued)

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

	Group	
	2005	2004
	HK$'000	HK$'000
Profit before income tax	**57,770**	47,846
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**10,110**	8,373
Effect of different taxation rates in other countries	**(217)**	(1,283)
Income not subject to taxation	**(5,420)**	(4,644)
Expenses not deductible for taxation purposes	**1,595**	2,935
Tax losses not recognised	**339**	311
Utilisation of previously unrecognised tax losses	**(1,472)**	(2,675)
Under-provision of income tax in prior years	**458**	211
Decrease in opening net deferred tax liabilities resulting from a decrease in tax rate	**–**	(11)
Income tax expense	**5,393**	3,217

26 NET FOREIGN EXCHANGE (GAINS)/LOSSES

The exchange differences recognised in the consolidated income statement are included as follows:

	2005	2004
	HK$'000	HK$'000
Administrative expenses	**(4,865)**	437

27 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$33,046,000 (2004: HK$28,008,000).

Notes to the Consolidated Financial Statements

28 EARNINGS PER SHARE

Basic

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

	2005	2004
Profit attributable to equity holders of the Company (HK$'000)	**51,118**	43,451
Weighted average number of ordinary shares in issue in thousands	**203,088**	200,001
Basic earnings per share (HK cents per share)	**25.17**	21.73

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. A calculation is done 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 above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
Profit attributable to equity holders of the Company used to determine diluted earnings per share (HK$'000)	**51,118**	43,451
Weighted average number of ordinary shares in issue in thousands	**203,088**	200,001
Adjustment for		
– share options in thousands	**204**	131
Weighted average number of ordinary shares for diluted earnings per share in thousands	**203,292**	200,132
Diluted earnings per share (HK cents per share)	**25.15**	21.71

Notes to the Consolidated Financial Statements

29 DIVIDENDS

The dividends paid during the years ended 31st December 2005 and 2004 were HK$28,508,000 (HK7 cents per share for 2004 final dividends and HK7 cents for 2005 interim dividends) and HK$30,000,000 (HK9 cents per share for 2003 final dividends and HK6 cents per share for 2004 interim dividends) respectively. A dividend in respect of 2005 of HK9 cents per share, amounting to a total dividend of HK$18,349,000 was proposed at the board meeting held on 25th April 2006. These financial statements do not reflect this dividend payable, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2005.

	2005 HK$'000	2004 HK$'000
Interim, paid, of HK7 cents (2004: HK6 cents) per ordinary share	**14,488**	12,000
Final, proposed, of HK9 cents (2004: HK7 cents) per ordinary share	**18,349**	14,020
	32,837	26,020

30 PLEDGE OF ASSETS

Approximately HK$20,204,000 (2004: HK$16,000,000) of leasehold land and buildings, HK$70,725,000 (2004: Nil) of bank deposit have been pledged as securities for the general banking facilities amounting to HK$798 million (2004: HK$465 million) granted to the Group. At the balance sheet date, the amount so utilised amounted to HK$366 million (2004: HK$193 million).

Notes to the Consolidated Financial Statements

31 CASH GENERATED FROM OPERATIONS

	Group	
	2005	2004
	HK$'000	HK$'000
Profit for the year	**52,377**	44,629
Adjustments for:		
– Income tax expense (Note 25)	**5,393**	3,217
– Depreciation (Note 7)	**6,701**	6,379
– Amortisation on leasehold land (Note 6)	**444**	243
– Loss/(profit) on sale of property, plant and equipment (see Note (a) below)	**23**	(33)
– Gain on disposal of an investment property (see Note (b) below)	**–**	(4,668)
– Excess of fair value of net assets acquired over cost of acquisition of a subsidiary (Note 34)	**(2,087)**	–
– Fair value gains on derivative financial instruments (Note 21)	**(341)**	–
– Interest income (Note 21)	**(782)**	(471)
– Interest expense (Note 24)	**7,647**	2,336
– Effect of foreign exchange rate	**(52)**	300
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Increase in inventories	**(83,872)**	(12,557)
– Increase in trade receivables and bills receivables, other receivables, prepayments and deposits	**(80,892)**	(28,531)
– Increase in trade payables and bills payables, trust receipt loans, other payables, accruals and deposits received	**112,793**	48,366
Cash generated from operations	**17,352**	59,210

Notes:

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

	Group	
	2005	2004
	HK$'000	HK$'000
Net book amount (Note 7)	**26**	–
(Loss)/profit on sale of property, plant and equipment	**(23)**	33
Proceeds from sale of property, plant and equipment	**3**	33

Notes to the Consolidated Financial Statements

31 CASH GENERATED FROM OPERATIONS (Continued)

Notes: (Continued)

(b) On 10th February 2004, the Group disposed of its investment property with carrying amount of HK$16,000,000 as at the date of disposal to a third party company at a consideration of HK$18,000,000. The total gain on disposal recognised in the consolidated income statement for the year ended 31st December 2004 is HK$4,668,000 comprising of HK$2,668,000 which is 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.

32 CONTINGENT LIABILITIES

	Group	
	2005 HK$'000	2004 HK$'000
Letters of guarantee given to customers	**8,850**	11,934
Bills of exchange discounted with recourse	**–**	8,657
	8,850	20,591

33 COMMITMENTS

(a) Capital commitments

(i) Commitments for investment securities:

	Group	
	2005 HK$'000	2004 HK$'000
Contracted obligations for		
– available-for-sale financial assets	**775**	–
– investment securities	**–**	775
	775	775

(ii) Commitments for investment in subsidiaries:

	Group	
	2005 HK$'000	2004 HK$'000
Contracted obligations for investment in subsidiaries in the PRC	**10,542**	3,370

Notes to the Consolidated Financial Statements

33 COMMITMENTS (Continued)

(b) Commitments under operating leases

(i) As lessee

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2005 **HK$'000**	2004 HK$'000
Not later than one year	**4,388**	2,603
Later than one year but not later than five years	**3,670**	3,034
	8,058	5,637

(c) Commitments for foreign currency forward contracts

	Group	
	2005 **HK$'000**	2004 HK$'000
Commitments for foreign currency forward contracts	**98,922**	38,420

Notes to the Consolidated Financial Statements

34 BUSINESS COMBINATIONS

On 25th May 2005, the Group acquired from Good Winners Limited, a non wholly-owned subsidiary of Mitutoyo Corporation which is a minority shareholder of the Company's non wholly-owned subsidiary, 100% equity interest in Mitutoyo Metrology (Dongguan) Limited ("MMD") at the consideration of approximately HK$1,205,000. MMD was established as wholly owned foreign enterprise in Dongguan, the PRC in 2001, and is principally engaged in running a repair service centre for providing after-sales services to the customers of Mitutoyo Corporation in Southern China. The acquisition of an established repair service centre from the existing supplier could enable the Group to provide better services to the customers in Southern China and also to reinforce the links with the existing business partner. The acquired business contributed sales of HK$258,000 and net loss of HK$425,000 to the Group for the period from 26th May 2005 to 31st December 2005. If the acquisition had occurred on 1st January 2005, Group's sales would have been HK$800,985,000 and profit for the year would have been HK$51,845,000.

	HK$'000
Details of net assets acquired and the excess of fair value of net assets acquired over cost of acquisition of a subsidiary are as follows:	
Purchase consideration in cash	1,205
Fair value of net assets acquired – shown as below	3,292
Excess of fair value of net assets acquired over cost of acquisition of a subsidiary	2,087

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Cash and cash equivalents	798	798
Property, plant and equipment (Note 7)	1,841	2,561
Other non-current assets	–	60
Inventories	398	398
Receivables	270	270
Payables	(15)	(5)
Net assets acquired	3,292	4,082
Purchase consideration settled in cash		1,205
Cash and cash equivalents in subsidiary acquired		(798)
Cash outflow on acquisition		407

There were no acquisitions in the year ended 31st December 2004.

Notes to the Consolidated Financial Statements

35 RELATED PARTY TRANSACTIONS

The Group is controlled by Peak Power Technology Limited (incorporated in British Virgin Island), which owns 65.58% of the Company's shares. The remaining 34.42% 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 related parties during the year:

	Note	Group 2005 HK$'000	Group 2004 HK$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	**144**	144

(a) One of the subsidiaries of the Group have entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces for the year ended 31st December 2005 amounted to HK$144,000. 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

	Group 2005 HK$'000	Group 2004 HK$'000
Salaries and other short-term employee benefits	**12,725**	11,468
Pension costs – defined contribution plans	**321**	307
	13,046	11,775

(c) The Company has entered into a deed of guarantee with UFJ Bank Limited, DBS Bank (Hong Kong) Limited and Dah Sing Bank, Limited on 26th September 2005, 24th March 2005 and 1st February 2005 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, Leeport Metrology (Hong Kong) Limited ("LMHK") in the total amount of HK$99 million. 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.