LEEPORT (HOLDINGS) LIMITED

力 豐（集 團）有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 387)

ANNUAL RESULTS ANNOUNCEMENT FOR YEAR ENDED 31ST DECEMBER 2005

The directors (the "Directors") of Leeport (Holdings) Limited (the "Company") are pleased to present the consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2005, together with the comparative figures for the year ended 31st December 2004. The annual results have been reviewed by the Audit Committee of the Company.

FINANCIAL PERFORMANCE

In Year 2005, the business of the Group continued to grow steadily. The sales of the Group was HK$800,213,000 (2004: HK$661,266,000), representing an increase of 21.0% as compared with 2004. The profit attributable to equity holders was HK$51,118,000 (2004: HK$43,451,000), representing an increase of 17.6% as compared with 2004. The profit attributable to equity holders included an excess of fair value of net assets acquired over cost of acquisition of a subsidiary in Dongguan, i.e. HK$2,087,000, while the profit attributable to equity holders in 2004 included a gain on disposal of an investment property, i.e. HK$4,668,000. Excluding these two exceptional income items in year 2005 and year 2004, the profit attributable to equity holders actually increased by 26.4%. The basic earnings per share was HK25.17 cents (2004: HK21.73 cents) representing an increase of 15.8% as compared with year 2004.

DIVIDENDS

An interim dividend of HK7 cents per ordinary share was paid to the shareholders of the Company on 7th October 2005.

The Directors recommended a final dividend of HK9 cents per ordinary share, totalling HK$18,349,000 (2004: HK7 cents per ordinary share). This recommendation is subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 26th May 2006. Upon the approval of shareholders, the final dividend warrant will be payable on or before 2nd June 2006 to shareholders of the Company whose names appear on the register of members on 26th May 2006. This proposed final dividend, together with the interim dividend paid by the Company, will make a total dividend of HK16 cents per ordinary share for the year ended 31st December 2005 (2004: HK13 cents per ordinary share).

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Sales	2	**800,213**	661,266
Cost of goods sold	5	**(613,194)**	(510,223)
Gross profit		**187,019**	151,043
Other gains, net	3	**18,555**	13,877
Gain on disposal of an investment property		**–**	4,668
Excess of fair value of net assets acquired over cost of acquisition of a subsidiary	4	**2,087**	–
Selling and distribution costs	5	**(28,658)**	(25,120)
Administrative expenses	5	**(113,586)**	(94,286)
Operating profit		**65,417**	50,182
Finance costs	6	**(7,647)**	(2,336)
Profit before income tax		**57,770**	47,846
Income tax expense	7	**(5,393)**	(3,217)
Profit for the year		**52,377**	44,629
Attributable to:			
Equity holders of the Company		**51,118**	43,451
Minority interest		**1,259**	1,178
		52,377	44,629
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– basic	9	**HK25.17 cents**	HK21.73 cents
– diluted	9	**HK25.15 cents**	HK21.71 cents
Dividends	8	**32,837**	26,020

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and Equipment		**74,557**	51,292
Leasehold land		**34,462**	29,213
Available-for-sale financial assets		**–**	–
Investment securities		**–**	–
		109,019	80,505
Current assets			
Inventories		**162,308**	78,038
Trade receivables and bills receivables	10	**219,617**	140,457
Other receivables, prepayments and deposits	10	**23,803**	21,801
Derivative financial instruments		**691**	–
Pledged bank deposits		**70,725**	–
Cash and cash equivalents		**32,256**	79,226
		509,400	319,522
Total assets		**618,419**	400,027
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	**20,388**	20,028
Other reserves		**50,449**	41,752
Retained earnings			
– Proposed final dividend		**18,349**	14,020
– Others		**114,456**	96,130
		203,642	171,930
Minority interest		**7,507**	6,848
Total equity		**211,149**	178,778
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**7,187**	6,320
		7,187	6,320
Current liabilities			
Trade payables and bills payables	11	**116,233**	59,197
Other payables, accruals and deposits received	11	**49,682**	42,930
Current income tax liabilities		**1,763**	1,246
Derivative financial instruments		**368**	–
Borrowings		**232,037**	111,556
		400,083	214,929
Total liabilities		**407,270**	221,249
Total equity and liabilities		**618,419**	400,027
Net current assets		**109,317**	104,593
Total assets less current liabilities		**218,336**	185,098

* *For identification purpose*

Notes:

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, will be disclosed in the notes to the financial Statements as set out in the 2005 annual report of the Company.

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.

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.

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.

All changes in the accounting policies have been made in accordance with the transition 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	2004
	HK$'000	*HK$'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.

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. 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	**Hong Kong**	**Southeast Asia and other countries**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'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**

	2004			
	The PRC	Hong Kong	Southeast Asia and other countries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

3. Other gains, net

	2005	2004
	HK$'000	*HK$'000*
Derivative instruments forward contract:		
– 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

4. Business combination

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 required over cost of requisition 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 at net assets of acquired over cost of acquisition of a subsidiary	2,087

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

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Cash and cash equivalents	798	798
Property, plant and equipment	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.

5. Expenses by nature

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

	2005	2004
	HK$'000	*HK$'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 benefits expenses (including directors' remuneration)	**69,157**	56,457

6. Finance costs

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

7. Income tax expense

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

	2005	2004
	HK$'000	*HK$'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	**(232)**	(586)
	5,393	3,217

8. Dividends

The dividends paid during the year ended 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	2004
	HK$'000	*HK$'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

9. 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

10. Trade and other receivables

	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 receivable and bills receivables – net	**219,617**	140,457
Other receivables, prepayments and deposits	**23,803**	21,801
	243,420	162,258

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

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

	2005 HK$'000	2004 HK$'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.

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.

11. Trade and other payables

	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
	165,915	102,127

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

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

	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

12. 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

13. Closure of Register of Members

The register of members of the Company will be closed from 24th May 2006 (Wednesday) to 26th May 2006 (Friday), both days inclusive, during which period no transfer of shares will be affected. In order to qualify for the entitlement of the proposed final dividend and for attending and voting at the 2006 annual general meeting, all transfer forms accompanied by the relevant share certificate must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on 23rd May 2006 (Tuesday).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The economic situation in China in 2005 continued to be strong. The growth rate for GDP in 2005 was 9.9%; for industrial production it was 11.4%, and for exports it was 28.4%. The GDP growth rate in Hong Kong in 2005 was 7.3%. As 91.8% of the Group's sales came from the Hong Kong and China market, we benefited from the strong economy of these two areas. The sales from China grew by 19.8%; from Hong Kong it grew by 17.6%, and from South East Asia it grew by 52.7%.

The machine tool consumption for China in 2005 was US$10.9 billion, an increase of 15% compared with 2004. China continued to be the biggest consumer and importer of machine tools in the world. In fact, more than one-fifth of the world's production for machine tools was consumed by China. In 2005, the import value of machine tools for China was US$6.7 billion, an increase of 13% compared with 2004.

In some segments of the manufacturing industry, China occupies an extremely important position in the world. For example, China has become the third-largest automobile producer in the world, producing 5.6 million units in 2005. China is also the third-largest in mould-making, with an estimated production value in 2005 of US$5.8 billion. Both the mould-making and automobile manufacturing industries create a strong demand for machine tools, measuring instruments, cutting tools and related products.

In 2005, the machine tool business of the Group grew by 17.5%; measuring instruments grew by 32%, and cutting tools grew by 42%. The biggest customer group was from the electronics industry, representing 27.7% of the Group's sales. The second-biggest was the mould-making industry, representing 19% of the Group's total sales. Other significant sales came from manufacturers of industrial machinery, automobiles, metal parts, home appliances and switch gear.

In 2005, in addition to our new 4,000-square-meter Shenzhen Technology Centre, we also opened offices in Chengdu, Ningbo and Nanjing in China. A new licensed business, supplying more than 40,000 kinds of engineering tools to the manufacturing industry in China, made a promising start. Five thousand Chinese-language catalogues were printed, and a team of professional sales engineers was recruited. To expand our Southeast Asian markets, we also established offices in Vietnam and Indonesia.

Liquidity and Financial Resources and Capital Structure

The Group continued to show a very good liquidity position. The current ratio of the Group was 1.27 at the year ended 2005; compared with 1.49 at the year ended 2004. The cash and cash equivalents on hand at the end of year were HK$31,827,000, compared with HK$74,496,000 in year 2004.

As at 31st December 2005, the Group had net tangible assets of approximately HK$211,149,000, comprising non-current assets of approximately HK$109,019,000, net current assets of approximately HK$109,317,000, and non-current liabilities of approximately HK$7,187,000. On the same date, the total liabilities of the Group amounted to approximately HK$407,270,000. Of these liabilities, the total repayable after one year amounted to approximately HK$7,187,000. On the other hand, the total assets of the Group were HK$618,419,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group was approximately 0.66 (2004: 0.55).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2005, the Group had aggregate banking facilities of approximately HK$798,464,000, of which approximately HK$366,411,000 has been utilised, bearing interest at prevailing market rates. The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

Future Plans and Prospects

The progress of industrialisation and urbanisation in China will continue to drive the growth of the economy in 2006. However, the government's austerity measures since 2004 have continued to cause a slowdown in investment in some overheated industries. In 2006, the growth rate for GDP is forecast to be 9.2%; for industrial production it is forecast at 15%, and for export it is forecast at 16%. As for Hong Kong, the growth rate for GDP is forecast to be 5.5%.

The manufacturing industry in China will continue to be very strong, and there is a big demand for high-technology machinery and equipment. The 2008 Beijing Olympics will stimulate the economy and create demand for many products. Automobile manufacturing is a very important industry in China, and currently the production capacity is 8 million units per year. Sales of cars are expected to grow by at least 10% annually until 2010. The machine tools market in China is forecast to achieve 15% growth in 2006. China will therefore remain the most important market for the Group's business.

Our new 4,000-square-meter Advanced Manufacturing Technology Centre in Shenzhen provides a one-stop-shop service to customers. It is a permanent exhibition space, where customers can see a comprehensive display of equipment and tools. Furthermore, we organise regular technical seminars and application training for customers. At the centre, a measuring service is also available, providing an additional value-added service. It is expected that the centre will attract more customers, particularly from the southern part of China.

The Group will focus on continuous improvement in management quality. More resources will be invested in the upgrading of customer service, staff training, people development and information technology.

We will expand our market in Southeast Asian countries. Apart from our European metalforming supplier, Finn-Power, for which we have exclusive sales rights in Singapore, Malaysia, Vietnam and Indonesia, we will take up more product lines.

In 2006, we expect to achieve significant growth in both China and Southeast Asian countries. We will continue to look for business opportunities in taking up new product lines and in joint ventures with suitable partners.

Employees

As at 31st December 2005, the Group had 482 employees (2004: 341). Of these, 182 were based in Hong Kong, 274 were based in mainland China, and 26 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses and share options.

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

Details of the Charges on the Group's Assets

As at 31st December 2005, certain land and buildings and pledged bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK$90,929,000 (2004: HK$16,000,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

Contingent Liabilities

At 31st December 2005, the Group had contingent liabilities in respect of letters of guarantees given to customers of approximately HK$8,850,000 (2004: HK$11,934,000) and there are no bills exchange discounted with recourse (2004: HK$8,657,000).

Exposure to fluctuations in exchange rates and related hedges

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

As at 31st December 2005, the Group had commitments for foreign currency forward contracts amounting to approximately HK$98,922,000 (2004: HK$38,420,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year under review, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

CORPORATE GOVERNANCE

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31 December 2005 except for the following deviations:

– With respect to Code Provision A.4.2, each director is not required to retire by rotation once every three years and the Chairman is not subject to retirement by rotation. Certain amendments will be made to the bye-laws for approval by the shareholders at the coming annual general meeting of the Company to comply with such code provision.

Further information is set out in the Corporate Governance Report contained in the annual report for 2005.

Compliance with Model Code for Securities Transactions by Directors of Listed Companies ("Model Code")

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Audit Committee

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

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of external audit and of internal controls and risk evaluation and has reviewed consolidated the financial statements for the year ended 31 December 2005 including the accounting, internal controls and financial reporting issues. The Committee comprises three independent non-executive directors, namely Mr PIKE, Mark Terence, Dr Lui Sun Wing and Mr. NIMMO, Walter Gilbert Mearns. Two meetings were held during the financial year under review.

2006 ANNUAL GENERAL MEETING

It is proposed that the 2006 Annual General Meeting of the Company will be held on 26th May 2006 (Friday). A notice convening the 2006 Annual General Meeting will be published in the newspapers on or about 28th April 2006 and will be dispatched to the shareholders of the Company accordingly.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprises 3 executive directors, namely Mr. Lee Sou Leung, Joseph, Ms Tan, Lisa Marie and Mr. Chan Ching Huen, Stanley and 3 independent non-executive directors, namely Dr. Lui Sun Wing, Mr. Pike, Mark Terence and Mr. Nimmo, Walter Gilbert Mearns.

On behalf of the Board
Lee Sou Leung Joseph
Chairman

Hong Kong, 25th April 2006