

# Management Commentary

The directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) are pleased to present the Group’s Interim Report and condensed accounts for the six-months ended 30th June 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six-months ended 30th June 2004, and the consolidated balance sheet as at 30th June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 22 of this report.

## ■ Interim Dividend

The Directors are pleased to declare an interim dividend of HK6 cents per ordinary share, amounting to a total of HK\$12,000,000, which will be payable on 23rd September 2004 to shareholders whose names appear on the Register of Members on 21st September 2004.

## ■ Closure of Register of Members

The register of members of the Company will be closed from 17th September 2004 (Friday) to 21st September 2004 (Tuesday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong Tricor Investor Services Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30pm on 16th September 2004 (Thursday).

## ■ Business Review

For the six months ended 30th June 2004, the Group’s turnover was HK\$316,258,000 (2003: HK\$207,365,000), representing an increase of 52.5% as compared with the corresponding period of 2003, while profit attributable to shareholders was HK\$20,321,000 (2003: HK\$10,107,000), representing an increase of 101.1% as compared with the corresponding period in 2003. The profit attributable to shareholders included a gain on disposal of an investment property i.e. HK\$4,668,000. Excluding this income, the profit attributable to shareholders would be HK\$15,653,000, representing an increase of 54.9% as compared with the corresponding period in 2003.

According to the statistics, the GDP year-on-year growth for China in Q1 2004 was 9.8% and in Q2 2004 was 9.6%. The Industrial Production year-on-year growth for China for the months in the first half of 2004 varied from 8% to 22%. The continued growth of GDP and Industrial Production of China indicate the strong demand of manufacturing facilities in the country. For the period between January and May of 2004, the import value of machine tools for China was US\$2.14 billion, an increase of 37% compared with the corresponding period in 2003. The high demand for machine tools came mainly from the automobile, aerospace and mould-making industries. Leeport’s business benefits from this high growth in imports of machine tools. The Group’s products, including machine tools, measuring instruments and electronic equipment, recorded significant business growth in the first half of 2004.

The Group’s turnover for the PRC market increased by 74.5%, compared with the corresponding period in 2003. The Group’s turnover for the Hong Kong market increased by 47.0%, compared with the corresponding period in 2003. The PRC market continued to show momentum in early 2004.

### ■ Business Review (Continued)

The Group's business was still affected by the appreciation of Japanese Yen and Euro. The percentage of gross profit for the first six months of 2004 was 23.5%, compared with 25.9% for the corresponding period in 2003.

### ■ Liquidity and financial resources

The Group continued to show a very good liquidity position. The current ratio of the Group was 1.48 as at 30th June 2004. The cash and cash equivalents on hand at the end of the period was HK\$63,514,000. The Group generally finances its operation with internally generated resources and banking facilities provided by its bankers.

As at 30th June 2004, the Group had net tangible assets of approximately HK\$141,736,000, comprising fixed assets of approximately HK\$57,263,000, net current assets of approximately HK\$98,186,000, minority interests of approximately HK\$6,233,000 and non-current liabilities of approximately HK\$7,480,000. On the same date, the total liabilities of the Group including minority interests amounted to approximately HK\$216,164,000. Of these liabilities, the total repayable after one year amounted to approximately HK\$7,480,000. On the other hand, the total assets of the Group were HK\$357,900,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, as at 30th June 2004 was approximately 0.60 (31st December 2003: 0.57). The Group has maintained a stable gearing ratio during the period under review.

As at 30th June 2004, the Group has aggregate banking facilities of approximately HK\$489,376,000, of which HK\$177,449,000 has been utilised and were secured by fixed deposits of the Group amounting to HK\$1,000,000 and certain properties held by the Group with net book values of HK\$25,660,000.

### ■ Future plans and prospects

The statistics for first half of the year indicate strong demand for machine tools in the PRC market. Even though there has been macro-economic control and adjustment in China in the past few months, the impact on the Group's business is expected to be mild, and we continue to receive many active enquiries for our products. In fact, the strategy of the Group is to speed up market penetration to increase business volume. New offices in Suzhou, Wuhan, Zhuhai and Fuzhou were opened in the first half of 2004.

According to the statistics, Hong Kong exports increased by 15% in first half of the year compared with the corresponding period in 2003. The year-on-year growth for China exports for the months in the first half of the year increased by 20% to 47%. Economists predict that exports of both Hong Kong and China will grow steadily in the second half of the year. This is a good sign for the Group's business. The Group's outstanding orders on hand are worth about HK\$200 millions. We have confidence in the business performance for the second half of the year.

### ■ Future plans and prospects (Continued)

The Group is also actively targeting new driver for business growth, i.e. the automobile industry. Recent research regarding the automobile industry in China confirms our direction for this industry. The total number of units of production for cars in China in 2003 was 4.44 million, and is expected to be 5.15 million in 2004. Production volume is estimated to reach 10 million units by 2010. Furthermore, the value of automobile parts production in 2003 was US\$31.8 billion. The Group will devote more resources to the development of this market. The automobile industry offers opportunities for most of the Group's products, i.e. machine tools, measuring instruments, electronic equipment and rapid prototyping machines and services. We will source new specialised machinery and equipment for automobile manufacturing, especially in parts production.

### ■ Use of proceeds

The proceeds from the Company's public offer of new shares in July 2003 after deducting the actual related issuance expenses, amounted to approximately HK\$27.1 million. The proceeds were partly applied during the period from 10th July 2003 to 30th June 2004 in accordance with the proposed applications set out in the Prospectus, as follows:

- approximately HK\$5.7 million were used to finance the expansion of the Group's operations in the PRC, Taiwan and other parts of Southeast Asia;
- approximately HK\$3 million were used to finance the diversification of its product range;
- approximately HK\$0.7 million were used to finance the forming of strategic alliances;
- approximately HK\$4.0 million were used to finance the promotion of the Group's corporate image through advertisements, exhibitions as well as organizing technical seminars;
- approximately HK\$3.0 million were used to finance the enhancement of the Group's information management system by implementation of Enterprise Resources Planning System and Customer Relation Management System; and
- approximately HK\$5.0 million were used as additional working capital of the Group.

The remaining net proceeds as at 30th June 2004 of approximately HK\$5.7 million were placed on short-term interest-bearing deposits with licensed banks in Hong Kong. They will be applied in the coming years for their intended uses as set out in the Prospectus.

## ■ Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 30th June 2004, the Group had 322 employees (2003: 251), of whom 165 were based in Hong Kong and 133 were based in PRC (the remaining 24 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.

## ■ Share options

Pursuant to the share option scheme approved and adopted by the Company on 17th June 2003 (the "Scheme") share options were granted to subscribe for shares in the Company in accordance with the terms of the Scheme. There are no changes in any terms of the Scheme during the six months ended 30th June 2004. The detailed terms of the Scheme were disclosed in the 2003 annual accounts.

The following table discloses movements in the Company's share options during the period:

Eligible participants	Date of grant	Exercise Price	Granted/			At end of period
			At beginning of period	(lapsed) during the period	Exercised during the period	
a) Director Mr. CHAN Ching Huen, Stanley	19th December 2003	HK\$0.87	200,000	–	–	200,000
b) Employees (excluding directors)	19th December 2003	HK\$0.87	4,212,000	(68,000)	–	4,144,000
			<u>4,412,000</u>	<u>(68,000)</u>	<u>–</u>	<u>4,344,000</u>

The exercise period of the above share options is from 19th December 2004 to 18th December 2005 (both dates inclusive). No share options were granted or exercised during the six months ended 30th June 2004.

## ■ Details of the charges on the Group's assets

Certain properties in Hong Kong and in Singapore with an aggregate carrying value of approximately HK\$25,660,000 have been pledged to secure the bank loans and overdrafts of the Group by way of a fixed charge.

## ■ Contingent liabilities

At 30th June 2004, the Group had contingent liabilities in respect of letters of guarantee given to customers and bills of exchange discounted with recourse of approximately HK\$15,790,000 and HK\$1,115,000 respectively.

### ■ Exposure to fluctuations in exchange rates and related hedges

A substantial portion of the Group's revenue and purchase 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 the payment to overseas suppliers. In the event that any material payment which cannot be fully matched, the Group will enter into foreign currency forward contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks. As at 30th June 2004, the Group has commitments for foreign currency forward contracts amounting to approximately HK\$46,442,000 (31st December 2003: HK\$45,037,000).

### ■ Purchase, sale or redemption of shares

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

### ■ Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

At 30th June 2004, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Director	Number of ordinary shares of HK\$0.10 each held					Total	Percentage
	Personal interests	Family interests	Other interests				
Mr. Joseph Lee Sou Leung ("Mr. Lee")	Long position	Nil	528,000 Shares (Note (b))	133,700,000 Shares (Note (a))	134,228,000 Shares	67.11%	
	Short position	Nil	Nil	Nil	Nil	-	
Ms. Lisa Marie Tan ("Ms Tan")	Long position	528,000 Shares	Nil	133,700,000 Shares (Note (a))	134,228,000 Shares	67.11%	
	Short position	Nil	Nil	Nil	Nil	-	

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

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

### ■ **Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)**

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

### ■ **Substantial shareholders' interests and short positions in the shares and underlying shares of the Company**

At 30th June 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

### ■ **Compliance with the Code of Best Practice and Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, at any time during the six months ended 30th June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the six months period to 30th June 2004, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30th June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

### ■ **Audit committee**

The Company has set up an audit committee, comprised of two independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence and Dr Lui Sun Wing. The audit committee has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed accounts for the six months ended 30th June 2004 with the Directors.

# Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2004

	Note	Unaudited	
		Six months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
Turnover		<b>316,258</b>	207,365
Cost of sales		<b>(241,861)</b>	(153,564)
Gross profit		<b>74,397</b>	53,801
Other revenues		<b>6,265</b>	5,639
Gain on disposal of an investment property	3	<b>4,668</b>	–
Selling and distribution costs		<b>(16,521)</b>	(10,323)
Administrative expenses		<b>(45,348)</b>	(36,319)
Operating profit	4	<b>23,461</b>	12,798
Finance costs		<b>(1,063)</b>	(1,386)
Profit before taxation		<b>22,398</b>	11,412
Taxation	5	<b>(1,514)</b>	(1,305)
Profit after taxation		<b>20,884</b>	10,107
Minority interests		<b>(563)</b>	–
Profit attributable to shareholders		<b>20,321</b>	10,107
Dividends	6	<b>12,000</b>	8,000
Basic earnings per share	7	<b>HK10.16 cents</b>	HK5.05 cents
Diluted earnings per share	7	<b>HK10.16 cents</b>	HK5.05 cents

# Condensed Consolidated Balance Sheet

As at 30th June 2004 and 31st December 2003

	Note	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Fixed assets	8	<b>57,263</b>	75,178
Current assets			
Inventories		<b>83,318</b>	65,481
Trade receivables and bills receivables	9	<b>136,845</b>	128,195
Other receivables, prepayments and deposits		<b>10,664</b>	5,532
Pledged bank deposits		<b>1,000</b>	1,000
Bank balances and cash		<b>68,810</b>	53,177
		<b>300,637</b>	253,385
Current liabilities			
Trade payables and bills payables	10	<b>78,528</b>	82,753
Trust receipt loans-secured		<b>78,462</b>	44,620
Other payables, accruals and deposits received	11	<b>37,055</b>	33,214
Current portion of long-term liabilities	12	<b>653</b>	1,114
Taxation		<b>2,457</b>	1,138
Bank loans and overdrafts-secured		<b>5,296</b>	4,190
		<b>202,451</b>	167,029
Net current assets		<b>98,186</b>	86,356
Total assets less current liabilities		<b>155,449</b>	161,534
Financed by:			
Share capital	13	<b>20,000</b>	20,000
Other reserves		<b>22,732</b>	25,442
Retained earnings		<b>87,004</b>	78,661
Proposed final dividend		–	18,000
Interim dividend	6	<b>12,000</b>	–
Shareholders' funds		<b>141,736</b>	142,103
Minority interests		<b>6,233</b>	5,670
Non-current liabilities			
Long-term liabilities	12	<b>4,998</b>	10,718
Deferred tax liabilities	14	<b>2,482</b>	3,043
		<b>155,449</b>	161,534



# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2004

	Unaudited								
	Share capital HK\$'000	Share premium HK\$'000	Investment property revaluation reserves HK\$'000	Other properties revaluation reserves HK\$'000	Exchange reserves HK\$'000	Merger reserve HK\$'000	Proposed dividend HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2004	20,000	7,322	2,668	4,383	(241)	11,310	18,000	78,661	142,103
Transfer of revaluation reserve released through depreciation to retained earnings	-	-	-	(22)	-	-	-	22	-
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	-	-	-	(13)	13	-	-	-	-
Exchange differences on translation of foreign subsidiaries	-	-	-	-	(40)	-	-	-	(40)
Disposal of an investment property	-	-	(2,668)	-	-	-	-	-	(2,668)
Movement of deferred tax	-	-	-	20	-	-	-	-	20
Profit attributable to shareholders	-	-	-	-	-	-	-	20,321	20,321
Dividend paid	-	-	-	-	-	-	(18,000)	-	(18,000)
Interim dividend	-	-	-	-	-	-	12,000	(12,000)	-
At 30th June 2004	<u>20,000</u>	<u>7,322</u>	<u>-</u>	<u>4,368</u>	<u>(268)</u>	<u>11,310</u>	<u>12,000</u>	<u>87,004</u>	<u>141,736</u>

## Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30th June 2003

	Unaudited								
	Share capital HK\$'000	Share Premium HK\$'000	Investment property revaluation reserves HK\$'000	Other properties revaluation reserves HK\$'000	Exchange reserves HK\$'000	Merger reserve HK\$'000	Proposed dividend HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	200	(2,711)	1,268	5,352	(358)	11,310	5,000	73,592	93,653
Transfer of revaluation reserve released through depreciation to retained earnings	-	-	-	(22)	-	-	-	22	-
Disposal of a subsidiary	-	-	-	-	(9)	-	-	-	(9)
Revaluation deficit of investment properties	-	-	(600)	-	-	-	-	-	(600)
Revaluation deficit of leasehold properties	-	-	-	(983)	-	-	-	-	(983)
Movement of deferred tax	-	-	-	20	-	-	-	-	20
Increase in share issuance costs	-	(1,344)	-	-	-	-	-	-	(1,344)
Profit attributable to shareholders	-	-	-	-	-	-	-	10,107	10,107
Dividends paid	-	-	-	-	-	-	(5,000)	(8,000)	(13,000)
At 30th June 2003	<u>200</u>	<u>(4,055)</u>	<u>668</u>	<u>4,367</u>	<u>(367)</u>	<u>11,310</u>	<u>-</u>	<u>75,721</u>	<u>87,844</u>

# Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2004

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>4,328</b>	5,889
Net cash generated from/(used in) investing activities	<b>16,380</b>	(789)
Net cash used in financing activities	<b>(6,181)</b>	(1,956)
Increase in cash and cash equivalents	<b>14,527</b>	3,144
Cash and cash equivalents at 1st January	<b>48,987</b>	10,629
Cash and cash equivalents at 30th June	<b>63,514</b>	13,773
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>68,810</b>	14,503
Bank loans and overdrafts – secured	<b>(5,296)</b>	(730)
	<b>63,514</b>	13,773

# Notes to Condensed Accounts

## 1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

## 2 Segment information

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

The Group is principally engaged in the trading of machines, tools, accessories and measuring instruments in three main geographical areas, namely the PRC, Hong Kong and Southeast Asia and other countries (principally Singapore).

	Six months ended 30th June 2004			
	The PRC	Hong Kong	Southeast Asia and other countries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>140,554</u>	<u>156,869</u>	<u>18,835</u>	<u>316,258</u>
Segment results	<u>9,492</u>	<u>13,319</u>	<u>650</u>	<u>23,461</u>
Finance costs				<u>(1,063)</u>
Profit before taxation				<u>22,398</u>
Taxation				<u>(1,514)</u>
Profit after taxation				<u>20,884</u>
Minority interests				<u>(563)</u>
Profit attributable to shareholders				<u>20,321</u>

### 2 Segment information (Continued)

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

	Six months ended 30th June 2003			Total HK\$'000
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	
Turnover	80,556	106,728	20,081	207,365
Segment results	5,770	6,538	490	12,798
Finance costs				(1,386)
Profit before taxation				11,412
Taxation				(1,305)
Profit attributable to shareholders				10,107

#### (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 periods.

### 3 Gain on disposal of an investment property

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 profit and loss account for the period 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.

#### 4 Operating profit

Operating profit is stated after crediting and charging the following:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<i>Crediting</i>		
Gain on disposal of an investment property	<b>4,668</b>	–
Gain on disposal of a subsidiary	–	186
Gain on disposal of fixed assets	<b>33</b>	–
Reversal of provision for bad and doubtful debts	<b>737</b>	–
	<hr/>	<hr/>
<i>Charging</i>		
Depreciation:		
Owned fixed assets	<b>3,535</b>	3,071
Leased fixed assets	–	44
Deficit on revaluation of leasehold properties	–	802
Provision for bad and doubtful debts	–	705
Provision for slow-moving inventories	<b>457</b>	121
Staff costs (including Directors' remuneration)	<b>27,522</b>	23,362
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#### 5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current taxation:		
– Hong Kong profits tax	<b>1,617</b>	1,231
– Overseas taxation	<b>23</b>	162
– Under/(over) provisions in prior years	<b>415</b>	(337)
Deferred taxation relating to the origination and reversal of temporary differences	<b>(541)</b>	220
Deferred taxation resulting from an increase in tax rate	–	29
	<hr/>	<hr/>
Taxation charge	<b>1,514</b>	1,305
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## Notes to Condensed Accounts

### 5 Taxation (Continued)

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

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	<b>22,398</b>	11,412
Calculated at a taxation rate of 17.5%	<b>3,919</b>	1,997
Effect of different taxation rates in other countries	<b>(1,454)</b>	41
Income not subject to taxation	<b>(4,842)</b>	(3,013)
Expenses not deductible for taxation purposes	<b>3,476</b>	2,865
Utilisation of previously unrecognised tax losses	–	(306)
Under/(over) provisions in prior years	<b>415</b>	(337)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	29
Other timing differences	–	29
Taxation charge	<b>1,514</b>	1,305

### 6 Dividends

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Special, paid, of HK\$8 per ordinary share (note(a))	–	8,000
Interim, declared, of HK6 cents (2003: Nil) per ordinary share (note (b))	<b>12,000</b>	–

Notes:

- (a) At a meeting held on 12th June 2003 the directors of a subsidiary declared a special dividend of HK\$8 per ordinary share for the year ended 31st December 2003, which was paid on 19th June 2003. The dividend represented dividends declared by a Company's wholly owned subsidiary, Leepport Machine Tool Co. Ltd., to its then shareholders prior to the Group's reorganisation.
- (b) At a board meeting held on 24th August 2004, the Directors declared an interim dividend of HK6 cents per ordinary share for the year ending 31st December 2004. The declared dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

## 7 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$20,321,000 (2003: HK\$10,107,000).

The basic earnings per share is based on the weighted average number of 200,000,000 (2003: 200,000,000) ordinary shares. The weighted average number of shares for 2003 comparative figure was determined as if the Group's reorganisation and capitalisation issue as set out in Appendix IV to the Company's Prospectus dated 27th June 2003 had been effective at the beginning of the period.

The diluted earnings per share is based on 200,083,000 (2003: 200,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 83,000 (2003: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 8 Capital expenditure

	<b>Fixed Assets</b>
	HK\$'000
Opening net book amount as at 1st January 2004	75,178
Disposal of an investment property (Note 3)	(16,000)
Disposal of fixed assets	–
Additions	1,620
Depreciation (Note 4)	(3,535)
	<hr/>
Closing net book amount as at 30th June 2004	57,263

## 9 Trade receivables and bills receivables

The ageing analysis of trade receivables and bills receivables at the respective balance sheet dates is as follows:

	<b>30th June 2004</b>	31st December 2003
	<b>HK\$'000</b>	HK\$'000
Current	<b>75,530</b>	80,365
1 – 3 months	<b>40,837</b>	36,649
4 – 6 months	<b>6,176</b>	8,791
7 – 12 months	<b>13,806</b>	2,387
Over 12 months	<b>10,095</b>	13,638
	<hr/>	<hr/>
	<b>146,444</b>	141,830
Less: provision	<b>(9,599)</b>	(13,635)
	<hr/>	<hr/>
	<b>136,845</b>	128,195



### 9 Trade receivables and bills receivables (Continued)

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

### 10 Trade payables and bills payables

The ageing analysis of trade payables and bills payables at the respective balance sheet dates is as follows:

	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current	<b>55,177</b>	72,552
1 – 3 months	<b>18,733</b>	9,097
4 – 6 months	<b>3,306</b>	809
7 – 12 months	<b>404</b>	103
Over 12 months	<b>908</b>	192
	<b>78,528</b>	82,753

### 11 Other payables, accruals and deposit received

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

Movements in warranty provision are set out below:

	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At 1st January	<b>4,161</b>	3,486
Additional provision	<b>5,453</b>	6,315
Less: Amounts utilised	<b>(5,230)</b>	(5,640)
At 30th June	<b>4,384</b>	4,161

## 12 Long-term liabilities

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Bank loans – secured		
Not wholly repayable within five years (note (a))	<b>5,651</b>	11,832
Current portion of long-term liabilities		
Bank loans – secured	<b>(653)</b>	(1,114)
Long-term liabilities	<b>4,998</b>	10,718

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

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Within one year	<b>653</b>	1,114
In the second year	<b>671</b>	1,148
In the third to fifth year	<b>2,135</b>	3,672
After the fifth year	<b>2,192</b>	5,898
	<b>5,651</b>	11,832

## 13 Share capital

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each (At 31st December 2003: 1,000,000,000 shares)	<b>100,000</b>	100,000
Issued and fully paid:		
200,000,000 ordinary shares of HK\$0.10 each (At 31st December 2003: 200,000,000 shares)	<b>20,000</b>	20,000

## Notes to Condensed Accounts

### 14 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

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

	<b>Six months ended 30th June 2004 HK\$'000</b>	Year ended 2003 HK\$'000
At the beginning of the period/year	<b>3,043</b>	2,686
Exchange differences	–	4
Deferred taxation (credited from)/charged to profit and loss account	<b>(541)</b>	376
Taxation credited from equity	<b>(20)</b>	(23)
At the end of the period/year	<b>2,482</b>	3,043

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

	<b>Six months ended 30th June 2004 HK\$'000</b>	
	2004	2003
	HK\$'000	HK\$'000
Fair value reserves in shareholders' equity – properties	<b>(20)</b>	(20)

Deferred income tax assets are recognized for tax losses carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized tax losses of HK\$31,923,000 at 30th June 2004 (31st December 2003: HK\$31,923,000) to carry forward against future taxable income.

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

<b>Deferred tax liabilities</b>	<b>Accelerated tax depreciation and total</b>	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	<b>3,043</b>	2,686
(Credited from)/charged to profit and loss account	<b>(541)</b>	376
Credited from equity	<b>(20)</b>	(23)
Exchange differences	–	4
At 30th June 2004/ 31st December 2003	<b>2,482</b>	3,043

## 14 Deferred taxation (Continued)

Deferred tax assets	Tax loss and total	
	2004 HK\$'000	2003 HK\$'000
At 1st January	—	—
Charged to profit and loss account	—	—
Charged to equity	—	—
Exchange differences	—	—
At 30th June 2004/ 31st December 2003	<u>—</u>	<u>—</u>

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 condensed consolidated balance sheet:

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Deferred tax assets	—	—
Deferred tax liabilities	<u>2,482</u>	<u>3,043</u>
	<u>2,482</u>	<u>3,043</u>

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	—	—
Deferred tax liabilities to be settled after more than 12 months	<u>2,482</u>	<u>3,043</u>

## 15 Contingent liabilities

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Letters of guarantee given to customers	15,790	13,270
Bills of exchange discounted with recourse	<u>1,115</u>	<u>10,257</u>
	<u>16,905</u>	<u>23,527</u>

### 16 Capital commitments

	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
(i) Commitments for investment securities		
Contracted obligations for investment securities	<u>775</u>	<u>775</u>
(ii) Commitments for investment in subsidiaries		
Contracted obligations for investment in subsidiaries in the PRC	<u>4,700</u>	<u>–</u>

### 17 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Rental paid to a director, Mr. Joseph LEE Sou Leung (note (a))	<u>72</u>	<u>96</u>
(a) Two of the subsidiaries of the Group have entered into lease agreements with a director, Mr. Joseph LEE Sou Leung, to lease office spaces. The leases were entered into on terms mutually agreed between the parties.		

On behalf of the Board

**Lee Sou Leung Joseph**

*Chairman*

Hong Kong, 24th August 2004