

# Leeport

力豐 (集團) 有限公司  
LEEPORT (HOLDINGS) LIMITED  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 0387)



*INTERIM*  
**2008** Report





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## MANAGEMENT COMMENTARY

The directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) are pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June 2008, along with the unaudited comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and which have been reviewed by the Audit Committee of the Company.

## FINANCIAL PERFORMANCE

The turnover of the Group for the six months ended 30th June 2008 was HK\$559,432,000 (2007: HK\$396,763,000), representing an increase of 41.0% as compared with same period in 2007. The profit attributable to equity holders was HK\$15,538,000 (2007: HK\$11,019,000), representing an increase of 41.0% as compared with the corresponding period in 2007.

Although the turnover achieved 41.0% increase for the six months ended 30th June 2008, the gross profit of the Group increased only 22.0%. The gross profit percentage of the Group was 19.1% as compared with 22.1% for the same period in 2007. This was due mainly to the stronger Japanese Yen in the first half of 2008 compared with the corresponding period in 2007 thus increasing the cost of many Japanese products, especially cutting tools and measuring instruments.

The selling and distribution costs increased 74.0% as compared with same period in 2007. This was due mainly to the higher commissions paid to sales staff, higher marketing and promotion expenses, and the service costs of the authorised service agent.

Administrative expenses increased by 13.1% as compared with the same period in 2007. The major increases were in staff costs and travelling expenses.

## INTERIM DIVIDENDS

The Board has resolved to pay an interim dividend of HK5.0 cents per share for the six months ended 30th June 2008 (2007: HK4.5 cents per share) to shareholders whose names appear on the register of members of the Company on 2nd October 2008 (“Record Date”). The interim dividend will be payable on or about 9th October 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29th September 2008 (Monday) to 2nd October 2008 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for 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, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on 26th September 2008 (Friday).

## BUSINESS REVIEW

In the first six months of 2008, there was a slight slowdown of the overall economy in China. GDP growth was 10.4%, 1.8% lower than in the same period last year. The growth rate for industrial production value was 16.3%, 2.2% lower than in the same period last year. The export value grew by 21.9%, 5.7% lower than in the same period last year.

In spite of the weakening economic situation in China, the Group still achieved significant growth in turnover in the first half of 2008. The major contribution to the growth in turnover was the significant amount of the outstanding contracts brought forward from last year. The Japanese government's export ban on most Mitutoyo products was lifted in January 2008, which contributed to the growth in the measuring instruments business in the first half of the year. The market expansion in Central and Northern China was also important to the growth of the business. Compared with the same period in 2007, the turnover for Northern China actually increased 100.9%, and the turnover for Central China increased 76.7%. For Southern China and Hong Kong, the increase was 44.8%.

Manufacturers in China have faced a difficult time since the beginning of the year. This is due to the high cost of raw materials, higher labour costs resulting from the new labour law, and the reduction in overseas orders. Many of our customers, especially in the Guangdong area, have had to slow down their investment plans. The Group has had to work hard to win more new customers in Southern China. However, many customers in Central and Northern China are larger operations that have relied more on the domestic market than on the export market because the domestic market in China has remained strong, so there has been strong demand for our manufacturing equipment.

All the product divisions of the Group, i.e. metalcutting machinery, metalforming machinery, cutting tools, measuring instruments and electronic equipment, achieved variable rates of growth in the first half of the year.



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However, the economy in Southeast Asia has been weak since the beginning of the year. The performance in Southeast Asia was about the same as last year; and it represented only 5.7% of the Group's total turnover.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The cash and cash equivalents as at 30th June 2008 were HK\$62,355,000 (31st December 2007: HK\$65,700,000).

As at 30th June 2008, the Group had net tangible assets of approximately HK\$262,775,000, comprising non-current assets of approximately HK\$140,475,000, net current assets of approximately HK\$132,869,000 and non-current liabilities of approximately HK\$10,569,000. As at the same date, the total liabilities of the Group amounted to approximately HK\$539,770,000, and the total assets of the Group were HK\$802,545,000.

The net gearing ratio was approximately 84.9% as at 30th June 2008 (31st December 2007: 62.3%). The ratio is calculated as net debt divided by total equity. Net debts is calculated as total borrowings less cash and cash equivalent.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 30th June 2008, the Group had aggregate banking facilities of approximately HK\$712,230,000 of which approximately HK\$364,041,000 was utilised, bearing interest at prevailing market rates and secured by certain leasehold land, buildings and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK\$146,169,000 (31st December 2007: HK\$151,391,000). The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

## FUTURE PLANS AND PROSPECTS

The GDP growth rate for China for the whole year of 2008 is forecast to be about 10%-slightly lower than in the previous year. The domestic consumption market is expected to remain strong, because the Chinese Government intends to maintain reasonable growth in the country's economy until the end of the year. The biggest challenge for the manufacturers in China is the worsening export market. The biggest customer segment for the Group is in the Guangdong area, where many customers rely heavily on export sales and therefore the Group's result in Southern China may be affected. It is expected that the Chinese Government will implement certain measures to improve the export sales. The Group expects the turnover in Southern China to be slightly higher than last year. The major growth in the Group's business will be from Central and Northern China, where customers, especially from the aerospace, automotive and energy industries, will bring the Group tremendous business opportunities. With our wide range of product lines, including our new products such as large-scale measuring systems, laser machines and systems, and our comprehensive range of professional tools, we will be able to develop the market in Central and Northern China very quickly.

The Group will invest more resources in developing its key customers in the country, and we will continue to recruit more high-calibre people to strengthen the quality of our sales and service team. The opening of a 2,500 sq. m. showroom and technology centre in Beijing by end of the year will further strengthen the expansion of the Northern China market.

The order booking for the Group in first half of the year was strong. The overall business in the second half of the year will be maintained and may even improve compared with the first half of the year. We are therefore confident that the Group's overall result in 2008 will represent a significant improvement compared with 2007.

We will continue to explore opportunities for sourcing new products and establishing joint ventures with suitable partners.

## EMPLOYEES

As at 30th June 2008, the Group had 649 employees (2007: 574), of whom 192 were based in Hong Kong, 421 were based in mainland China, and 36 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 and discretionary performance bonuses.

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.

## SHARE OPTIONS

Pursuant to the share option scheme (the “Scheme”) approved and adopted by the Company on 17th June 2003, share options can be granted to subscribe for shares in the Company in accordance with the terms of the Scheme. Neither outstanding options nor new share options were granted under the Scheme during the years ended 31st December 2007 and 2006 but during the period, new options have been offered to and accepted by employees and directors on 22nd April 2008 and 20th May 2008 respectively, for the subscription of 5,548,000 shares by employees and 1,800,000 shares by directors. According to the Scheme, the share options are deemed to have been granted on 22nd April 2008. The closing price of the shares on 21st April 2008 (immediately before 22nd April 2008, the date those options offered) was HK\$1.25 per share.

No valuation has been performed on the fair value of the share options granted during the period as the directors consider that the amount of share-based payment to be recognised during this period should not be material, and therefore no financial impact of the grant of share options has been reflected in this condensed consolidated interim financial information.

Details of the share options outstanding as at 30th June 2008 which have been granted under the Scheme are as follows:

Eligible participants	Date of Grant	Exercise Price HK\$	At beginning of period	Granted during the period	Exercised during the period	At end of period
<b>Director</b>						
Mr. LEE Sou Leung, Joseph (Mr. Lee)	22nd April 2008	1.25	–	500,000	–	500,000
Ms. TAN, Lisa Marie (Ms. Tan)	22nd April 2008	1.25	–	500,000	–	500,000
Mr. CHAN Ching Huen, Stanley (Mr. Chan)	22nd April 2008	1.25	–	500,000	–	500,000
Mr. LUI Sun Wing (Mr. Lui)	22nd April 2008	1.25	–	100,000	–	100,000
Mr. PIKE, Mark Terence (Mr. Pike)	22nd April 2008	1.25	–	100,000	–	100,000
Mr. NIMMO, Walter Gilbert Mearns (Mr. Nimmo)	22nd April 2008	1.25	–	100,000	–	100,000
<b>Employees</b> (excluding directors)	22nd April 2008	1.25	–	5,548,000	–	5,548,000
			–	7,348,000	–	7,348,000



The exercisable period of the above share options is from 22nd April 2009 to 21st April 2010 (both dates inclusive).

Pursuant to the share option scheme, the share options are fully vested on 22nd April 2009.

## **DETAILS OF THE CHARGES ON THE GROUP'S ASSETS**

As at 30th June 2008, certain land and buildings and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$146,169,000 (31st December 2007: HK\$151,391,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

## **CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES**

For the first six months of 2008, the Group spent a total of HK\$1,121,000 (30th June 2007: HK\$739,000) in capital expenditure, which primarily consisted of property, plant and equipment. As at 30th June 2008, the Group had capital commitments for property, plant and equipment of HK\$3,073,000 (31st December 2007: Nil) and HK\$33,673,000 (31st December 2007: HK\$37,414,000) contingent liabilities in respect of letters of guarantee given to customers.

## **EXPOSURE TO FLUCTUATIONS ON EXCHANGE RATES AND RELATED HEDGES**

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

As at 30th June 2008, the Group had commitments for foreign currency forward contracts amounting to approximately HK\$44,896,000 (31st December 2007: HK\$30,179,000).

## **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' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2008, 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 and their associates (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. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	2,868,000 shares	816,000 shares (Note (b))	139,523,170 shares (Note (a))	143,207,170 shares	68.22%
	Short position	Nil	Nil	Nil	Nil	-
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	816,000 shares	2,868,000 shares (Note (c))	139,523,170 shares (Note (a))	143,207,170 shares	68.22%
	Short position	Nil	Nil	Nil	Nil	-
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	200,000 shares	Nil	Nil	200,000 shares	0.10%
	Short position	Nil	Nil	Nil	Nil	-
Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo")	Long position	Nil	154,445 shares (Note (d))	Nil	154,445 shares	0.07%
	Short position	Nil	Nil	Nil	Nil	-

(a) The 139,523,170 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. 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.

- (c) The personal interests of Mr. Lee above are disclosed as the family interest of Ms. Tan.
- (d) The 154,445 shares are beneficially owned by Mr. Nimmo's spouse.

Other than as disclosed above and other than those as disclosed in the share options section, 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, UNDERLYING SHARES OF THE COMPANY**

At 30th June 2008, 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 as disclosed above.

## **CORPORATE GOVERNANCE**

The Company has complied with all code provisions of the Code on the Corporate Governance Practices (the "Code") 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") during the six months ended 30th June 2008 except the following deviation:

### **Further Information about Chairman and Chief Executive Officer**

The Board is of the view that although Mr. Lee Sou Leung, Joseph is the Chairman and the Managing Director of the Company, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting operation of the Company. The Company has no such title as the chief executive officer.



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## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (“MODEL CODE”)**

For the six months period to 30th June 2008, 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 six months ended 30th June 2008 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, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Dr. LUI Sun Wing and Mr. NIMMO, Walter Gilbert Mearns, has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated interim financial information for the six months ended 30th June 2008 with the directors.

As at the date of this report, 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.

Hong Kong, 10th September 2008

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30TH JUNE 2008

	Note	30th June 2008 Unaudited HK\$'000	31st December 2007 Audited HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	96,235	99,577
Leasehold land	6	44,240	44,468
		<b>140,475</b>	144,045
<b>Current assets</b>			
Inventories		222,799	172,211
Trade receivables and bills receivables	8	242,710	196,349
Other receivables, prepayments and deposits		44,726	30,566
Current income tax assets		37	–
Derivative financial instruments	7	129	270
Restricted bank deposits		89,314	110,121
Cash and bank balances		62,355	65,700
		<b>662,070</b>	575,217
<b>Total assets</b>		<b>802,545</b>	719,262
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	20,992	20,992
Other reserves		90,077	88,193
Retained profits			
Proposed interim/final dividend		10,772	9,446
Others		133,331	127,477
		<b>255,172</b>	246,108
<b>Minority interest</b>		<b>7,603</b>	7,569
<b>Total equity</b>		<b>262,775</b>	253,677

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

AS AT 30TH JUNE 2008

	Note	30th June 2008 Unaudited HK\$'000	31st December 2007 Audited HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		10,569	10,886
<b>Current liabilities</b>			
Trade payables and bills payables	10	166,018	166,607
Other payables, accruals and deposits received	11	68,080	60,561
Dividend payable		9,446	–
Current income tax liabilities		–	3,692
Borrowings, secured	12	285,657	223,839
		529,201	454,699
<b>Total liabilities</b>		539,770	465,585
<b>Total equity and liabilities</b>		802,545	719,262
<b>Net current assets</b>		132,869	120,518
<b>Total assets less current liabilities</b>		273,344	264,563

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

		Unaudited Six months ended 30th June	
		2008	2007
		HK\$'000	HK\$'000
	Note		
Sales	4	559,432	396,763
Cost of goods sold	14	(452,495)	(309,115)
<b>Gross profit</b>		<b>106,937</b>	87,648
Other gains-net	13	9,035	5,601
Selling and distribution costs	14	(21,434)	(12,316)
Administrative expenses	14	(72,967)	(64,516)
<b>Operating profit</b>		<b>21,571</b>	16,417
Finance costs		(4,419)	(4,610)
<b>Profit before income tax</b>		<b>17,152</b>	11,807
Income tax expense	15	(1,583)	(742)
<b>Profit for the period</b>		<b>15,569</b>	11,065
<b>Attributable to:</b>			
Equity holders of the Company		15,538	11,019
Minority interest		31	46
		<b>15,569</b>	11,065
<b>Earnings per share for profit attributable to the equity holders of the Company, expressed in cents per share</b>			
– basic and diluted	16	<b>HK7.40 cents</b>	HK5.25 cents
<b>Dividends</b>	17	<b>10,722</b>	9,446

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	Unaudited							Total HK\$'000
	Attributable to equity holders of the Company							
	Share capital (note 9) HK\$'000	Share premium HK\$'000	Properties	Exchange reserves HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Minority interest HK\$'000	
			revaluation reserves HK\$'000					
Balance at 1st January 2008	20,992	20,103	51,832	4,948	11,310	136,923	7,569	253,677
Depreciation transfer on buildings	-	-	(1,088)	-	-	1,088	-	-
Movement of deferred tax	-	-	180	-	-	-	-	180
Currency translation differences	-	-	235	2,557	-	-	3	2,795
Net income recognised directly in equity	-	-	(673)	2,557	-	1,088	3	2,975
Profit for the period	-	-	-	-	-	15,538	31	15,569
Total recognised income for the period	-	-	(673)	2,557	-	16,626	34	18,544
Dividends relating to 2007 paid in July 2008	-	-	-	-	-	(9,446)	-	(9,446)
Balance at 30th June 2008	20,992	20,103	51,159	7,505	11,310	144,103	7,603	262,775

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE 2007

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital (note 9)	Share premium	Properties	Exchange reserves	Merger reserve	Retained earnings	Minority interest	Total
			revaluation reserves					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1st January 2007	20,992	20,103	33,432	2,208	11,310	131,095	7,888	227,028
Depreciation transfer on buildings	-	-	(536)	-	-	536	-	-
Movement of deferred tax	-	-	94	-	-	-	-	94
Currency translation differences	-	-	26	942	-	-	-	968
Net income recognised directly in equity	-	-	(416)	942	-	536	-	1,062
Profit for the period	-	-	-	-	-	11,019	46	11,065
Total recognised income for the period	-	-	(416)	942	-	11,555	46	12,127
Dividends paid relating to 2006	-	-	-	-	-	(9,446)	-	(9,446)
Balance at 30th June 2007	20,992	20,103	33,016	3,150	11,310	133,204	7,934	229,709

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Net cash (used in)/generated from operating activities	<b>(26,749)</b>	19,004
Net cash generated/(used in) from investing activities	<b>20,252</b>	(72,686)
Net cash generated from financing activities	<b>3,152</b>	67,490
Net (decrease)/increase in cash and cash equivalents	<b>(3,345)</b>	13,808
Cash and cash equivalents at 1st January	<b>65,700</b>	65,093
Cash and cash equivalents at 30th June	<b>62,355</b>	78,901
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>62,355</b>	80,168
Bank overdrafts	<b>-</b>	(1,267)
	<b>62,355</b>	78,901

The notes on pages 17 to 32 form an integral part of this condensed consolidated interim financial information.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 General information

Leeport (Holdings) Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the trading, installation and provision of 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 is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue on 10th September 2008.

## 2 Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30th June 2008 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

## 3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2007, as described in those annual financial statements.

For the six months ended 30th June 2008, the following new standards and interpretations to existing standards are mandatory for the first time for the financial year beginning 1st January 2008 but are not currently relevant to the Group.

- HK(IFRIC)-Int 12, ‘Service concession arrangements’
- HK(IFRIC)-Int 14, ‘HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction’

### 3 Accounting policies (Continued)

The following new standards, amendments to standards and interpretations to existing standard have been issued but are not effective for the financial year beginning 1st January 2008 and have not been early adopted by the Group.

- HKFRS 8, 'Operating segments'<sup>1</sup>
- HKAS 23 (revised), 'Borrowing costs'<sup>1</sup>
- HKFRS 2 (amendment) 'Share-based payment'<sup>1</sup>
- HKFRS 3 (revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures'<sup>2</sup>
- HKAS 1 (revised), 'Presentation of financial statements'<sup>1</sup>
- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements'<sup>1</sup>
- HK(IFRIC) – Int 13, 'Customer loyalty programmes'<sup>3</sup>
- IFRS 1 and IAS 27 (revised) 'Cost of an investment in a subsidiary, jointly controlled entity or associate', and consequential amendments to IAS 18 'Revenue', IAS 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 36 'Impairment of Assets'<sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st July 2008

<sup>4</sup> Equivalent HKFRS has not been published as of 31st May 2008.

The Group has already commenced an assessment of the impact of the new standards, amendments to standards or interpretations to existing standards but is not yet in a position to state whether these new standards, amendments to standards or interpretations to existing standards would have a significant impact to its results of operations and financial position.

### 4 Segment information

#### (a) *Primary 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, installation and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronics equipment throughout the period.

#### 4 Segment information (Continued)

(b) *Secondary reporting format – geographical segments*

The Group is principally engaged in the trading, installation and provision of 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 other countries (principally Singapore). The PRC, for the purpose of this condensed consolidated interim financial information, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

The Group primarily operates in Hong Kong and the PRC. The Group's turnover by geographical location is determined by the country in which the customer is located.

	<b>Unaudited Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Turnover:		
The PRC	<b>336,360</b>	243,510
Hong Kong	<b>185,987</b>	114,617
Other countries <sup>1</sup>	<b>37,085</b>	38,636
	<b>559,432</b>	396,763

Notes:

Other countries mainly include Taiwan, Singapore, United States, Macau, Greece, United Kingdom, Japan and Malaysia

There are no sales or other transactions between the geographical segments.

#### 4 Segment information (Continued)

(b) Secondary reporting format – geographical segments (Continued)

Total assets are allocated based on where the assets are located.

Segment assets consist primarily of property, plant and equipment, leasehold land and inventories, receivables, derivative financial instruments, operating cash and restricted cash.

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Total assets:		
The PRC	<b>334,760</b>	290,402
Hong Kong	<b>416,353</b>	358,200
Other countries	<b>51,432</b>	70,660
	<b>802,545</b>	719,262

Capital expenditure is allocated based on where the assets are located.

Capital expenditure comprises mainly additions to property, plant and equipment and leasehold land.

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Capital expenditure:		
The PRC	<b>771</b>	412
Hong Kong	<b>350</b>	15,889
Other countries	<b>–</b>	105
	<b>1,121</b>	16,406

## 5 Property, plant and equipment

	<b>Unaudited HK\$'000</b>
Opening net book amount as at 1st January 2008	99,577
Additions	1,121
Depreciation (Note 14)	(5,555)
Exchange differences	1,092
	<hr/>
Closing net book amount as at 30th June 2008	96,235
	<hr/> <hr/>
Opening net book amount as at 1st January 2007	81,164
Additions	739
Depreciation (Note 14)	(5,546)
Disposal	(582)
Exchange differences	466
	<hr/>
Closing net book amount as at 30th June 2007	76,241
	<hr/> <hr/>

The Group's buildings located in Hong Kong and the PRC were revalued at 31st December 2007. 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 Group's buildings located outside Hong Kong and the PRC were revalued at 31st December 2007 on the basis of their open market values by Dickson Property Consultant Pte Ltd., an independent firm of professional valuers. No valuation was performed during the period.

Bank borrowings are secured on buildings for the carrying amount of HK\$42,315,000 (31st December 2007: HK\$37,537,000) (Note 12).

## 6 Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>24,290</b>	24,390
Leases of between 10 to 50 years	<b>12,336</b>	12,495
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>7,614</b>	7,583
	<b>44,240</b>	44,468

The movement of the lease prepayment for land is as follows:

	Unaudited HK\$'000
Net book value as at 1st January 2008	44,468
Exchange differences	135
Amortisation (Note 14)	(363)
Net book value as at 30th June 2008	44,240
Net book value as at 1st January 2007	34,191
Exchange differences	24
Amortisation (Note 14)	(198)
Net book value as at 30th June 2007	34,017

Bank borrowings are secured on leasehold land for the carrying amount of HK\$14,541,000 (31st December 2007: HK\$3,733,000) (Note 12).

## 7 Derivative financial instruments

	Unaudited	
	As at 30th June 2008	
	Assets	Liabilities
	HK\$'000	HK\$'000
Forward foreign exchange contracts – non-hedging instruments	<u>129</u>	<u>–</u>
	Audited	
	As at 31st December 2007	
	Assets	Liabilities
	HK\$'000	HK\$'000
Forward foreign exchange contracts – non-hedging instruments	<u>270</u>	<u>–</u>

## 8 Trade receivables and bills receivables

At 30th June 2008 and 31st December 2007, the ageing analysis of the trade receivables and bills receivables were as follows:

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Current	<b>118,222</b>	118,849
1-3 months	<b>93,112</b>	52,959
4-6 months	<b>21,136</b>	11,862
7-12 months	<b>7,012</b>	4,399
Over 12 months	<b>12,303</b>	17,066
	<b>251,785</b>	205,135
Less: provision for impairment of receivables	<b>(9,075)</b>	(8,786)
	<b>242,710</b>	196,349

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\$21,138,000 (31st December 2007: HK\$5,411,000) to certain banks in exchange for cash during the period ended 30th June 2008. These transactions have been accounted for as collateralised borrowings (Note 12).

## 9 Share capital

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<b>100,000</b>	100,000
Issued and fully paid:		
209,917,695 ordinary shares of HK\$0.10 each	<b>20,992</b>	20,992
	<b>Number of shares (in thousand)</b>	<b>Share capital HK\$'000</b>
At 31st December 2007 and 30th June 2008	209,918	20,992

On 30th July 2008, 5,526,367 ordinary shares of HK\$0.10 each were issued as 2007 final scrip dividend shares.

Pursuant to the share option scheme (the "Scheme") approved and adopted by the Company on 17th June 2003, share options can be granted to subscribe for shares in the Company in accordance with the terms of the Scheme. Neither outstanding options nor new share options were granted under the Scheme during the years ended 31st December 2007 and 2006 but during the period, new options have been offered to and accepted by employees and directors on 22nd April 2008 and 20th May 2008 respectively, for the subscription of 5,548,000 shares by employees and 1,800,000 shares by directors. The closing price of the shares on 21st April 2008 (immediately before 22nd April 2008, the date those options offered) was HK\$1.25 per share.

The exercisable period of the above share options is from 22nd April 2009 to 21st April 2010 (both dates inclusive).

Pursuant to the share option scheme, the share options are fully vested on 22nd April 2009.

## 10 Trade payables and bills payables

At 30th June 2008 and 31st December 2007, the ageing analysis of the trade payables and bills payables were as follows:

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Current	<b>149,124</b>	135,033
1-3 months	<b>11,680</b>	27,499
4-6 months	<b>4,639</b>	2,103
7-12 months	<b>163</b>	281
Over 12 months	<b>412</b>	1,691
	<b>166,018</b>	166,607

## 11 Other payables, accruals and deposits received

Included in other payables, accruals and deposits received is a warranty provision for repairs or replacement of products which are still under warranty at the reporting date. The Group normally provides one-year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Movements in warranty provision are set out below:

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
At the beginning of the period/year	<b>4,589</b>	4,443
Charged to the income statement:		
– Additional provision	<b>3,593</b>	8,830
– Utilised during the period/year	<b>(4,294)</b>	(8,684)
At the end of the period/year	<b>3,888</b>	4,589

## 12 Borrowings, secured

	<b>Unaudited 30th June 2008 HK\$'000</b>	Audited 31st December 2007 HK\$'000
Current		
Collateralised borrowings	<b>21,138</b>	5,411
Trust receipts loans	<b>148,269</b>	89,603
Short term bank loans	<b>116,250</b>	128,825
	<hr/>	<hr/>
Total borrowings	<b>285,657</b>	223,839
	<hr/> <hr/>	<hr/> <hr/>

Total borrowings include secured liabilities (collateralised borrowings, trust receipt loans and short-term bank loans) of HK\$285,657,000 (31st December 2007: HK\$223,839,000). Trust receipt loans and bank loans are secured by the leasehold land (Note 6), buildings (Note 5) and restricted bank deposits of the Group. Collateralised borrowings are secured by trade receivables (Note 8).

Movements in borrowings is analysed as follows:

	<b>Unaudited HK\$'000</b>
Six months ended 30th June 2008	
Opening amount 1st January 2008	<b>223,839</b>
Repayments of borrowings	<b>(292,357)</b>
Proceeds from borrowings	<b>356,414</b>
Exchange differences	<b>(2,239)</b>
	<hr/>
Closing amount as at 30th June 2008	<b>285,657</b>
	<hr/> <hr/>
Six months ended 30th June 2007	
Opening amount 1st January 2007	189,692
Repayments of borrowings	(221,753)
Proceeds from borrowings	317,554
Exchange differences	(132)
	<hr/>
Closing amount as at 30th June 2007	285,361
	<hr/> <hr/>

### 13 Other gains-net

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Derivative instruments-forward contracts:		
– Net fair value loss (realised and unrealised)	<b>(141)</b>	(740)
Interest income	<b>566</b>	698
Investment income/(loss), net	<b>425</b>	(42)
Service income	<b>7,723</b>	4,590
Commission income	<b>500</b>	949
Other income	<b>387</b>	104
	<b>9,035</b>	5,601

### 14 Expenses by nature

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

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Depreciation on property, plant and equipment	<b>5,555</b>	5,546
Amortisation on leasehold land	<b>363</b>	198
Provision for slow moving inventories	<b>2,277</b>	1,438
Provision for impairment of trade receivables	<b>171</b>	149
Employee benefits expenses (including directors' remuneration)	<b>43,029</b>	36,425
Costs of inventories sold	<b>446,096</b>	298,065
Other expenses	<b>49,405</b>	44,126
Total cost of goods sold, selling and distribution costs and administrative expenses	<b>546,896</b>	385,947

## 15 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 National People's Congress of the PRC approved the Unified Corporate Income Tax Law (the "New CIT Law") on 16th March 2007. During the period, the PRC tax rate applicable to the Group is 25% (six months ended 30th June 2007: 33%), with certain preferential provisions.

Therefore, the PRC taxation has been provided on the estimated profits of the Group's subsidiaries operating in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 25%, unless preferential rates are applicable.

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

	Unaudited	
	Six months ended 30th June	
	2008	2007
	HK\$'000	HK\$'000
Current income tax:		
– Hong Kong profits tax	1,272	1,281
– Overseas taxation	556	387
Over-provision in previous years	(70)	(620)
Deferred income tax	(175)	(306)
	<u>1,583</u>	<u>742</u>

## 16 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of HK\$15,538,000 (2007: HK\$11,019,000).

The basic earnings per share is based on the weighted average number of ordinary shares in issue during the period of 209,918,000 (2007: 209,918,000).

No diluted earnings per share for the six months ended 30th June 2008 and 30th June 2007 are presented as there were no potentially dilutive shares outstanding.

## 17 Dividends

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Interim, proposed, of HK5.0 cents (2007: HK4.5 cents) per ordinary share	<b>10,772</b>	9,446

Note:

At a board meeting held on 10th September 2008, the directors proposed an interim dividend of HK5.0 cents per ordinary share for the period ended 30th June 2008. This interim dividend, amounting to HK\$10,772,000 (2007: HK\$9,446,000), has not been recognised as a liability in this condensed consolidated interim financial information. It will be recognised in shareholders' equity in the year ending 31st December 2008.

Dividends are calculated based on a dividend of HK5.0 cents per ordinary share and a total number of ordinary shares in issue as at 10th September 2008 of 215,444,062, which represents the number of ordinary shares as at 30th June 2008 of 209,917,695 and an issue of new ordinary shares of 5,526,367 as scrip dividends on 30th July 2008.

## 18 Contingent liabilities

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Letters of guarantee given to customers	<b>33,673</b>	37,414

## 19 Capital commitments

	<b>Unaudited</b> <b>30th June</b> <b>2008</b> <b>HK\$'000</b>	Audited 31st December 2007 HK\$'000
(i) Commitments for available-for-sale financial assets:		
Contracted obligations for available-for-sale financial assets	775	775
(ii) Capital expenditure on property, plant and equipment:		
Contracted but not provided for	3,073	–
	<b>3,848</b>	775

## 20 Related party transactions

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Island), which owns 66.47% of the Company's shares. The remaining 33.53% of the shares are widely held.

Other than those as disclosed in other notes to the condensed consolidated interim financial information, the Group has entered into the following significant transactions with related parties during the period:

		<b>Unaudited</b> <b>Six months ended 30th June</b> <b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	42	72

## 20 Related party transactions (Continued)

- (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 six months ended 30th June 2008 amounted to HK\$42,000 (2007: HK\$72,000). In the opinion of the directors, the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.
- (b) Key management compensation

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>5,104</b>	4,961
Pension costs – defined contribution plans	<b>162</b>	156
	<b>5,266</b>	5,117

On behalf of the Board  
**Lee Sou Leung Joseph**  
*Chairman*

Hong Kong, 10th September 2008