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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 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six-months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 26 of this report.

## **DIVIDENDS**

On 19th June 2003, the directors of a subsidiary paid a special dividend of HK\$8 million to its then shareholders.

The Directors have resolved not to declare any interim dividend for the six months ended 30th June 2003.

## **BUSINESS REVIEW**

For the six months ended 30th June 2003, the Group’s turnover was HK\$207,365,000 (2002: HK\$206,547,000), representing an increase of 0.4% as compared with the corresponding period of 2002, while profit attributable to shareholders was HK\$10,107,000 (2002: HK\$9,692,000), representing an increase of 4.3% as compared with the corresponding period in 2002.

The Group usually records a lower turnover in the first half of the year due to the Chinese New Year holidays. Also, the installation of equipment normally takes place in the second half of the year. This situation remained unchanged during the period.

The turnover from the PRC grew steadily and the PRC became a more and more important market of the Group, so the results attributable to the PRC segment showed positive growth.

During the first six months of the year, two main factors affected the regional economy: the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome (“SARS”). Some customers for machinery have become more cautious in placing orders, and the negotiation for each prospect has taken longer time.

On the other hand, our measuring instruments business continued to show significant growth in the period because of the demand for more precision and quality products. The high quality and broad range of Mitutoyo products were able to satisfy these requirements. Furthermore, our active market development activities for the measuring instruments business and cutting tools business in Eastern China brought us satisfactory business growth in this region. The Shanghai operation became a more and more important growth driver for our business.

The appreciation of Euro and the Japanese Yen since the middle of last year has increased the cost of the products distributed by the Group, and has thus affected the gross profit margin of the Group. Likewise, the keen competition for machinery market has also caused pressure to the gross profit margin. The overall gross profit margin in the first half of the year was 25.9%, compared with 27.5% in the same period last year.

There were a number of direct orders given by a few customers to our suppliers that produced sales commissions, which were reflected in other revenues, at HK\$5,639,000, a HK\$2,859,000 increase over the same period last year (2002: HK\$2,780,000).

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers.

As at 30th June 2003, the Group's total borrowings amounted to approximately HK\$151,871,000, which included trade payables and bills payables of approximately HK\$47,866,000; trust receipt loans of approximately HK\$59,335,000; other payables, accruals and deposits received of approximately HK\$28,410,000; long-term bank loans of approximately HK\$12,376,000; short-term bank loans and overdrafts of approximately HK\$730,000; taxation payable of approximately HK\$239,000 and deferred taxation of approximately HK\$2,915,000. Out of these borrowings, the total repayable after one year amounted to approximately HK\$11,280,000.

The gearing ratio, defined as the ratio of total borrowings to total assets of the Group, as at 30th June 2003 was approximately 0.6 (31st December 2002: 0.6). The Group has maintained a stable gearing ratio during the period under review.

As at 30th June 2003, the Group has aggregate banking facilities of approximately HK\$292,000,000, of which approximately HK\$145,164,000 has been utilized and which were secured by fixed deposits of the Group amounting to approximately HK\$3,201,000, certain properties held by the Group with net book values of approximately HK\$53,620,000, a property held by relatives of the Directors, personal guarantees given by certain Directors and fixed deposits of a Director amounting to approximately HK\$324,000. The Group has received consents in principle from the banks that the personal guarantees given by the Directors, the property held by relatives of the Directors and the fixed deposits of the Director will be released and replaced by corporate guarantees of the Company upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## FUTURE PLANS AND PROSPECTS

The continuing economic growth in China and the recovery of South East Asian economies are likely to bring us many business opportunities. China has positioned itself as the "World Production Centre". Investments in manufacturing facilities are increasing year by year. The demand for machinery, measuring instruments, cutting tools and electronic equipment continues to increase and we are confident that the Group will benefit from the booming market.

In early September 2003, the world's largest manufacturer of measuring instruments, Mitutoyo Corporation ("Mitutoyo"), formally agreed to become a shareholder of Leeport Metrology Corporation (one of the Group's subsidiaries), for the purpose of further exploration of the market in China. The net asset value of the Group's metrology operation is USD7 million. Mitutoyo, founded in Japan in 1934, recorded annual global sales of approximately 80 billion yen in 2002. It has established bases in more than 23 countries and its sales and distribution network covers over 80 countries. The undertaking of shareholding by Mitutoyo signifies a closer relationship between the Group and Mitutoyo.

## FUTURE PLANS AND PROSPECTS (CONTINUED)

A new Corporate Communications Manager and a new Product Development Manager for the Group have been appointed. These senior positions will be able to increase our value-added element in respect of customer service and support our overall market development and business growth in the PRC market.

After recovery from SARS, more active enquiries for machinery have been received. The Group will continue to increase new sales and service forces and expand market share for all ranges of products and services. In the second half of the year, we will actively participate in a number of exhibitions to be held in China in order to generate more sales leads.

We will continue to strengthen our network in the market. Expansion of the operation including setting up new offices in China, will proceed as planned. The Group will explore new products to create new sources of revenue. More strategic alliances with suppliers will be formed.

The Customer Relation Management Computer System will be completed by the end of 2003. The combination of the Enterprise Resources Planning System and the Customer Relation Management System will be a powerful management tool for the Group's operations. This will improve our efficiency in terms of customer service, monitoring of sales activity, financial reporting and management of our working capital.

The Group has persistently pursued its strategic plans formed in recent years. Our execution of action items has been successfully implemented. We believe that since our listing in July 2003, the Group has been able to win opportunities to further expand its business in the region.

## USE OF PROCEEDS

The Group ultimately raised approximately HK\$27 million after deducting the actual related expenses for the issue of new shares with the listing of the Company's shares on the Stock Exchange on 10th July 2003 (the "Listing Date"). The net proceeds were ear-marked to be used in the following approximate amounts:

- HK\$8 million to finance the expansion of the Group's operations in the PRC, Taiwan and other parts of Southeast Asia;
- HK\$3 million to finance the diversification of its product range;
- HK\$5 million to finance the forming of strategic alliances;
- HK\$4 million to finance the promotion of the Group's corporate image through advertisements, exhibitions as well as organizing technical seminars;
- HK\$3 million to finance the enhancement of the Group's information management system by implementation of the Enterprise Resources Planning System and Customer Relation Management System; and
- HK\$4 million as additional working capital of the Group.

## USE OF PROCEEDS (CONTINUED)

The unused proceeds are now placed on short-term interest-bearing deposits with licensed banks in Hong Kong.

## CHANGES IN THE COMPOSITION OF THE ENTERPRISE DURING THE INTERIM PERIOD

During the period under review, the Group has undergone a group reorganization to rationalize the group structure in preparation for the listing of the Company's shares on the Stock Exchange, details of which are disclosed in Appendix IV of the Company's prospectus dated 27th June 2003 in relation to the placing, public offer and offer for sale (the "Prospectus").

The Group has also disposed of its entire interest in a subsidiary, GFTZ Leeport Trading Co. Ltd., to a third-party company during the period under review.

## NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

At 30th June 2003, the Group employed a total of 251 full-time employees, including the Directors of the Group. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. The Group also provides in-house training programmes for all staff. In addition, the Directors may, at their absolute discretion, invite any eligible person(s) including any employees to take up options to subscribe for shares in the Company in accordance with its share option scheme, details of which are shown below.

## SHARE OPTIONS

Pursuant to the resolution passed by all shareholders of the Company on 17th June 2003, a share option scheme (the "Scheme") was approved. There are no changes in any terms of the Scheme. The details of the Scheme were disclosed in the Appendix IV of the Prospectus.

Up to the date hereof, there were no share options granted pursuant to the Scheme.

## 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\$53,620,000 have been pledged to secure the bank loans and overdrafts of the Group by way of a fixed charge.

## CONTINGENT LIABILITIES

At 30th June 2003, the Group had contingent liabilities in respect of letters of guarantee given to customers and bills of exchange discounted with recourse of approximately HK\$7,474,000 and HK\$5,940,000 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 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 2003, the Group has commitments for foreign currency forward contracts amounting to approximately HK\$32,458,000 (31st December 2002: HK\$50,042,000).

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's Listing Date was after the period under review. Since the Listing Date, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares.

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

As at the Company's Listing Date, 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	Name of company		Number of shares	Percentage that the long/short position in shares represents to the issued share capital of the Company	Capacity
Mr. Joseph Lee Sou Leung ("Mr. Lee")	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Settlor/founder
		Short position	Nil	-	
Ms. Lisa Marie Tan ("Ms Tan")	Leeport (Holdings) Limited	Long position	133,700,000 Shares (Note)	66.85%	Beneficiary of a trust
		Short position	Nil	-	

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (CONTINUED)**

Note: 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.

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**

The register of substantial shareholders maintained under Section 336 of the SFO since the Listing Date shows that as at that date, the Company had not been notified of any substantial shareholders' interests being 5% or more of the Company's issued share capital, and short positions, other than those of the Directors and chief executives as disclosed above.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE 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, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange at any time since the Listing Date.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2003, with the Directors.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT****For the six months ended 30th June 2003**

		<b>Unaudited Six months ended 30th June</b>	
	Note	<b>2003 HK\$'000</b>	2002 HK\$'000 As restated (Note 1)
Turnover		<b>207,365</b>	206,547
Cost of sales		<b>(153,564)</b>	(149,670)
Gross profit		<b>53,801</b>	56,877
Other revenues		<b>5,639</b>	2,780
Selling and distribution costs		<b>(10,323)</b>	(10,348)
Administrative expenses		<b>(36,319)</b>	(36,535)
Operating profit	3	<b>12,798</b>	12,774
Finance costs		<b>(1,386)</b>	(1,288)
Profit before taxation		<b>11,412</b>	11,486
Taxation	4	<b>(1,305)</b>	(1,794)
Profit attributable to shareholders		<b>10,107</b>	9,692
Dividends	5(a)	<b>8,000</b>	–
Basic earnings per share	6	<b>HK5.05 cents</b>	HK4.85 cents

**CONDENSED CONSOLIDATED BALANCE SHEET****As at 30th June 2003 and 31st December 2002**

	Note	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000 As restated (Note 1)
Fixed assets	7	<b>72,912</b>	76,740
Current assets			
Inventories		<b>56,988</b>	55,546
Amount due from a director		–	149
Trade receivables and bills receivables	8	<b>85,510</b>	104,976
Other receivables, prepayments and deposits		<b>6,601</b>	4,596
Pledged bank deposits		<b>3,201</b>	3,201
Bank balances and cash		<b>14,503</b>	18,766
		<b>166,803</b>	187,234
Current liabilities			
Trade payables and bills payables	9	<b>47,866</b>	50,140
Trust receipt loans-secured		<b>59,335</b>	59,698
Other payables, accruals and deposits received	10	<b>28,410</b>	36,337
Current portion of long-term liabilities	11	<b>1,096</b>	1,156
Taxation		<b>239</b>	335
Bank loans and overdrafts, secured		<b>730</b>	8,137
		<b>137,676</b>	155,803
Net current assets		<b>29,127</b>	31,431
Total assets less current liabilities		<b>102,039</b>	108,171
Financed by:			
Share capital	12	<b>200</b>	200
Other reserves		<b>11,923</b>	14,861
Retained profits		<b>75,721</b>	73,592
Proposed final dividend	5(b)	–	5,000
Shareholders' funds		<b>87,844</b>	93,653
Non-current liabilities			
Long-term liabilities	11	<b>11,280</b>	11,832
Deferred tax liabilities	13	<b>2,915</b>	2,686
		<b>102,039</b>	108,171

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Unaudited								
	Share capital HK\$'000	Share issuance costs 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 profits HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	200	(2,711)	1,268	6,073	(358)	11,310	5,000	74,319	95,101
Changes in accounting policy – provision of net deferred tax liabilities (note 1(a))	-	-	-	(721)	-	-	-	(727)	(1,448)
At 1st January 2003, as restated	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 profits	-	-	-	(22)	-	-	-	22	-
Disposal of a subsidiary	-	-	-	-	(9)	-	-	-	(9)
Revaluation deficit of investment properties	-	-	(600)	-	-	-	-	-	(600)
Revaluation deficit of leasehold properties	-	-	-	(983)	-	-	-	-	(983)
Movements 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	200	(4,055)	668	4,367	(367)	11,310	-	75,721	87,844

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

For the six months ended 30th June 2002

	Unaudited							
	Share capital 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 profits HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	200	1,668	7,470	(754)	11,310	-	57,193	77,087
Changes in accounting policy								
- provision of net deferred tax liabilities (note 1(a))	-	-	(969)	-	-	-	(423)	(1,392)
At 1st January 2002, as restated	200	1,668	6,501	(754)	11,310	-	56,770	75,695
Transfer of revaluation reserve released through depreciation to retained profits	-	-	(51)	-	-	-	51	-
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	-	-	73	(73)	-	-	-	-
Exchange difference on translation of foreign subsidiaries	-	-	-	282	-	-	-	282
Profit attributable to shareholders	-	-	-	-	-	-	9,692	9,692
At 30th June 2002	200	1,668	6,523	(545)	11,310	-	66,513	85,669

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT****For the six months ended 30th June 2003**

	<b>Unaudited Six months ended 30th June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>5,889</b>	5,726
Net cash used in investing activities	<b>(789)</b>	(16,337)
Net cash (used in)/generated from financing activities	<b>(1,956)</b>	6,618
Increase/(decrease) in cash and cash equivalents	<b>3,144</b>	(3,993)
Cash and cash equivalents at 1st January	<b>10,629</b>	9,375
Effect of foreign exchange rate changes	<b>–</b>	79
Cash and cash equivalents at 30th June	<b>13,773</b>	5,461
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>14,503</b>	10,126
Bank loans and overdrafts-secured	<b>(730)</b>	(4,665)
	<b>13,773</b>	5,461

## NOTES TO CONDENSED ACCOUNTS

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed accounts are prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed accounts should be read in conjunction with the Accountants’ Report as set out in the Appendix I of the Company’s Prospectus dated 27th June 2003 (the “Accountants’ Report”).

The Company was incorporated in Bermuda on 21st March 2003. Its shares have been listed on the Main Board of the Stock Exchange on 10th July 2003.

Pursuant to the group reorganization to rationalize the group structure in preparation of the listing of the Company’s shares on the Stock Exchange, the Company became the holding company of the Group on 16th June 2003. The unaudited consolidated condensed accounts, including the comparatives, are prepared as if the Company had been the holding company of the Group from 1st January 2002.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the preparation of the Group’s Accountants’ Report for the years ended 31st December 2000, 2001 and 2002, except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 (revised) “Income Taxes” issued by the HKSA, which are effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group’s accounting policies and the effect of adopting the new accounting policy is set out below:

#### **(a) *Deferred taxation***

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

## NOTES TO CONDENSED ACCOUNTS

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

#### (a) *Deferred taxation (continued)*

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

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1st January 2002 and 2003 have been reduced by HK\$423,000 and HK\$727,000, respectively, and opening other properties revaluation reserve at 1st January 2002 and 2003 have been reduced by HK\$969,000 and HK\$721,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax liabilities at 31st December 2002 by HK\$1,448,000.

### 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 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

## NOTES TO CONDENSED ACCOUNTS

### 2 SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30th June 2002			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	76,701	103,537	26,309	206,547
Segment results	2,993	8,128	1,653	12,774
Finance costs				(1,288)
Profit before taxation				11,486
Taxation				(1,794)
Profit attributable to shareholders				9,692

#### (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 period.

### 3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
<i>Crediting</i>		
Gain on disposal of a subsidiary	186	–
Gain on disposal of fixed assets	–	8
<i>Charging</i>		
Depreciation:		
Owned fixed assets	3,071	2,273
Leased fixed assets	44	43
Deficit on revaluation of leasehold properties	802	–
Provision for bad and doubtful debts	705	2,234
Provision for slow-moving inventories	121	436
Staff costs (including Directors' remuneration)	23,362	22,041

## NOTES TO CONDENSED ACCOUNTS

## 4 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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 condensed consolidated profit and loss account represents:

	<b>Six months ended 30th June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Current taxation:		
– Hong Kong profits tax	1,231	1,293
– Overseas taxation	162	379
– Overprovisions in prior years	(337)	(401)
Deferred taxation relating to the origination and reversal of temporary differences	220	523
Deferred taxation resulting from an increase in tax rate	29	–
<b>Taxation charge</b>	<b>1,305</b>	<b>1,794</b>

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:

	<b>Six months ended 30th June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
Profit before taxation	11,412	11,486
Calculated at a taxation rate of 17.5% (2002: 16%)	1,997	1,838
Effect of different taxation rates in other countries	41	100
Income not subject to taxation	(3,013)	(3,403)
Expenses not deductible for taxation purposes	2,865	3,268
Utilisation of previously unrecognised tax losses	(306)	(193)
Overprovision of profits tax in prior years	(337)	(401)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	29	–
Other timing differences	29	585
<b>Taxation charge</b>	<b>1,305</b>	<b>1,794</b>

## NOTES TO CONDENSED ACCOUNTS

### 5 DIVIDENDS

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Special, paid, of HK\$8 (2002: HK\$Nil) per ordinary share (note(a))	8,000	—

Notes:

- 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 ending 31st December 2003, which was paid on 19th June 2003. The dividend represented dividends declared by a Company's wholly-owned subsidiary, Leeport Machine Tool Co. Ltd., to its then shareholders prior to the group reorganisation.
- At a meeting held on 3rd January 2003, the directors of a subsidiary proposed a final dividend of HK\$5 per ordinary share for the year ended 31st December 2002, which was paid on 8th January 2003 and has been reflected as an appropriation of retained profits for the six months ended 30th June 2003.

### 6 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$10,107,000 (2002: HK\$9,692,000).

The basic earnings per share is based on the weighted average number of 200,000,000 (2002: 200,000,000) ordinary shares. The weighted average number of shares is determined as if the group reorganization and capitalization 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.

Diluted earnings per share was not presented as there were no dilutive potential ordinary shares.

### 7 CAPITAL EXPENDITURE

	Fixed assets HK\$'000
Opening net book amount as at 1st January 2003	76,740
Disposal of a subsidiary (Note 14)	(70)
Additions	1,742
Depreciation (Note 3)	(3,115)
Deficit on revaluation of properties	(2,385)
Closing net book amount as at 30th June 2003	72,912

## NOTES TO CONDENSED ACCOUNTS

## 8 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 2003 HK\$'000</b>	31st December 2002 HK\$'000
Current	45,249	63,761
1 – 3 months	26,216	26,651
4 – 6 months	6,521	5,729
7 – 12 months	7,153	8,527
Over 12 months	14,057	13,288
	<b>99,196</b>	117,956
Less: provision	<b>(13,686)</b>	(12,980)
	<b>85,510</b>	104,976

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

## 9 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 2003 HK\$'000</b>	31st December 2002 HK\$'000
Current	42,600	38,181
1 – 3 months	1,389	8,033
4 – 6 months	2,218	3,239
7 – 12 months	1,352	687
Over 12 months	307	–
	<b>47,866</b>	50,140

## NOTES TO CONDENSED ACCOUNTS

### 10 OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

Movements in warranty provision are set out below:

	HK\$'000
At 1st January 2003	3,486
Additional provision	3,137
Less: Amounts utilized	(4,103)
At 30th June 2003	2,520

### 11 LONG-TERM LIABILITIES

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Obligations under finance leases		
Wholly repayable within five years (note (a))	–	77
Bank loans – secured		
Not wholly repayable within five years (note (b))	12,376	12,911
	12,376	12,988
Current portion of long-term liabilities		
Obligations under finance leases	–	(77)
Bank loans – secured	(1,096)	(1,079)
	(1,096)	(1,156)
Long-term liabilities	11,280	11,832

## NOTES TO CONDENSED ACCOUNTS

## 11 LONG-TERM LIABILITIES (CONTINUED)

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

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Within one year	—	89
	—	89
Future finance charges on finance leases	—	(12)
Present value of finance lease liabilities	—	77
The present value of finance lease liabilities is as follows:		
Within one year	—	77
	—	77

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

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Within one year	<b>1,096</b>	1,079
In the second year	<b>1,132</b>	1,114
In the third to fifth year	<b>3,614</b>	3,558
After the fifth year	<b>6,534</b>	7,160
	<b>12,376</b>	12,911

## NOTES TO CONDENSED ACCOUNTS

## 12 SHARE CAPITAL

	Ordinary shares at HK\$0.1 each	
	No. of shares	HK\$'000
Authorized:		
At the date of incorporation (note (a))	1,000,000	100
Increase in authorized ordinary share capital (note (b)(i))	999,000,000	99,900
At 30th June 2003	1,000,000,000	100,000
Issued and fully paid:		
At the date of incorporation (note (a))	–	–
Issue of shares (note (a) and (b)(ii))	2,000,000	200
At 30th June 2003	2,000,000	200

Details of the changes in the Company's share capital for the period ended 30th June 2003 are as follows:

- (a) The Company was incorporated on 21st March 2003 with an authorized capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. 1,000,000 shares were allotted and issued nil paid to Mr. Joseph LEE Sou Leung on 25th March 2003.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company on 16th June 2003,
  - (i) the authorized share capital for the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares;
  - (ii) the Company issued 1,000,000 new ordinary shares of HK\$0.1 each for the acquisition of subsidiaries pursuant to the group reorganization as set out in note 1.
- (c) As at 31st December 2002, the share capital of the Company has been presented as if it had existed and had been the holding company of the Group as set out in note 1.

## NOTES TO CONDENSED ACCOUNTS

## 13 DEFERRED TAXATION

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

The movement on the deferred tax liabilities/(assets) account is as follows:

	<b>Six months ended 30th June 2003 HK\$'000</b>	Year ended 2002 HK\$'000
At the beginning of the period/year	2,686	2,048
Exchange differences	–	3
Deferred taxation charged to profit and loss account	249	883
Taxation credited from equity	(20)	(248)
At the end of the period/year	<u>2,915</u>	<u>2,686</u>

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

	<b>Six months ended 30th June 2003 HK\$'000</b>	2002 HK\$'000
Fair value reserves in shareholders' equity – properties	<u>(20)</u>	<u>–</u>

Deferred income tax assets are recognised for tax loss 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\$5,779,000 at 30th June 2003 (31st December 2002: HK\$5,603,000) to carry forward against future taxable income.

## NOTES TO CONDENSED ACCOUNTS

## 13 DEFERRED TAXATION (CONTINUED)

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

Deferred tax liabilities	Accelerated tax depreciation		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	2,686	2,048	2,686	2,048
Charged to profit and loss account	249	883	249	883
Credited from equity	(20)	(248)	(20)	(248)
Exchange differences	—	3	—	3
At 30th June 2003/ 31st December 2002	2,915	2,686	2,915	2,686
Deferred tax assets	Tax losses		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	—	—	—	—
Charged to profit and loss account	—	—	—	—
Charged to equity	—	—	—	—
Exchange differences	—	—	—	—
At 30th June 2003/ 31st December 2002	—	—	—	—

## NOTES TO CONDENSED ACCOUNTS

## 13 DEFERRED TAXATION (CONTINUED)

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:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Deferred tax assets	–	–
Deferred tax liabilities	<b>(2,915)</b>	(2,686)
	<b>(2,915)</b>	(2,686)
The amounts shown in the condensed consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	–	–
Deferred tax liabilities to be settled after more than 12 months	<b>2,915</b>	2,686

## 14 DISPOSAL OF A SUBSIDIARY

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

The assets and liabilities disposed of are as follows:

	HK\$'000
Fixed assets (Note 7)	70
Other assets less liabilities	1,353
Exchange reserve	(9)
Fair value of net assets	1,414
Gain on disposal of a subsidiary (Note 3)	186
Total consideration	1,600

## NOTES TO CONDENSED ACCOUNTS

## 15 CONTINGENT LIABILITIES

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
Letters of guarantee given to customers	7,474	5,797
Bills of exchange discounted with recourse	5,940	12,380
	<u>13,414</u>	<u>18,177</u>

## 16 CAPITAL COMMITMENTS

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
(i) Commitments for investment securities		
Contracted obligations for investment securities	775	775
(ii) Commitments for investment in a subsidiary		
Contracted obligations for investment in a subsidiary in the PRC	<u>1,200</u>	<u>1,700</u>

## NOTES TO CONDENSED ACCOUNTS

### 17 RELATED-PARTY TRANSACTIONS

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

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Rental paid to a director, Mr. Joseph LEE Sou Leung (note (a))	96	420
Sales to a related company 東莞市力豐機 械有限公司("Leeport Dongguan") (translated but not the registered name) (note (b))	—	581

- (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.
- (b) Prior to 14th October 2002, Mr. Joseph LEE Sou Leung and Mr. LEE Yik Sun, a brother of Mr. Joseph LEE Sou Leung, had beneficial interests in Leeport Dongguan. The transactions were charged based on terms mutually agreed between relevant parties.

### 18 SUBSEQUENT EVENTS

The shares of the Company were listed on the Stock Exchange on 10th July 2003.

On behalf of the Board

**Lee Sou Leung Joseph**

*Chairman*

Hong Kong, 16th September 2003