

**Leeport** 力豐（集團）有限公司  
LEEPORT (HOLDINGS) LIMITED  
(Incorporated in Bermuda with limited liability)

*2005  
Interim Report*



ISO 9001:2000  
CERTIFICATE NO. FS 84667



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## 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 30 June 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 9 – 38 of this report.

## INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK7 cents (2004: HK 6 cents) per ordinary share, amounting to a total of HK\$14,247,000 (2004: HK\$12,000,000), which will be payable on 7 October 2005 to shareholders whose names appear on the Register of Members on 4 October 2005.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 September 2005 (Friday) to 4 October 2005 (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 at Hong Kong Tricor Investor Services Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00pm on 29 September 2005 (Thursday).

## BUSINESS REVIEW

For the six months ended 30 June 2005, the Group’s turnover was HK\$363,563,000 (2004: HK\$316,258,000), representing an increase of 15% as compared with the corresponding period in 2004. The profit attributable to equity holders was HK\$22,530,000 (2004: HK\$20,321,000), representing an increase of 10.9% as compared with the corresponding period in 2004. The profit attributable to equity holders included a gain on acquisition of a subsidiary in Dongguan, i.e. HK\$2,087,000, while the profit attributable to equity holders during the corresponding period in 2004 included a gain on disposal of an investment property, i.e. HK\$4,668,000. Excluding these two exceptional income items in the first six months of year 2005 and year 2004, the profit attributable to equity holders actually increased by 30.6%.

Since end of 2004, it has been expected the government’s austerity measures would have some impact on the economic growth of China. However, a number of data have indicated that economic growth in the country in the first half of 2005 was still strong. For the first six months of 2005, the growth rate of GDP was 9.5%, the growth rate for industrial production was 16.4% and the growth rate for export was 32.7%.

In terms of geographical segments, the Group's turnover from Hong Kong increased by 5.2% as compared with the corresponding period in 2004, representing 45.4% of the Group's turnover. The Group's turnover from China grew by 22.7%, representing 47.4% of the Group's turnover. Turnover from Southeast Asia increased by 38.2%, representing 7.2% of the Group's turnover.

The measuring instruments and cutting tools business continued to be the fastest-growing business. The former recorded a 41% increase and the latter recorded a 45% increase compared with the corresponding period in 2004. The machine tool business recorded a 13% increase.

For the first six months of 2005, the biggest customer group was from the electronics industry, which represented 30% of the Group's turnover. Other significant sales came from the industrial machinery, mould-making industry, metal parts, automobile and home appliance.

Most of our products are from Europe and Japan. Since early 2005, the lower Euro and Japanese Yen against the US Dollar have been more favourable to us. Our equipment and tools have been less expensive. The average gross margin for the Group's businesses was 23% of turnover. This was very close to the gross margin in the corresponding period in 2004, i.e. 23.5%.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to show a very good liquidity position. The current ratio of the Group was 1.43 as at 30 June 2005. The cash and cash equivalents on hand at the end of the period was HK\$58,456,000. The Group generally finances its operation with internally generated resources and banking facilities provided by its bankers.

As at 30 June 2005, the Group had net tangible assets of approximately HK\$190,278,000, comprising fixed assets of approximately HK\$91,336,000, net current assets of approximately HK\$105,111,000 and non-current liabilities of approximately HK\$6,169,000. On the same date, the total liabilities of the Group amounted to approximately HK\$251,182,000. Of these liabilities, the total repayable after one year amounted to approximately HK\$6,169,000. The total assets of the Group were HK\$441,460,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, as at 30 June 2005 was approximately 0.57 (31 December 2004: 0.55). The Group maintained a stable gearing ratio during the period under review.

As at 30 June 2005, the Group has aggregate banking facilities of approximately HK\$618,690,000, of which HK\$323,672,000 has been utilised and were secured by certain properties held by the Group with net book values of HK\$14,328,000.

## FUTURE PLANS AND PROSPECTS

According to various reports, the economic forecast for China and Hong Kong for 2005 is still promising. The forecast of GDP growth for China for the whole year of 2005 is 9%, and for Hong Kong it is 5.8%. The growth rate for industrial production for China in 2005 is expected to be 16% and the growth rate for export is expected to be about 20%.

China is still the world's biggest importer and consumer of machine tools. In 2005, the import value of machine tools is forecast to exceed USD6.5 billion (2004: USD5.8 billion) and is expected to increase by 10% to 20% compared with 2004. The machine tool business for the Group is expected to grow steadily in the second half of 2005. The measuring instruments and cutting tools businesses will continue to be strong, as they have been in the first half of 2005.

The revaluation of the Renminbi by 2% in July is likely to have a minimal effect on our business in China. The revaluation makes imported machines and equipment less expensive. On the other hand, customers face higher export prices and higher running costs in terms of Renminbi.

The Group will continue to explore opportunities for expansion. A new licensed business for supplying 40,000 items of engineering tools for the China market will start in Shanghai in October. The logistics centre and new office are being established. The existing broad customer base of the Group will facilitate the sales and marketing of this new business. Initially, the target customers will be Hong Kong-based and multinational manufacturers.

The Group will for the first time invest in manufacturing and will take up a 49% shareholding of a cutting tool manufacturing plant in Dongguan that is wholly owned by a Hong Kong company. The cutting tool business is very promising in China, especially for high-quality products. The import value of high-end cutting tools in 2004 was US\$400 million. Our investment in the plant will secure our sources of supply, will grow our cutting tools business and will certainly make a significant contribution to the Group.

The new Shenzhen showroom/technical centre has been completed. The 4,000 square metres facility will provide demonstrations of a full range of machines and tools, application training and technical support to customers. This will further enhance our market position in Southern China.

The Group will continue to recruit and train more people. More offices will be established in China this year. For example, we will open new offices in Ningbo and Chengdu very soon.

The overall market situation in Hong Kong and China is promising, so we believe the business of the Group will continue to achieve reasonable growth throughout the rest of 2005.

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

As at 30 June 2005, the Group had 410 employees (2004: 322), of whom 184 were based in Hong Kong and 203 were based in China (the remaining 23 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 (the "Scheme") approved and adopted by the Company on 17 June 2003 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 30 June 2005. The detailed terms of the Scheme were disclosed in the 2004 annual accounts.

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

Eligible Participants	Date of grant	Exercise Price HK\$	Number of shares issuable under the Scheme				Company's share price	
			At beginning of period	Granted/ (lapsed) during the period	Exercised during the period	At end of period	At date of grant HK\$	At date of exercise HK\$
Director								
Mr CHAN Ching Huen, Stanley	19 December 03	0.87	200,000	-	(200,000)	-	0.87	1.37
Employees (excluding directors)	19 December 03	0.87	3,860,000	-	(3,044,000)	816,000	0.87	1.36
			4,060,000	-	(3,244,000)	816,000		

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

## 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\$14,328,000 have been pledged to secure the bank loans and overdrafts of the Group by way of a fixed charge.

## CONTINGENT LIABILITIES

At 30 June 2005, the Group had contingent liabilities in respect of letters of guarantee given to customers and bills of exchange discounted with recourse of approximately HK\$9,578,000 and HK\$16,156,000 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 contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks. As at 30 June 2005, the Group has commitments for foreign currency forward contracts amounting to approximately HK\$148,079,000 (31 December 2004: HK\$38,420,000).

## 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 30 June 2005, 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. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	Nil	528,000 shares (Note (b))	133,700,000 shares (Note (a))	134,228,000 shares	65.95%
	Short position	Nil	Nil	Nil	Nil	-
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	528,000 shares	Nil	133,700,000 shares (Note (a))	134,228,000 shares	65.95%
	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	148,000 shares (Note (c))	Nil	148,000 shares	0.07%
	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.
- (c) The 148,000 shares are beneficially owned by Mr. Nimmo's spouse.



Other than as disclosed above, at no time during the period was the Company, its subsidiaries, 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 30 June 2005, 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 ON CORPORATE GOVERNANCE PRACTICE**

The Company is committed to achieve high standards of corporate governance and has been taking action to comply with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE") OF THE LISTING RULES**

For the six months period to 30 June 2005, 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 30 June 2005, 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 three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Dr LUI Sun Wing and Mr. NIMMO, Walter Gilbert Mearns. 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 30 June 2005 with the directors.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Note	Unaudited	
		Six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
Turnover	5	363,563	316,258
Cost of sales		(279,802)	(241,861)
Gross profit		83,761	74,397
Other revenues		7,196	6,265
Gain on disposal of an investment property		–	4,668
Gain on acquisition of a subsidiary	6	2,087	–
Selling and distribution costs		(16,449)	(16,521)
Administrative expenses		(49,509)	(45,348)
Operating profit	7	27,086	23,461
Finance costs		(2,006)	(1,063)
Profit before taxation		25,080	22,398
Taxation	8	(1,604)	(1,514)
Profit for the period		23,476	20,884
<b>Attributable to:</b>			
Equity holders of the Company		22,530	20,321
Minority interests		946	563
		23,476	20,884
Dividends	9	14,247	12,000
Basic earnings per share	10	HK11.13 cents	HK10.16 cents
Diluted earnings per share	10	HK11.11 cents	HK10.16 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

	Note	Unaudited 30 June 2005 HK\$'000	Restated 31 December 2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	54,234	48,947
Leasehold land	11	37,102	31,558
		<b>91,336</b>	<b>80,505</b>
<b>Current assets</b>			
Inventories		111,478	78,038
Trade receivables and bills receivable	13	150,806	140,457
Other receivables, prepayments and deposits		23,470	21,801
Derivative financial instruments	12	554	–
Bank balances and cash		63,816	79,226
		<b>350,124</b>	<b>319,522</b>
<b>Total assets</b>		<b>441,460</b>	<b>400,027</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	17	20,353	20,028
Other reserves		43,934	41,752
Retained profits			
Proposed dividend		14,247	14,020
Others		104,550	96,130
		<b>183,084</b>	<b>171,930</b>
<b>Minority interest</b>		<b>7,194</b>	<b>6,848</b>
<b>Total equity</b>		<b>190,278</b>	<b>178,778</b>

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

	Note	Unaudited 30 June 2005 HK\$'000	Restated 31 December 2004 HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred taxation	18	6,169	6,320
<b>Current liabilities</b>			
Trade payables and bills payable	14	76,550	59,197
Trust receipt loans-secured	16	119,068	106,826
Other payables, accruals and deposits received	15	40,036	42,930
Derivative financial instruments	12	1,928	–
Taxation		2,071	1,246
Bank overdrafts – secured	16	5,360	4,730
		<b>245,013</b>	214,929
<b>Total liabilities</b>		<b>251,182</b>	221,249
<b>Total equity and liabilities</b>		<b>441,460</b>	400,027
<b>Net current assets</b>		<b>105,111</b>	104,593
<b>Total assets less current liabilities</b>		<b>196,447</b>	185,098

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Unaudited							Total HK\$'000
	Attributable to equity holders of the Company							
	Share capital 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					
At 1 January 2005, as previously reported	20,028	7,541	22,587	314	11,310	110,150	6,848	178,778
Opening adjustment for the adoption of HKAS 39	-	-	-	-	-	(18)	-	(18)
Balance at 1 January 2005, as restated	20,028	7,541	22,587	314	11,310	110,132	6,848	178,760
Issue of shares	325	2,497	-	-	-	-	-	2,822
Transfer of revaluation reserve released through depreciation to retained profits	-	-	(382)	-	-	382	-	-
Movement of deferred tax	-	-	67	-	-	-	-	67
Profit for the period	-	-	-	-	-	22,530	946	23,476
Dividend paid	-	-	-	-	-	(14,247)	(600)	(14,847)
At 30 June 2005	20,353	10,038	22,272	314	11,310	118,797	7,194	190,278
Representing:								
Proposed dividend						14,247		
Other						104,550		
Retained earnings as at 30 June 2005						118,797		

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(Continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium	Investment properties revaluation reserves	Other properties revaluation reserves	Exchange reserve	Merger reserve	Retained earnings	Minority interest	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2004	20,000	7,322	2,668	4,383	(241)	11,310	96,661	5,670	147,773
Transfer of revaluation reserve released through depreciation to retained profits	-	-	-	(22)	-	-	22	-	-
Exchange differences on translation of properties revaluation reserve of a foreign subsidiary	-	-	-	(13)	13	-	-	-	-
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(40)	-	-	-	(40)
Disposal of investment property	-	-	(2,668)	-	-	-	-	-	(2,668)
Movement of deferred tax	-	-	-	20	-	-	-	-	20
Profit for the period	-	-	-	-	-	-	20,321	563	20,884
Dividend paid	-	-	-	-	-	-	(18,000)	-	(18,000)
At 30 June 2004	20,000	7,322	-	4,368	(268)	11,310	99,004	6,233	147,969
Representing:									
Proposed dividend							12,000		
Others							87,004		
Retained earnings as at 30 June 2004							99,004		

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>8,671</b>	22,328
Net cash (used in)/ generated from investing activities	<b>(12,686)</b>	16,380
Net cash outflow from financing activities	<b>(12,025)</b>	(24,181)
(Decrease)/ increase in cash and cash equivalents	<b>(16,040)</b>	14,527
Cash and cash equivalents at 1 January	<b>74,496</b>	48,987
Cash and cash equivalents at 30 June	<b>58,456</b>	63,514
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>63,816</b>	68,810
Bank loans and overdrafts – secured	<b>(5,360)</b>	(5,296)
	<b>58,456</b>	63,514

## NOTES TO CONDENSED ACCOUNTS

### 1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has 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 financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.



## 2 Changes in accounting policies

### (a) Effect of adopting new HKFRS

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

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

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

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, 38 and 40 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

## 2 Changes in accounting policies (Continued)

### (a) Effect of adopting new HKFRS (Continued)

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

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

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

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

- amortised on a straight line basis over its estimated useful life of not more than 20 years;
- assessed for an indication of impairment at each balance sheet date; and
- where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognized as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets.

## 2 Changes in accounting policies (Continued)

### (a) Effect of adopting new HKFRS (Continued)

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2005;
- accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and
- if the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the profit and loss account.

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

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after the adoption date.

## 2 Changes in accounting policies (Continued)

## (a) Effect of adopting new HKFRS (Continued)

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

	<b>30 June 2005 HK\$'000</b>	<b>As at 31 December 2004 HK\$'000</b>
Decrease in property, plant and equipment	37,102	31,558
Increase in leasehold land	37,102	31,558

- (ii) The adoption of HKAS 32 and 39 resulted in a decrease in opening reserves at 1 January 2005 by HK\$18,000 and the details of the adjustments to the balance sheet at 30 June 2005 and profit and loss for the six months ended 30 June 2005 are as follows:

	<b>As at 30 June 2005 HK\$'000</b>
Increase in derivative financial instruments (assets)	554
Increase in derivative financial instruments (liabilities)	1,928
Decrease in retained earnings	1,356

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

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

## 2 Changes in accounting policies (Continued)

### (a) Effect of adopting new HKFRS (Continued)

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

### (b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

#### 2.1 *Acquisition of subsidiaries and associates*

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

#### 2.2 *Foreign currency translation*

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

## 2 Changes in accounting policies (Continued)

### (b) New Accounting Policies (Continued)

#### 2.2 Foreign currency translation (Continued)

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

##### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

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

## 2 Changes in accounting policies (Continued)

### (b) New Accounting Policies (Continued)

#### 2.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### 2.4 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### 2.5 Investments

From 1 January 2004 to 31 December 2004:

Investment securities held for long term purpose are stated at cost less any provision for impairment losses.

From 1 January 2005 onwards:

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

## 2 Changes in accounting policies (Continued)

### (b) New Accounting Policies (Continued)

#### *2.5 Investments (Continued)*

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

##### (b) Loans and receivables

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

##### (c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

##### (d) Available-for-sale financial assets

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



## 2 Changes in accounting policies (Continued)

### (b) New Accounting Policies (Continued)

#### 2.5 Investments (Continued)

##### (d) Available-for-sale financial assets (Continued)

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

## 2 Changes in accounting policies (Continued)

### (b) New Accounting Policies (Continued)

#### 2.6 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

#### 2.7 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

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

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group makes substantial purchases denominated in Japanese Yen and Euro and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

To manage their foreign exchange risk arising from future commercial transactions, recognized assets and liabilities, entities in the Group use forward contracts, transacted with financial institutions. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

#### 3.2 Accounting for derivative financial instruments

From 1 January 2004 to 31 December 2004:

There is no accounting policy for derivative financial instruments.

From 1 January 2005 onwards:

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group does not designate any derivative as a hedging instrument.

Changes in the fair value of all derivative instruments are recognized immediately in the profit and loss account.

#### 3.3 Fair value estimation

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

### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting estimate will, by definition, seldom equal the related actual results. For the six-month period ended 30 June 2005, there is no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 5 Segment information

## (a) Primary reporting format – geographical segments

The Group is principally engaged in the trading, installation and after-sales service of metal working machinery, measuring instruments, cutting tools and electronic equipment in three main geographical areas, namely the People's Republic of China (the "PRC"), Hong Kong and Southeast Asia and other countries (principally Singapore). The PRC, for the purpose of these accounts, excludes Hong Kong, Taiwan and Macao.

	Six months ended 30 June 2005			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	172,498	165,035	26,030	363,563
Segment results	15,707	11,348	31	27,086
Finance costs				(2,006)
Profit before taxation				25,080
Taxation				(1,604)
Profit for the period				23,476

## 5 Segment information (Continued)

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

	Six months ended 30 June 2004			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other countries HK\$'000	Total HK\$'000
Turnover	140,554	156,869	18,835	316,258
Segment results	9,492	13,319	650	23,461
Finance costs				(1,063)
Profit before taxation				22,398
Taxation				(1,514)
Profit for the period				20,884

## (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.

## 6 Business combination

On 25 May 2005, the Group acquired from Good Winners Limited, a non-wholly owned subsidiary of Mitutoyo Corporation which is a minority shareholder of the Company's non-wholly owned subsidiary, 100% equity interest in Mitutoyo Metrology (Dongguan) Limited ("MMD") at the consideration of approximately HK\$1,205,000. MMD was established as wholly owned foreign enterprise in Dongguan, the PRC in 2001, and is principally engaged in running a repair service centre for providing after sales services to the customers of Mitutoyo Corporation in Southern China. The acquisition of an established repair service centre from the existing supplier could enable the Group to provide better services to the customers in Southern China and also to reinforce the links with the existing business partner. The acquired business contributed no revenues and net loss of HK\$71,000 to the Group for the period from 26 May 2005 to 30 June 2005. If the acquisition had occurred on 1 January 2005, Group revenue would have been HK\$364,067,000 and profit for the period would have been HK\$23,309,000.

6 Business combination (Continued)

	HK\$'000
Details of net assets acquired and gain on acquisition are as follows:	
Purchase consideration in cash	1,205
Fair value of net assets acquired – shown as below	<u>3,292</u>
Gain on acquisition of a subsidiary	<u>2,087</u>

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

	<b>Fair value</b>	<b>Acquiree's</b>
	HK\$'000	<b>carrying</b>
		<b>amount</b>
		HK\$'000
Cash and cash equivalents	798	798
Property, plant and equipment (Note 11)	1,841	2,561
Other non-current assets	–	60
Inventories	398	398
Receivables	270	270
Payables	<u>(15)</u>	<u>(5)</u>
Net assets acquired	<u>3,292</u>	<u>4,082</u>
Purchase consideration settled in cash		1,205
Cash and cash equivalents in subsidiary acquired		<u>(798)</u>
Cash outflow on acquisition		<u>407</u>

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

7 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
<b>Crediting</b>		
Gain on disposal of an investment property	–	4,668
Gain on acquisition of a subsidiary	2,087	–
Gain on disposal of fixed assets	–	33
Reversal of provision for bad and doubtful debts	1,101	737
<b>Charging</b>		
Depreciation and amortisation	3,289	3,535
Derivative instruments – forward contracts: – net fair value losses (realised and unrealised)	1,356	–
Provision for slow moving inventories	677	457
Staff costs (including directors' remuneration)	32,240	27,522

8 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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:

	Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Current taxation:		
– Hong Kong profits tax	1,913	1,617
– Overseas taxation	–	23
– (Over)/under provisions in prior years	(225)	415
Deferred taxation relating to the origination and reversal of temporary differences	(84)	(541)
Taxation charge	1,604	1,514

8 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 30 June	
	2005 HK\$'000	2004 HK\$'000
Profit before taxation	25,080	22,398
Calculated at a taxation rate of 17.5% (2004: 17.5%)	4,389	3,919
Effect of different taxation rates in other countries	(795)	(1,454)
Income not subject to taxation	(820)	(4,842)
Expenses not deductible for taxation purposes	32	3,476
Tax loss not recognized	667	–
Utilisation of previously unrecognised tax losses	(1,644)	–
(Over)/under provisions in prior years	(225)	415
Taxation charge	<u>1,604</u>	<u>1,514</u>

9 Dividends

	Six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Interim, proposed, of HK7 cents (2004: HK6 cents) per ordinary share (note (b))	14,247	12,000
	<u>14,247</u>	<u>12,000</u>

Notes:

- (a) At a board meeting held on 18 April 2005, the directors proposed a final dividend of HK 7 cents per ordinary share for the year ended 31 December 2004, which was paid on 31 May 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.
- (b) At a board meeting held on 10 September 2005, the Directors proposed an interim dividend of HK7 cents per ordinary share for the year ending 31 December 2005. This 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 31 December 2005.



## 10 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\$22,530,000 (2004: HK\$20,321,000).

The basic earnings per share is based on the weighted average number of 202,397,000 (2004: 200,000,000) ordinary shares in issue during the period.

The diluted earnings per share is based on 202,711,000 (2004: 200,083,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 314,000 (2004: 83,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 11 Capital expenditure

	<b>Property, plant and equipment</b>	<b>Leasehold land</b>
	HK\$'000	HK\$'000
Opening net book amount as at 1 January 2005, as previously reported	80,505	–
Adjustment for the adoption of HKAS 17	(31,558)	31,558
Opening net book amount as at 1 January 2005, as restated	48,947	31,558
Acquisition of a subsidiary	1,841	–
Additions	6,542	5,737
Depreciation and amortisation (Note 7)	(3,096)	(193)
Closing net book amount as at 30 June 2005	54,234	37,102

## 12 Derivative financial instruments

	<b>As at 30 June 2005</b>	
	<b>Assets</b>	<b>Liabilities</b>
	HK\$'000	HK\$'000
Forward foreign exchange contracts – non-hedging instruments	554	1,928

### 13 Trade receivables and bills receivable

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

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Current	<b>79,038</b>	70,588
1 – 3 months	<b>48,415</b>	49,970
4 – 6 months	<b>13,984</b>	7,380
7 – 12 months	<b>9,239</b>	4,806
Over 12 months	<b>4,849</b>	18,504
	<b>155,525</b>	151,248
Less: provision	<b>(4,719)</b>	(10,791)
	<b>150,806</b>	140,457

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

### 14 Trade payables and bills payable

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

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Current	<b>69,668</b>	50,920
1 – 3 months	<b>6,206</b>	5,961
4 – 6 months	<b>272</b>	787
7 – 12 months	<b>320</b>	1,187
Over 12 months	<b>84</b>	342
	<b>76,550</b>	59,197

15 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>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
At 1 January	4,654	4,161
Additional provision	4,975	9,798
Less: Amounts utilised	<u>(5,614)</u>	<u>(9,305)</u>
At 30 June	<u><b>4,015</b></u>	<u>4,654</u>

16 Borrowings

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Current		
Bank overdrafts	5,360	4,730
Trust receipts loans	<u>119,068</u>	<u>106,826</u>
Total borrowings	<u><b>124,428</b></u>	<u>111,556</u>

17 Share capital

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each (At 31 December 2004: 1,000,000,000 shares)	<u><b>100,000</b></u>	<u>100,000</u>
Issued and fully paid:		
203,528,000 ordinary shares of HK\$0.10 each (At 31 December 2004: 200,284,000 shares)	<u><b>20,353</b></u>	<u>20,028</u>

## 17 Share capital (Continued)

	Number of shares	Share capital HK\$'000
At 1 January 2004	200,000,000	20,000
Exercise of share options	<u>284,000</u>	<u>28</u>
At 31 December 2004	200,284,000	20,028
Exercise of share options (note (a))	<u>3,244,000</u>	<u>325</u>
At 30 June 2005	<u>203,528,000</u>	<u>20,353</u>

(a) During the period, 3,244,000 ordinary shares of HK\$0.10 each of the Company were issued under the share option scheme to the share option holders on the exercise of their share options at a total cash consideration of approximately HK\$2,822,000.

## 18 Deferred taxation

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

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

	Six months ended 30 June 2005 HK\$'000	Year ended 2004 HK\$'000
At the beginning of the period/year	6,320	3,043
Exchange differences	–	3
Deferred taxation credited from profit and loss account	(84)	(586)
Taxation (credited from)/charged to equity	<u>(67)</u>	<u>3,860</u>
At the end of the period/year	<u>6,169</u>	<u>6,320</u>

18 Deferred taxation (Continued)

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

	<b>Six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Fair value reserves in shareholders' equity		
– properties	<b>(67)</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\$10,677,000 at 30 June 2005 (31 December 2004: HK\$18,414,000) 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/year is as follows:

	<b>Accelerated tax depreciation and total</b>	
	<b>2005</b>	2004
<b>Deferred tax liabilities</b>		
At 1 January	<b>6,320</b>	3,043
Credited from profit and loss account	<b>(84)</b>	(586)
(Credited from)/charged to equity	<b>(67)</b>	3,860
Exchange differences	–	3
At 30 June 2005/ 31 December 2004	<b>6,169</b>	6,320
	<b>Tax loss and total</b>	
	<b>2005</b>	2004
<b>Deferred tax assets</b>		
At 1 January	–	–
Charged to profit and loss account	–	–
Charged to equity	–	–
Exchange differences	–	–
At 30 June 2005/ 31 December 2004	–	–

## 18 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>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Deferred tax assets	–	–
Deferred tax liabilities	<u>6,169</u>	<u>6,320</u>
	<u>6,169</u>	<u>6,320</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>6,169</u>	<u>6,320</u>

## 19 Contingent liabilities

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Letters of guarantee given to customers	9,578	11,934
Bills of exchange discounted with recourse	<u>16,156</u>	<u>8,657</u>
	<u>25,734</u>	<u>20,591</u>

20 Capital commitments

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
(i) Commitments for available-for-sale financial assets		
Contracted obligations for available-for-sale financial assets	<u>775</u>	<u>775</u>
(ii) Commitments for investment in subsidiaries		
Contracted obligations for investment in subsidiaries in the PRC	<u>7,894</u>	<u>3,370</u>

21 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 30 June</b>	
	<b>2005 HK\$'000</b>	2004 HK\$'000
Rental paid to a director, Mr. Joseph LEE Sou Leung (note (a))	<u>72</u>	<u>72</u>

(a) A subsidiary 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.

22 Subsequent event

On 29 July 2005, a wholly owned subsidiary of the Company entered into a letter of intent with an independent third party, namely San Da Metal Trading Company Limited, for the acquisition of 49% equity interest in its wholly owned subsidiary, namely EGO Machine Tools Co. Limited which is principally engaged in the manufacture of cutting tools in the PRC. The purchase consideration is estimated to be approximately HK\$6,401,000. Formal legal agreement of the above transaction is expected to be signed by mutual parties by the end of September 2005.

On behalf of the Board

**Lee Sou Leung Joseph**  
Chairman

Hong Kong, 10 September 2005