

Leeport

力豐（集團）有限公司
LEEPORT (HOLDINGS) LIMITED
(Incorporated in the Bermuda with limited liability)
(Stock Code: 387)



2006

Interim Report

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MANAGEMENT COMMENTARY

The directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) are pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June 2006, along with the unaudited comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

INTERIM DIVIDEND

The board has resolved to pay an interim dividend of HK 7.5 cents per share for the six months ended 30th June 2006 (2005: HK 7 cents per share) to shareholders whose names appear on the register of members of the Company on 6th October 2006 (“Record Date”).

The board has proposed that the interim dividend will be payable in cash but shareholders will be given an option to elect to receive the interim dividend in the form of new shares in lieu of cash in respect of all or part of such dividend. The market value of the shares to be issued under the scrip dividend proposal will be fixed by reference to the average of the closing prices of the Company’s shares on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) for the five consecutive trading days up to and including the Record Date. The proposed scrip dividend is conditional upon the Stock Exchange granting the listing of, and permission to deal in, the new shares. Further announcement with details of the scrip dividend scheme will be published in due course. It is expected that the interim dividend warrants and share certificates will be dispatched to shareholders on or about 20th November 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4th October 2006 (Wednesday) to 6th October 2006 (Friday), both days inclusive, during which period no transfer of shares will be registered. 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, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 pm on 3rd October 2006 (Tuesday).

BUSINESS REVIEW

For the six months ended 30th June 2006, the Group's sales was HK\$445,209,000 (2005: HK\$363,563,000), representing an increase of 22.5% as compared with the same period in 2005. The profit attributable to equity holders was HK\$25,096,000 (2005: HK\$22,530,000), representing an increase of 11.4% as compared with the corresponding period in 2005. The profit attributable to equity holders in 2005 included an excess of fair value of net assets acquired over cost of acquisition of a subsidiary, i.e. HK\$2,087,000 (after adjustment for minority interests of HK\$208,700, the net amount was HK\$1,878,300). Not counting this one time earning in 2005, the profit attributable to equity holders for the first half of the year 2006 actually increased by 21.5%.

In the first six months of 2006, there was significant growth in China's economy. The growth rate in the GDP was 10.9%, the growth rate for industrial production was 17.7% and the growth rate for exports was 25.2%. As for Hong Kong, the economy was also strong, with the GDP growing by 6.6%.

A number of industries related to our business in China achieved significant growth in the first six months of 2006. For example, the production volume of automobiles increased by 28.9%, reaching 3.6 million units compared with the same period in 2005. The production volume of mobile phones increased by 64.2% and the production volume of personal computers increased by 34.0% compared with the same period in 2005. As for machine tools, the import value for the first six months was US\$3.36 billion, an increase of 4.0% as compared with the corresponding period in 2005.

In terms of geographical segments, the sales from China represented 53.1% of the Group's sales (2005: 47.4%); the sales from Hong Kong represented 34.6% of the Group's sales (2005: 45.4%), and the sales from Southeast Asia represented 12.3% of the Group's sales (2005: 7.2%). The Group's sales from China increased by 37.1% as compared with the same period in 2005. The Group's sales from Hong Kong decreased by 6.8% as compared with the same period in 2005. The Southeast Asia region had an outstanding performance in the first half of the year 2006, achieving a growth rate of 110.9% as compared with same period in 2005.

Due to strong demand for the manufacturing of electronic products in China in the first six months of the year, the electronics equipment business of the Group achieved significant growth of 235.6%. Cutting Tools continued its outstanding performance of the previous year, achieving a growth rate of 38.8%.

The global economy has improved continuously since early 2005. The demand for manufacturing equipment globally has been strong, particularly in Japan and Europe. We have therefore faced problems of long delivery times from our major suppliers, which have affected the performance of our machine tools and measuring instrument divisions. The machine tools business achieved a growth rate of only 2.8% in the first six months of 2006, and the measuring instruments business showed a slight decrease in sales, i.e. -3.8%.

For the first six months of 2006, the biggest customer group of our business was the mould & die industry, representing 28.2% of the Group's sales. The electronic industry was our second-biggest customer group, representing 24.5% of the Group's sales. The metal parts industry was our third-biggest customer group, representing 16.5% of the Group's sales. Other significant sales came from the automobile industry, the home appliance industry, industrial machinery manufacturers and telecommunications equipment manufacturers.

The average gross margin for the Group's business was 22.5% of sales. This was very close to the average gross margin for the same period in the previous year, i.e. 23.0% of sales. Since 2005, the Group has faced higher finance costs for bank loans. Our finance costs in the first six months of 2006 were HK\$5,278,000 (2005: HK\$2,006,000), i.e. 163.1% higher than for the same period in 2005. Due to our suppliers' long delivery schedule, some business divisions have had to keep higher inventory to meet our customers' needs for fast delivery. The net inventory balance of the Group as at 30th June 2006 was HK\$189,376,000, i.e. 16.7% higher than the net inventory balance as at 31st December 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents as at 30th June 2006 was HK\$34,597,000 (31st December 2005: HK\$31,827,000). For the first six months of 2006, the inventory balance increased by HK\$27,068,000; the balance of trade receivables and bills receivables increased by HK\$18,493,000 and the balance of other receivables, prepayments and deposits increased by HK\$2,259,000. Also, the balance of trade payables and bills payables increased by HK\$22,158,000. The balance of other payables, accruals and deposits received increased by HK\$8,381,000. The current ratio of the Group was 1.27 as at 30th June 2006 (31st December 2005: 1.27). Capital expenditure was HK\$8,539,000 during the period, and there was payment of a final dividend for the year 2005, i.e. HK\$18,349,000. The borrowings decreased by HK\$5,971,000 as at 30th June 2006.

The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, was approximately 0.66 as at 30th June 2006 (31st December 2005: 0.66).

As at 30th June 2006, the Group had aggregate banking facilities of approximately HK\$695,650,000, of which HK\$311,025,000 had been utilised.

FUTURE PLANS AND PROSPECTS

We believe that the overall economic situation for China and Hong Kong in the second half of 2006 will continue to be strong.

For the whole year of 2006, the GDP growth for China is forecast to be about 10.2% and the GDP growth for Hong Kong is forecast to be about 5.0%.

The electronics equipment and cutting tools business of the Group is expected to continue to be good for the rest of year 2006. The business for machine tools and measuring instruments is expected to achieve mild growth for the whole year of 2006. We predict that our Southeast Asian business will outperform and make a significant contribution to the Group for the whole year.

The machine tools business will be expanded with the addition of new products, and we will further expand our business in Southeast Asian countries.

The Group will upgrade the productivity of the sales team through better utilisation of the IT sales management system, continued internal training and the promotion of cross-selling functions. A number of measures also have been taken to strengthen the marketing of the Group's image and the Group's products. The promotion of customer visits and technical seminars at the Shenzhen Advanced Manufacturing Technology Centre has enhanced Leepport's image in the market since the opening of the centre in October 2005. Furthermore, marketing through the media and trade magazines in China, Hong Kong and Europe has also increased the recognition of the Leepport name and the Group's business. We foresee that the market position of Leepport will therefore become stronger.

Financially, the Group aims to alleviate the burden of finance costs by improving cashflow management and reducing the level of borrowings. Targets have been set for the reduction of the levels of inventory, trade receivables and bills receivables by the end of 2006.

In view of the strong economy of China and Hong Kong, we believe that the Group's business will achieve reasonable growth for the whole year of 2006.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND TRAINING SCHEMES

As at 30th June 2006, the Group had 554 employees (2005: 410), of whom 209 were based in Hong Kong and 311 were based in mainland China, and 34 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies and discretionary performance bonuses.

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 30th June 2006, certain land and buildings and bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$64,892,000 (31st December 2005: HK\$90,929,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

CONTINGENT LIABILITIES

At 30th June 2006, the Group had contingent liabilities in respect of guarantee given to the customers of approximately HK\$9,447,000 (31st December 2005: HK\$8,850,000).

EXPOSURE TO FLUCTUATIONS ON EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchase were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign exchange received from the 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 minimise the Group's exposure to foreign exchange rate risks.

As at 30th June 2006, the Group had commitments for foreign currency forward contracts amounting to approximately HK\$43,123,000 (31st December 2005: HK\$98,922,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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

At 30th June 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations and their associates (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies, were as follows:

Director		Number of ordinary shares of HK\$0.10 each held			Total	Percentage
		Personal interests	Family interests	Other interests		
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	2,868,000 shares	816,000 shares (Note (b))	133,700,000 shares (Note (a))	137,384,000 shares	67.38%
	Short position	Nil	Nil	Nil	Nil	-
Ms. TAN, Lisa Marie ("Ms. Tan")	Long position	816,000 shares	2,868,000 shares (Note (c))	133,700,000 shares (Note (a))	137,384,000 shares	67.38%
	Short position	Nil	Nil	Nil	Nil	-
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	200,000 shares	100,000 shares (Note (d))	Nil	300,000 shares	0.15%
	Short position	Nil	Nil	Nil	Nil	-
Mr. NIMMO, Walter Gilbert Mearns ("Mr. Nimmo")	Long position	Nil	148,000 shares (Note (e))	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 personal interests of Mr. Lee above are disclosed as the family interest of Ms. Tan.
- (d) The 100,000 shares are beneficially owned by Mr. Chan's spouse.
- (e) The 148,000 shares are beneficially owned by Mr. Nimmo's spouse.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 30th June 2006, 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.

SHARE OPTIONS

All share options granted under the share option scheme of the Company have been exercised and lapsed in year 2005, details of which have been disclosed in 2005 annual report. During the period, no option has been granted under the share option scheme.

CORPORATE GOVERNANCE

The Company has complied with all code provisions of the Code on the Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six months ended 30th June 2006. On 26th May 2006, a special resolution was passed at the 2006 annual general meeting of the Company to amend the Company’s Bye-Laws in order to comply with the Code, especially the director retirement requirements under the Code.

Further information about Chairman and Chief Executive Officer

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

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

For the six months period ended 30th June 2006, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30th June 2006 under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

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

The Audit Committee, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Dr. Lui Sun Wing and Mr. NIMMO, Walter Gilbert Mearns, has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated financial information for the six months ended 30th June 2006 with the directors.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2006

	Note	30th June 2006 Unaudited HK\$'000	31st December 2005 Audited HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	78,165	74,557
Leasehold land	5	34,260	34,462
		<u>112,425</u>	<u>109,019</u>
Current assets			
Inventories		189,376	162,308
Trade receivables and bills receivables	7	238,110	219,617
Other receivables, prepayments and deposits		26,062	23,803
Derivative financial instruments	6	503	691
Pledged bank deposits		45,067	70,725
Cash and bank balances		39,753	32,256
		<u>538,871</u>	<u>509,400</u>
Total assets		<u>651,296</u>	<u>618,419</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	20,388	20,388
Other reserves		50,992	50,449
Retained profits			
Proposed interim/final dividend		15,291	18,349
Others		124,752	114,456
		<u>211,423</u>	<u>203,642</u>
Minority interest		<u>7,958</u>	<u>7,507</u>
Total equity		<u>219,381</u>	<u>211,149</u>

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30TH JUNE 2006

	Note	30th June 2006 Unaudited HK\$'000	31st December 2005 Audited HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		<u>6,936</u>	<u>7,187</u>
Current liabilities			
Trade payables and bills payables	9	138,391	116,233
Other payables, accruals and deposits received	10	58,063	49,682
Derivative financial instruments	6	17	368
Current income tax liabilities		2,442	1,763
Borrowings	11	226,066	232,037
		<u>424,979</u>	<u>400,083</u>
Total liabilities		<u>431,915</u>	<u>407,270</u>
Total equity and liabilities		<u>651,296</u>	<u>618,419</u>
Net current assets		<u>113,892</u>	<u>109,317</u>
Total assets less current liabilities		<u>226,317</u>	<u>218,336</u>

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

		Unaudited	
		Six months ended 30th June	
	Note	2006	2005
		HK\$'000	HK\$'000
Sales	4	445,209	363,563
Cost of goods sold	13	(345,116)	(279,802)
Gross profit		100,093	83,761
Other gains – net	12	6,260	7,196
Excess of fair value of net assets acquired over cost of acquisition of a subsidiary		–	2,087
Selling and distribution costs	13	(16,005)	(16,449)
Administrative expenses	13	(57,281)	(49,509)
Operating profit		33,067	27,086
Finance costs		(5,278)	(2,006)
Profit before income tax		27,789	25,080
Income tax expense	14	(2,242)	(1,604)
Profit for the period		25,547	23,476
Attributable to:			
Equity holders of the Company		25,096	22,530
Minority interests		451	946
		25,547	23,476
Dividends	16	15,291	14,247
Earnings per share for profit attributable to the equity holders of the Company, expressed in cents per share			
– basic	15	HK12.31 cents	HK11.13 cents
– diluted	15	N/A	HK11.11 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	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 profits HK\$'000		Minority interest HK\$'000
			revaluation reserves HK\$'000	reserves					
Balance at 1st January 2006	20,388	10,310	28,634	195	11,310	132,805	7,507	211,149	
Depreciation transfer on buildings	-	-	(491)	-	-	491	-	-	
Movement of deferred tax	-	-	86	-	-	-	-	86	
Currency translation differences	-	-	-	948	-	-	-	948	
Net income recognised directly in equity	-	-	(405)	948	-	491	-	1,034	
Profit for the period	-	-	-	-	-	25,096	451	25,547	
Total recognised income for the period	-	-	(405)	948	-	25,587	451	26,581	
Dividends paid relating to 2005	-	-	-	-	-	(18,349)	-	(18,349)	
Balance at 30th June 2006	<u>20,388</u>	<u>10,310</u>	<u>28,229</u>	<u>1,143</u>	<u>11,310</u>	<u>140,043</u>	<u>7,958</u>	<u>219,381</u>	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited							
	Attributable to equity holders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Properties revaluation reserves HK\$'000	Exchange reserves HK\$'000	Merger reserve HK\$'000	Retained profits HK\$'000	Minority interest HK\$'000	Total HK\$'000
Balance at 1st January 2005	20,028	7,541	22,587	314	11,310	110,132	6,848	178,760
Depreciation transfer on buildings	-	-	(382)	-	-	382	-	-
Movement of deferred tax	-	-	67	-	-	-	-	67
Net income recognised directly in equity	-	-	(315)	-	-	382	-	67
Profit for the period	-	-	-	-	-	22,530	946	23,476
Total recognised income for the period	-	-	(315)	-	-	22,912	946	23,543
Issue of shares	325	2,497	-	-	-	-	-	2,822
Dividends paid relating to 2004	-	-	-	-	-	(14,247)	(600)	(14,847)
Balance at 30th June 2005	<u>20,353</u>	<u>10,038</u>	<u>22,272</u>	<u>314</u>	<u>11,310</u>	<u>118,797</u>	<u>7,194</u>	<u>190,278</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	Unaudited	
	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(15,676)	8,671
Net cash generated from/(used in) investing activities	17,608	(12,686)
Net cash generated from/(used in) financing activities	838	(12,025)
Net increase/(decrease) in cash and cash equivalents	2,770	(16,040)
Cash and cash equivalents at 1st January	31,827	74,496
Cash and cash equivalents at 30th June	34,597	58,456
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	39,753	63,816
Bank overdrafts	(5,156)	(5,360)
	34,597	58,456

NOTES TO CONDENSED FINANCIAL INFORMATION

1 General information

Leeport (Holdings) Limited (“the Company”) and its subsidiaries (collectively referred to as “the Group”) are principally engaged in the trading, installation and provision of after-sales service of metalworking machineries, measuring instruments, cutting tools and electronics equipment.

The Company is a limited liability company incorporated in Bermuda and domiciled in Hong Kong. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial information was approved for issue on 18th September 2006.

2 Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30th June 2006 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 (“HKICPA”). The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005, except that the Group has adopted the new standards, amendments to standards and interpretations issued by the HKICPA which are effective for accounting periods commencing on or after 1st January 2006.

3 Changes in accounting policies

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006. The Group adopted those which are relevant to its operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

3 Changes in accounting policies (Continued)

The new standards, amendments to standards and interpretations above do not have material impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HK(IFRIC) – Int 7	Applying the Restatement Approach under HKFRS 29 ¹
HK(IFRIC) – Int 8	Scope of HKFRS 2 ²
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ³
HKAS 1 (Amendment)	Capital Disclosures ⁴
HKFRS 7	Financial Instruments: Disclosures ⁴

¹ Effective for annual periods beginning on or after 1st March 2006

² Effective for annual periods beginning on or after 1st May 2006

³ Effective for annual periods beginning on or after 1st June 2006

⁴ Effective for annual periods beginning on or after 1st January 2007

4 Segment information

(a) *Primary reporting format – geographical segments*

The Group is principally engaged in the trading, installation and provision of after-sales service of metalworking machineries, measuring instruments, cutting tools and electronics equipment in three main geographical areas, namely the People's Republic of China (the "PRC"), Hong Kong, Southeast Asia and other countries (principally Singapore). The PRC, for the purpose of these condensed consolidated financial information, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

4 Segment information (Continued)

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

	Six months ended 30th June 2006			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other	Total HK\$'000
			countries HK\$'000	
Sales	<u>236,443</u>	<u>153,876</u>	<u>54,890</u>	<u>445,209</u>
Segment results	<u>21,391</u>	<u>9,531</u>	<u>2,145</u>	<u>33,067</u>
Finance costs				<u>(5,278)</u>
Profit before income tax				<u>27,789</u>
Income tax expense				<u>(2,242)</u>
Profit for the period				<u><u>25,547</u></u>
	Six months ended 30th June 2005			
	The PRC HK\$'000	Hong Kong HK\$'000	Southeast Asia and other	Total HK\$'000
			countries HK\$'000	
Sales	<u>172,498</u>	<u>165,035</u>	<u>26,030</u>	<u>363,563</u>
Segment results	<u>15,707</u>	<u>11,348</u>	<u>31</u>	<u>27,086</u>
Finance costs				<u>(2,006)</u>
Profit before income tax				<u>25,080</u>
Income tax expense				<u>(1,604)</u>
Profit for the period				<u><u>23,476</u></u>

4 Segment information (Continued)

(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.

5 Capital expenditure

	Property, plant and equipment	Leasehold land
	HK\$'000	HK\$'000
Opening net book amount as at 1st January 2006	74,557	34,462
Additions	8,539	–
Depreciation and amortisation (Note 13)	(5,411)	(223)
Exchange differences	480	21
	<u>78,165</u>	<u>34,260</u>
Closing net book amount as at 30th June 2006	<u>78,165</u>	<u>34,260</u>
Opening net book amount as at 1st January 2005	51,292	29,213
Acquisition of a subsidiary	1,841	–
Additions	6,542	5,737
Depreciation and amortisation (Note 13)	(3,096)	(193)
	<u>56,579</u>	<u>34,757</u>
Closing net book amount as at 30th June 2005	56,579	34,757
Revaluation surplus	7,229	–
Additions	14,423	–
Disposals	(26)	–
Depreciation and amortisation	(3,605)	(251)
Exchange differences	(43)	(44)
	<u>74,557</u>	<u>34,462</u>
Closing net book amount as at 31st December 2005	<u>74,557</u>	<u>34,462</u>

6 Derivative financial instruments

	As at 30th June 2006	
	Assets HK\$'000	Liabilities HK\$'000
Forward foreign exchange contracts – non-hedging instruments	<u>503</u>	<u>(17)</u>
	As at 31st December 2005	
	Assets HK\$'000	Liabilities HK\$'000
Forward foreign exchange contracts – non-hedging instruments	<u>691</u>	<u>(368)</u>

7 Trade receivables and bills receivables

At 30th June 2006 and 31st December 2005, the ageing analysis of the trade receivables and bills receivables were as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Current	141,772	119,318
1 – 3 months	36,965	68,675
4 – 6 months	28,663	11,621
7 – 12 months	17,212	17,707
Over 12 months	20,094	8,428
	244,706	225,749
Less: provision for impairment of receivables	(6,596)	(6,132)
	<u>238,110</u>	<u>219,617</u>

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.

8 Share capital

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u><u>100,000</u></u>	<u><u>100,000</u></u>
Issued and fully paid:		
203,880,000 ordinary shares of HK\$0.10 each	<u><u>20,388</u></u>	<u><u>20,388</u></u>
	Number of shares	Share capital HK\$'000
At 1st January 2005	200,284	20,028
Share option scheme – proceeds from shares issued	<u>3,596</u>	<u>360</u>
At 31st December 2005 and 30th June 2006	<u><u>203,880</u></u>	<u><u>20,388</u></u>

9 Trade payables and bills payables

At 30th June 2006 and 31st December 2005, the ageing analysis of the trade payables and bills payables were as follows:

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Current	102,058	82,536
1 – 3 months	30,569	29,676
4 – 6 months	5,436	3,352
7 – 12 months	–	–
Over 12 months	<u><u>328</u></u>	<u><u>669</u></u>
	<u><u>138,391</u></u>	<u><u>116,233</u></u>

10 Other payables, accruals and deposit received

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

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
At the beginning of the period/year	4,474	4,654
Charged in the condensed consolidated income statement:		
– Additional provision	4,920	10,003
– Utilised during the period/year	(4,532)	(10,183)
At the end of the period/year	<u>4,862</u>	<u>4,474</u>

11 Borrowings

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Current		
Bank overdrafts	5,156	429
Collateralised borrowings	12,884	12,449
Trust receipts loans	125,961	155,846
Bank loans	82,065	63,313
Total borrowings	<u>226,066</u>	<u>232,037</u>

12 Other gains – net

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Derivative instruments-forward contracts		
– Net fair value gain (realised and unrealised)	163	–
Interest income	489	304
Investment income	652	304
Service income	4,893	3,072
Commission income	433	3,249
Other income	282	571
	<u>6,260</u>	<u>7,196</u>

13 Expenses by nature

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

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Depreciation on property, plant and equipment	5,411	3,096
Amortisation on leasehold land	223	193
Provision for slow moving inventories	1,412	677
Provision for/(recovery of) bad and doubtful debts	464	(1,101)
Employee benefits expenses (including directors' remuneration)	<u>34,982</u>	<u>32,240</u>

14 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 income tax charged to the condensed consolidated income statement represents:

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	2,390	1,913
– Overseas taxation	30	–
Over provisions in previous years	(8)	(225)
Deferred income tax	(170)	(84)
	2,242	1,604

15 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\$25,096,000 (2005: HK\$22,530,000).

The basic earnings per share is based on the weighted average number of 203,880,000 (2005: 202,397,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30th June 2006 is presented as there were no potentially dilutive shares outstanding.

The diluted earnings per share for the six months ended 30th June 2005 is based on the weighted average number of 202,711,000 ordinary shares in issue during the period, plus the weighted average number of 314,000 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

16 Dividends

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Interim, proposed, of HK 7.5 cents (2005: HK 7 cents) per ordinary share	<u>15,291</u>	<u>14,247</u>

Note:

At a board meeting held on 18th September 2006, the directors proposed an interim dividend of HK7.5 cents per ordinary share for the year ending 31st December 2006. This declared dividend is not reflected as a dividend payable in these condensed consolidated financial information, but will be reflected as an appropriation of retained profits for the year ending 31st December 2006.

17 Contingent liabilities

	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Letters of guarantee given to customers	<u>9,447</u>	<u>8,850</u>

18 Capital commitments

	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
(i) Commitments for investment securities:		
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>7,715</u>	<u>10,542</u>

19 Related party transactions

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Island, which owns 65.58% of the Company's shares. The remaining 34.42% of the shares are widely held.

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

	Note	Six months ended 30th June	
		2006 HK\$'000	2005 HK\$'000
Rental paid to a director, Mr LEE Sou Leung, Joseph	(a)	<u>72</u>	<u>72</u>

(a) One of the subsidiaries of the Group have entered into lease agreements with a director, Mr LEE Sou Leung, Joseph to lease office spaces for the six months ended 30th June 2006 and 2005 amounted to HK\$72,000. In the opinion of the directors, the transactions have been entered into in the ordinary and usual course of business of the Group, the terms are negotiated on an arm's length basis and on normal commercial terms, and are fair and reasonable in the interests of the shareholders of the Company as a whole.

(b) Key management compensation

	Six months ended 30th June	
	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term employee benefits	4,482	4,270
Pension costs – defined contribution plans	<u>159</u>	<u>160</u>
	<u>4,641</u>	<u>4,430</u>

On behalf of the Board

Lee Sou Leung Joseph
Chairman

Hong Kong, 18th September 2006