

Leeport

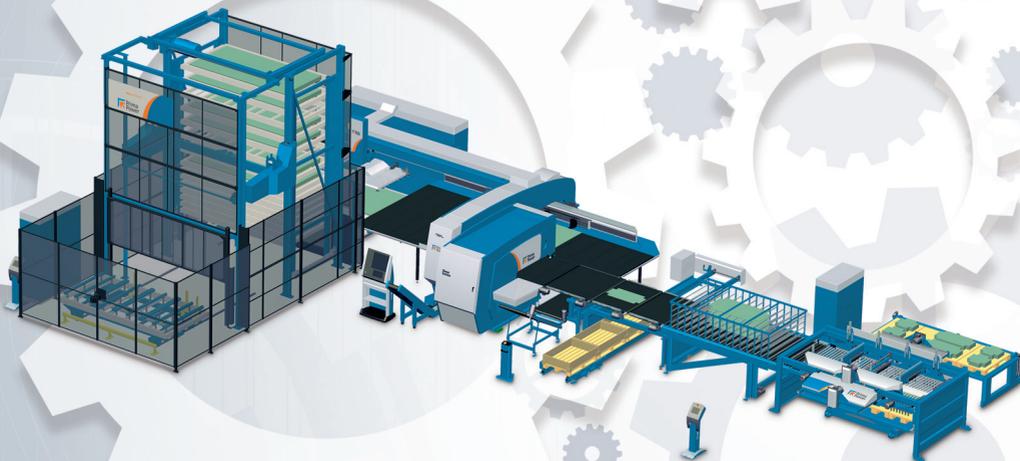
力豐(集團)有限公司
LEEPORT (HOLDINGS) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 0387)



2020

INTERIM REPORT

AUTOMATION TECHNOLOGIES IN MANUFACTURING INDUSTRY 4.0



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MANAGEMENT COMMENTARY

The Board of Directors (the “Directors”) of Leeport (Holdings) Limited (the “Company”) would like to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively “the Group”) for the six months ended 30th June 2020, along with the unaudited comparative figures and selected explanatory notes, which have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and which have been reviewed by the Audit Committee of the Company.

FINANCIAL PERFORMANCE

Sales

Given the disruption caused worldwide by the COVID-19 pandemic during the first half of 2020, and the complex nature of the global economy amid the trade war between China and the U.S. since the middle of 2018, the business of the Group has been facing significant challenges.

In the first six months of 2020, the Group’s sales amounted to HK\$291,756,000, compared with HK\$379,751,000 in the same period last year, representing a decrease of 23.2%. Our gross profit amounted to HK\$45,167,000, compared with HK\$68,163,000 in the same period last year, representing a decrease of 33.7%. The gross profit percentage was 15.5%, compared with 17.9% in the same period last year.

The total value of contracts signed in the first half of 2020 was HK\$271,691,000, compared with HK\$312,289,000 in the same period last year, representing a decrease of 13.0%. The value of the outstanding orders as at the end of June 2020 was HK\$104,636,000, compared with HK\$150,448,000 in the same period of last year, representing a decrease of 30.5%.

Other Income and Gains

The total amount of other income and gains was HK\$7,823,000, compared with HK\$10,345,000 in the same period last year, representing a decrease of 24.4%. The main reason for the decrease in the total amount of other income and gains was that no dividend was received from the investee, Prima Industrie SpA. By contrast, a dividend amounting to HK\$2,030,000 was received in 2019.

Our service income was HK\$2,724,000 in the first half of 2020, compared with HK\$4,900,000 in the same period last year. Other income included rental income of HK\$1,188,000 and a management fee of HK\$742,000 charged against Mitutoyo Leeport Metrology Corporation.

Operating Expenses

Selling and distribution costs were HK\$8,008,000, compared with HK\$16,900,000 in the same period last year, representing a decrease of 52.6%. The decrease in selling and distribution costs was due mainly to the decrease in marketing and promotion expenses, exhibition costs, salesman commission and logistics costs.

Administrative expenses amounted to HK\$50,936,000, compared with HK\$68,045,000 in the same period last year, representing a decrease of 25.1%. This reduction is attributable mainly to the implementation of the Group's cost-reduction program. The area of cost reduction included staff cost, travel and entertainment and other operating expenses.

Finance Expenses – Net

Finance costs net of interest income were HK\$2,763,000 in the first half of 2020, compared with HK\$3,175,000 in the same period last year.

Finance income in the first half of 2020 was HK\$724,000, compared with HK\$798,000 in the same period last year.

Finance costs in the first half of 2020 were HK\$3,487,000, compared with HK\$3,973,000 in the same period last year, representing a decrease of 12.2%. This was due to the decrease in bank borrowings in the first half of 2020.

The Group's net gearing ratio was approximately 22.8% as at the end of June 2020, compared with 34.6% at the end of December 2019.

Share of Post-Tax (Loss)/Profits of Associates

The share of post-tax loss of associates in the first half of 2020 was HK\$7,128,000, compared with a profit of HK\$4,884,000 in the same period last year. The share of loss of associates is a non-cash item and does not affect cash position of the Group. The business for both OPS Ingersoll Funkenerosion GmbH and Prima Power Suzhou Company Limited made a loss due to the adverse impact of COVID-19. The Group's 49% shareholding in Mitutoyo Looport Metrology Corporation was sold to Mitutoyo Corporation at the beginning of this year, so there was no share of post-tax profits booked in the first half of 2020.

Income Tax Expenses

Income tax expenses in the first half of 2020 amounted to HK\$1,672,000, compared with HK\$1,889,000 in the same period last year, representing a decrease of 11.5%.

Loss Attributable to Owners of the Company and Loss Per Share

In the first half of 2020, the loss attributable to owners of the Company was HK\$7,516,000, compared with a loss attributable to owners of the Company amounting to HK\$6,241,000 in the same period last year, representing an increase of loss by 20.4%.

The operating loss for the trading business was HK\$5,498,000, compared with an operating loss of HK\$6,688,000 in the same period last year, representing a decrease of operating loss by 17.8%. The share of post-tax loss of associates was HK\$7,128,000, compared with the share of post-tax profit HK\$4,884,000 in the same period last year.

The basic loss per share was HK3.27 cents, compared with a basic loss per share of HK2.71 cents in the same period last year, representing an increase of basic loss per share by 20.7%.

INTERIM DIVIDEND

The Directors resolved not to declare any dividend for the six months ended 30th June 2020. There was also no dividend declared for the same period last year.

BUSINESS REVIEW

Trading

As we all know, the outbreak of COVID-19 at the beginning of 2020 has meant that the economic activities of China and the whole world have basically stopped. Nevertheless, China's GDP fell by only 1.6% in the first half of 2020 compared to the same period last year, and has been outperforming many other countries. The value of industrial production in China fell by 1.3% compared with the same period last year.

The order intake of the Group's business in the first half of 2020 was HK\$271,691,000, compared with HK\$312,289,000 in the same period last year, representing a decrease of 13.0%. Basically, the demand from the customer base in the automotive and mobile phone manufacturing sector was weak in the first half of the year. The customer base for semi-conductor and 5G equipment has been more active. The business for cutting tools and assembly tools was stable in the first half of the year. The business for measuring instruments was growing steadily, indicating that production activities have recovered quickly. The business for machine tools and sheetmetal machinery recorded a significant drop. Customers were cautious about making capital investments in manufacturing equipment.

Investment

The Group disposed of its 49% shareholding in Mitutoyo Leepport Metrology Corporation to Mitutoyo Corporation in January 2020, so there was no further sharing of the profit of this associate. In the first half of 2020, the business of OPS Ingersoll Funkenerosion GmbH and Prima Power Suzhou Company Limited was also affected by COVID-19, so the associates also incurred a loss in the period. The business situation for OPS Ingersoll Funkenerosion GmbH and Prima Power Suzhou Company Limited is still challenging for the rest of the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's balance of cash as at 30th June 2020 was HK\$58,298,000, compared with HK\$60,768,000 as at 31st December 2019. The Group maintained a reasonable cash position. The Group's inventory balance as at 30th June 2020 was HK\$94,533,000, compared with HK\$88,232,000 as at 31st December 2019. The turnover days of inventory was 70 at the end of June 2020, compared with 56 at the end of December 2019. This was due to the fact that during the first half of 2020, the cutting tools and assembly tools business contributed a higher proportion of our total business revenue.

The balance of trade and bill receivable was HK\$101,190,000 as at 30th June 2020, compared with HK\$99,003,000 as at 31st December 2019. The turnover days of trade receivables was 63, compared with 52 as at 31st December 2019. The turnover days of trade receivables was higher due to the higher proportion of revenue from the cutting tools and assembly tools business in the first half of 2020. The credit period for these business types is relatively longer than for the equipment business.

The balance of trade and bills payable was HK\$109,329,000 as at 30th June 2020, compared with HK\$100,661,000 as at 31st December 2019. The balance of short-term borrowings was HK\$170,651,000 as at 30th June 2020, compared with HK\$239,094,000 as at 31st December 2019. The Group used part of the amount of HK\$100 million received from the disposal of its 49% shareholding in Mitutoyo Leepport Metrology Corporation to settle the short-term borrowing.

The Group's net gearing ratio was approximately 22.8% as at 30th June 2020, compared with 34.6% as at 31st December 2019. The net gearing ratio was lower than in 2019. The net gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalent and restricted bank deposits. The reduction in the net gearing ratio was due to the decrease in the borrowing level, while the cash and cash equivalent level stayed at a similar level.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 30th June 2020, the Group had aggregate banking facilities of approximately HK\$671,607,000, of which approximately HK\$184,464,000 was utilized, bearing interest at prevailing market rates and secured by certain land and buildings, investment properties and restricted bank deposits of the Group in Hong Kong, Shenzhen and Singapore, with an aggregate carrying amount of HK\$323,800,000 (31st December 2019: HK\$285,067,000). The Directors are confident that the Group is able to meet its operational and capital expenditure requirements.

FUTURE PLANS AND PROSPECTS

The pandemic in China has been contained since March 2020, and economic activities have quickly returned to normal. The country's economy has recovered strongly since the beginning of the second quarter of the year.

Production volume in the automotive and mobile phone sector has increased significantly since the beginning of the second quarter of the year, however capital investment in manufacturing equipment might not pick up fast enough. The booming industry of semi-conductor and 5G equipment made a significant contribution to the Group's business in the first half of the year. We believe that the strong demand for semi-conductor and 5G equipment will continue in the second half of the year.

One major concern regarding the Group's business is the grim outlook of the export business of our customers. Although the global economy is showing signs of recovery, orders from abroad is still limited.

Since the disposal of the 49% shareholding in Mitutoyo Leepport Metrology Corporation, the Group has been committed to expanding its investment in the measuring instrument business, and has built up a stronger technical team for the Division. A new technical centre for measuring instruments will be completed at our Shenzhen showroom in the third quarter of the year. We predict that the business of measuring instruments will achieve significant growth in the coming years. We also expect that the business for cutting tools will grow in the second half of the year.

Since the beginning of the year, the Group has taken prompt action to significantly reduce its operating expenses, and the total saving is likely to be at least HK\$40 million in 2020. We expect that the leaner and more productive organisational structure will soon pave the way for the Group's return to profitability.

The business of the Group in the second half of 2020 is expected to be better than in the first half of the year. There is likely to be a loss again in the second half of the year, however the Group aims to reduce the amount of loss in the second half of the year, compared to the first half.

EMPLOYEES

As at 30th June 2020, the Group had 268 employees (31st December 2019: 310). Of these, 62 were based in Hong Kong, 179 were based in mainland China, and 27 were based in other offices around Asia and Germany. 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, pension scheme contribution in different countries, the Group offered staff benefits including medical schemes, education subsidies and discretionary performance bonuses.

SHARE OPTION SCHEME

On 15th May 2013, a share option scheme ("the Scheme") has been adopted in the annual general meeting held to replace the old Scheme. Details of the Scheme are set out in the circular dated 15th April 2013 which was sent to the shareholders.

No share options were granted, cancelled, exercised or lapsed during the period.

Other than as disclosed above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors and chief executives of the Company or their associates to acquire benefits by means of the acquisition of shares or underlying shares and/or debt securities, including debentures of the Company or any other body corporate.

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 30th June 2020, certain land and buildings, investment properties and restricted bank deposits in Hong Kong, Shenzhen and Singapore, with an aggregate carrying value of approximately HK\$323,800,000 (31st December 2019: HK\$285,067,000), were pledged to secure the banking facilities of the Group by way of a fixed charge.

CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

For the first six months of 2020, the Group spent a total of HK\$66,000 (30th June 2019: HK\$116,000) in capital expenditure, primarily consisting of plant and equipment. As at 30th June 2020 and 31st December 2019, the Group had no capital commitment. In the meantime, a total of HK\$6,301,000 (31st December 2019: HK\$10,281,000) in contingent liabilities in respect of letters of guarantee was given to customers.

EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchases 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 payment to overseas suppliers. In the event that any material payment cannot be fully matched, the Group will enter into foreign currency forward contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks.

As at 30th June 2020, the Group had outstanding gross-settled foreign currency forward contracts to buy GBP360,000 for HKD3,486,000; JPY22,800,000 for HKD1,653,000 and USD874,000 for HKD6,775,000 (2019: EUR3,112,000 for HKD26,977,000; GBP277,000 for HKD2,898,000; JPY193,500,000 for HKD13,797,000; and USD300,000 for HKD2,338,000).

Foreign exchange gains and losses are calculated on the settlement of monetary transactions and on the translation of monetary assets and liabilities at the exchange rates of the end of the period.

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.

USE OF PROCEEDS FROM DISPOSAL IN 2020

On 23rd January 2020, a subsidiary of the Group, Lleeport Machine Tool Company Limited, disposed of 49% of the issued shares in an associate, Mitutoyo Lleeport Metrology Corporation, a trader of measuring tools, for a consideration of HK\$100,000,000, and the net proceeds was amounted to approximately HK\$99,000,000. Details of which have been disclosed in announcements dated 13th November 2019, 21st January 2020 and 23rd January 2020 and a circular dated 27th December 2019. As at 30th June 2020, the net proceeds from Disposal has been utilised as follows:

- Approximately HK\$34,022,000 has been utilised to expand the Group's measuring instrument division in the PRC.
- Approximately HK\$18,950,000 has been utilised to invest in manufacturing equipment suppliers.
- Approximately HK\$9,000,000 has been utilised to repay the Group's outstanding bank borrowings.

The remaining of approximately HK\$37,028,000 will be utilised in two manners. Firstly, approximately HK\$15,978,000 will be utilised to expand the Group's measuring instrument division by the end of 2020 or early 2021. Secondly, approximately HK\$21,050,000 will be utilised to invest in manufacturing equipment suppliers by year 2023, during which time the Group will continuously monitor the market condition and make the investment decision when the favorable market condition presents a good opportunity to the Group.

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 2020, 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 Part XV 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	Share options		
Mr. LEE Sou Leung, Joseph ("Mr. Lee")	Long position	23,920,000 shares	Nil	144,529,982 shares (Note (a))	Nil	168,449,982 shares	73.21%
Mr. CHU Weiman ("Mr. Chu")	Long position	1,000,000 shares	Nil	Nil	Nil	1,000,000 shares	0.43%
Mr. CHAN Ching Huen, Stanley ("Mr. Chan")	Long position	1,104,000 shares	Nil	Nil	Nil	1,104,000 shares	0.48%
Mr. WONG Man Shun, Michael ("Mr. Wong") (resigned with effect from 1st July 2020)	Long position	1,432,000 shares	Nil	Nil	Nil	1,432,000 shares	0.63%
Mr. ZAVATTI Samuel ("Mr. Zavatti")	Long position	110,000 shares	Nil	Nil	Nil	110,000 shares	0.05%

- (a) The 144,529,982 shares are held by Peak Power Technology Limited in its capacity as the trustee of The Lee Family Unit Trust holding the same for the benefit of holders of units issued by The Lee Family Unit Trust. HSBC International Trustee Limited is the trustee of the LMT Trust whose discretionary objects are Ms. Tan Lisa Marie 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. Ms. Tan is deemed to be interested in all the interests held by Mr. Lee, her husband.

Save as disclosed above, as at 30th June 2020, none of the Directors and chief executive of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

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

At 30th June 2020, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors as disclosed above.

CORPORATE GOVERNANCE

During the six months ended 30th June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except the following:

Code Provision A.2.1

The Board is of the view that although Mr. Lee Sou Leung, Joseph is the Chairman and the Group Chief Executive Officer 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.



MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the period ended 30th June 2020.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group with the management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated interim financial information for the six months ended 30th June 2020 with the directors.

As at the date of this report, the executive directors of the Company are Mr. LEE Sou Leung, Joseph, Mr. CHU Weiman, and Mr. CHAN Ching Huen, Stanley and the independent non-executive directors are Mr. ZAVATTI Samuel, Mr. FUNG Wai Hing and Mr. WONG Tat Cheong, Frederick.

On behalf of the Board
Leeport (Holdings) Limited
LEE Sou Leung, Joseph
Chairman

Hong Kong, 24th August 2020

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30th JUNE 2020

	Note	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Assets			
Non-current assets			
Plant and equipment	7	6,966	7,942
Right-of-use assets	7	289,907	294,613
Investment properties	7	55,375	55,674
Investments in associates	8	56,378	63,895
Loan to an associate	19(d)	17,668	17,690
Financial assets at fair value through other comprehensive income		8,489	8,489
		434,783	448,303
Current assets			
Inventories		94,533	88,232
Trade and bills receivables	10	101,190	99,003
Other receivables, prepayments and deposits		23,277	24,812
Financial assets at fair value through other comprehensive income		68,963	64,695
Derivative financial instruments		–	253
Amount due from an associate	19(c)	–	247
Tax recoverable		848	848
Restricted bank deposits		17,474	26,593
Cash and cash equivalents		58,298	60,768
		364,583	365,451
Asset classified as held for sale	9	–	83,374
Total current assets		364,583	448,825
Total assets		799,366	897,128

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

AS AT 30th JUNE 2020

	Note	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	11	23,007	23,007
Other reserves		226,599	236,347
Retained earnings		169,120	180,623
		418,726	439,977
Non-controlling interests		(2,892)	(1,754)
Total equity		415,834	438,223
Liabilities			
Non-current liabilities			
Lease liabilities		2,529	2,966
Deferred income tax liabilities		32,102	32,399
		34,631	35,365
Current liabilities			
Trade and bills payables	12	109,329	100,661
Other payables, accruals and contract liabilities		50,051	70,793
Derivative financial instruments		72	65
Amount due to an associate	19(c)	-	668
Amount due to a non-controlling shareholder		9,595	9,595
Borrowings	13	170,651	239,094
Lease liabilities		1,126	1,418
Tax payable		2,325	1,246
Dividend payable		5,752	-
		348,901	423,540
Total liabilities		383,532	458,905
Total equity and liabilities		799,366	897,128

The above condensed consolidated interim balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30th JUNE 2020

	Note	Unaudited Six months ended 30th June	
		2020 HK\$'000	2019 HK\$'000
Sales	6	291,756	379,751
Cost of goods sold		(246,589)	(311,588)
Gross profit		45,167	68,163
Other income and gains – net		7,823	10,345
Selling and distribution costs		(8,008)	(16,900)
Administrative expenses		(50,936)	(68,045)
Net reversal of impairment losses/ (impairment losses) on trade receivables		456	(251)
Operating loss	14	(5,498)	(6,688)
Finance income		724	798
Finance costs		(3,487)	(3,973)
Finance costs – net		(2,763)	(3,175)
Share of post-tax (loss)/profits of associates	8	(7,128)	4,884
Gain on disposal of an associate	9	8,479	–
Loss before income tax		(6,910)	(4,979)
Income tax expense	15	(1,672)	(1,889)
Loss for the period		(8,582)	(6,868)
Loss attributable to owners of the Company		(7,516)	(6,241)
Loss attributable to non-controlling interests		(1,066)	(627)
		(8,582)	(6,868)

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT (CONTINUED)

FOR THE SIX MONTHS ENDED 30th JUNE 2020

		Unaudited Six months ended 30th June	
	Note	2020 HK cents per share	2019 HK cents per share
<hr/>			
Loss per share attributable to owners of the Company			
Basic loss per share	16	(3.27)	(2.71)

The above condensed consolidated interim income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30th JUNE 2020

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Loss for the period	(8,582)	(6,868)
Other comprehensive income/(loss)		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Movement of deferred tax	297	572
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(14,264)	(11,266)
	(13,967)	(10,694)
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(1,846)	(1,821)
Share of other comprehensive (loss)/income of associates	(389)	1,051
Release of exchange reserve on disposal of an associate	8,147	–
	5,912	(770)
Other comprehensive loss, net of tax	(8,055)	(11,464)
Total comprehensive loss for the period	(16,637)	(18,332)
Total comprehensive loss attributable to owners of the Company	(15,499)	(17,668)
Total comprehensive loss attributable to non-controlling interests	(1,138)	(664)
	(16,637)	(18,332)

The above condensed consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30th JUNE 2020

	Unaudited									
	Attributable to owners of the Company								Non-Controlling interests	Total equity
	Share capital	Share premium	Land and building revaluation reserve	Exchange reserve	Other reserves	Merger reserve	Retained earnings	Total		
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Balance at 1st January 2020	23,007	37,510	253,614	(64,490)	(1,597)	11,310	180,623	439,977	(1,754)	438,223
Comprehensive loss										
Loss for the period	-	-	-	-	-	-	(7,516)	(7,516)	(1,066)	(8,582)
Other comprehensive income/(loss)										
Movement of deferred tax	-	-	297	-	-	-	-	297	-	297
Transfer of land and building revaluation reserve to retained earnings on depreciation of buildings	-	-	(1,801)	-	-	-	1,801	-	-	-
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(14,264)	-	-	(14,264)	-	(14,264)
Currency translation differences	-	-	(277)	(1,497)	-	-	-	(1,774)	(72)	(1,846)
Share of other comprehensive loss of associates	-	-	-	(389)	-	-	-	(389)	-	(389)
Release of exchange reserve on disposal of an associate	-	-	-	8,147	-	-	-	8,147	-	8,147
Total comprehensive (loss)/income for the period ended 30th June 2020	-	-	(1,781)	6,261	(14,264)	-	(5,715)	(15,499)	(1,138)	(16,637)
Transfer of loss on disposal on equity investments at fair value through other comprehensive income to retained earnings	-	-	-	-	36	-	(36)	-	-	-
Transaction with owners, recognised directly in equity										
Special dividend payable	-	-	-	-	-	-	(5,752)	(5,752)	-	(5,752)
Total transaction with owners, recognised directly in equity	-	-	-	-	-	-	(5,752)	(5,752)	-	(5,752)
Balance at 30th June 2020	23,007	37,510	251,833	(58,229)	(15,825)	11,310	169,120	418,726	(2,892)	415,834

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30th JUNE 2020

	Unaudited									
	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Land and building revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserves HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-Controlling interests HK\$'000	Total equity HK\$'000
Balance at 1st January 2019	23,007	37,510	208,780	(63,934)	3,313	11,310	224,456	444,442	976	445,418
Change in accounting policy	-	-	44,511	-	-	-	-	44,511	-	44,511
Balance at 1st January 2019, as restated	23,007	37,510	253,291	(63,934)	3,313	11,310	224,456	488,953	976	489,929
Comprehensive loss										
Loss for the period	-	-	-	-	-	-	(6,241)	(6,241)	(627)	(6,868)
Other comprehensive income/(loss)										
Movement of deferred tax	-	-	572	-	-	-	-	572	-	572
Transfer of land and building revaluation reserve to retained earnings on depreciation of buildings	-	-	(3,466)	-	-	-	3,466	-	-	-
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(11,266)	-	-	(11,266)	-	(11,266)
Currency translation differences	-	-	53	(1,837)	-	-	-	(1,784)	(37)	(1,821)
Share of other comprehensive income of associates	-	-	-	1,051	-	-	-	1,051	-	1,051
Total comprehensive (loss)/income for the period ended 30th June 2019	-	-	(2,841)	(786)	(11,266)	-	(2,775)	(17,668)	(664)	(18,332)
Transaction with owners, recognised directly in equity										
Dividend payable relating to 2018	-	-	-	-	-	-	(5,752)	(5,752)	-	(5,752)
Total transaction with owners, recognised directly in equity	-	-	-	-	-	-	(5,752)	(5,752)	-	(5,752)
Balance at 30th June 2019	23,007	37,510	250,450	(64,720)	(7,953)	11,310	215,929	465,533	312	465,845

The above condensed consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30th JUNE 2020

	Note	Unaudited Six months ended 30th June	
		2020 HK\$'000	2019 HK\$'000
Cash flow from operating activities			
Cash used in operations		(23,167)	(26,487)
Income tax paid		(593)	(2,948)
Net cash used in operating activities		(23,760)	(29,435)
Cash flow from investing activities			
Purchase of plant and equipment		(66)	(116)
Purchase of financial assets at fair value through other comprehensive income		(18,950)	–
Disposal of financial assets at fair value through other comprehensive income		418	–
Dividend received from an associate	8	–	8,000
Dividend received from financial assets at fair value through other comprehensive income		–	2,030
Proceeds from sale of interest in an associate	9	100,000	–
Other investing cash flow – net		724	798
Net cash generated from investing activities		82,126	10,712
Cash flows from financing activities			
Net (repayment)/proceeds from collateralised borrowings and bank loans	13	(68,466)	20,893
Increase in restricted bank deposits		–	(104)
Release of restricted bank deposits		9,119	–
Principal elements of lease liabilities		(839)	(667)
Net cash (used in)/generated from financing activities		(60,186)	20,122
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(1,820)	1,399
Cash, cash equivalents and bank overdrafts at beginning of the period		60,768	52,874
Effect of the exchange rate for the period		(813)	(57)
Cash, cash equivalents and bank overdrafts at end of the period		58,135	54,216

The above condensed consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Leeport (Holdings) Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the trading of metalworking machinery, measuring instruments, cutting tools and electronic equipment.

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

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 24th August 2020.

These condensed consolidated interim financial information has not been audited.

2 Basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30th June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2019, as described in those annual financial statements. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 Accounting policies (Continued)

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the financial year beginning on or after 1st January 2020:

HKAS 1 and 8 (Amendment)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendment)	Hedge accounting
HKFRS 3 (Amendment)	Definition of a business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

These new standards and amendments to standards did not have material impact on the Group's accounting policies and did not require any adjustments.

(b) New and amended standards issued but not yet applied by the Group

The following new standards and amendments to standards have been issued but are not yet effective for the financial period of the Group beginning on 1st January 2020 and have not been early adopted by the Group:

		Effective for the accounting period beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2018-2020 cycle	1st January 2022
HKFRS 17	Insurance contracts	1st January 2023
HKAS 1 (Amendment)	Classification of liabilities as current or non-current	1st January 2023
HKAS 16 (Amendment)	Proceeds before intended use	1st January 2022
HKAS 37 (Amendment)	Onerous contracts – costs of fulfilling a contract	1st January 2022
HKFRS 3 (Amendment)	Reference to the Conceptual framework	1st January 2022
HKFRS 16 (Amendment)	Covid-19 – Related rent concessions	1st June 2020
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these HKFRSs is expected to have a significant effect on the financial statements of the Group.

4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2019.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December 2019.

There have been no changes in the risk management since year end or in any risk management policies.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5 Financial risk management (Continued)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data.

See Note 7 for disclosure of the plant and equipment, right-of-use assets and investment property that are measured at fair value.

The following table presents the Group's assets and liabilities that are measured at fair value at 30th June 2020.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Financial assets at fair value through other comprehensive income				
– listed securities	68,963	–	–	68,963
– unlisted securities	–	–	8,489	8,489
	<u>68,963</u>	<u>–</u>	<u>8,489</u>	<u>77,452</u>
Liabilities				
Derivative financial instruments	–	72	–	72
	<u>–</u>	<u>72</u>	<u>–</u>	<u>72</u>

5 Financial risk management (Continued)

5.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31st December 2019.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	-	253	-	253
Financial assets at fair value through other comprehensive income				
- listed securities	64,695	-	-	64,695
- unlisted securities	-	-	8,489	8,489
	<u>64,695</u>	<u>253</u>	<u>8,489</u>	<u>73,437</u>
Liabilities				
Derivative financial instruments	-	65	-	65

There were no transfers between Levels 1, 2 and 3 during the period.

There were no changes in valuation techniques during the period.

5.4 Valuation techniques used to derive Level 2 fair values

Level 2 trading derivatives comprise forward foreign exchange contracts. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in active market. The effects of discounting are generally insignificant for Level 2 derivatives.

5 Financial risk management (Continued)

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and bills receivables
- Other receivables and deposits
- Amount due from an associate
- Restricted bank deposits
- Cash and cash equivalents
- Trade and bills payables
- Other payables and accruals
- Amount due to an associate
- Amount due to a non-controlling shareholder
- Borrowings

6 Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker, represented by Board of Directors, that are used to make strategic decisions.

The Board considers the business from a geographic region perspective. Geographically, management considers the performance in the People's Republic of China (the "PRC"), Hong Kong and other countries.

The Group is principally engaged in the trading of metalworking machinery, measuring instruments, cutting tools and electronic equipment in three main geographical areas, namely the PRC, Hong Kong and other countries (principally Singapore, Germany, Malaysia and Indonesia). The PRC, for the purpose of this condensed consolidated interim financial information, excludes the financials of Hong Kong, Taiwan and Macau.

The Board assesses the performance of the operating segments based on a measure of segment result, total assets, total liabilities and total capital expenditure. The Group primarily operates in Hong Kong and the PRC. The Group's sales by geographical location are determined by the country in which the customer is located.

6 Segment information (Continued)

	Unaudited			
	Six months ended 30th June 2020			
	The PRC HK\$'000	HK HK\$'000	Others HK\$'000	Total HK\$'000
Sales	<u>262,455</u>	<u>18,974</u>	<u>10,327</u>	<u>291,756</u>
Segment results	<u>4,413</u>	<u>(2,348)</u>	<u>(7,563)</u>	(5,498)
Finance income				724
Finance costs				(3,487)
Share of post-tax loss of associates				(7,128)
Gain on disposal of an associate				<u>8,479</u>
Loss before income tax				(6,910)
Income tax expense				<u>(1,672)</u>
Loss for the period				<u><u>(8,582)</u></u>

6 Segment information (Continued)

	Unaudited			Total HK\$'000
	Six months ended 30th June 2019			
	The PRC HK\$'000	HK HK\$'000	Others HK\$'000	
Sales	348,962	19,284	11,505	379,751
Segment results	1,060	(4,068)	(3,680)	(6,688)
Finance income				798
Finance costs				(3,973)
Share of post-tax profits of associates				4,884
Loss before income tax				(4,979)
Income tax expense				(1,889)
Loss for the period				(6,868)

During the period ended 30th June 2020 and 2019, there is no revenue derived from a single customer amounted to 10% or more of the Group's revenue.

As at 30th June 2020, contract liabilities of HK\$18,195,000 (31st December 2019: HK\$36,347,000) were classified within "other payables, accruals and contract liabilities". It represents advanced payments received from customers for goods that have not been transferred to the customers. During the six months ended 30th June 2020, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue. Decrease in contract liabilities is mainly due to the decrease in sales orders with advanced payments.

The provision for slow moving inventories for the six months ended 30th June 2020 are HK\$406,000 (2019: HK\$23,000).

The net reversal of impairment losses on trade receivables for the six months ended 30th June 2020 are HK\$456,000 (2019: net impairment losses on trade receivables of HK\$251,000).

6 Segment information (Continued)

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Segment assets:		
The PRC	335,499	331,977
Hong Kong	296,627	401,595
Other countries (Note (a))	167,240	163,556
	799,366	897,128

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

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Segment liabilities:		
The PRC	255,753	304,448
Hong Kong	99,338	116,043
Other countries (Note (a))	28,441	38,414
	383,532	458,905

Segment liabilities are allocated based on where the liabilities are located.

6 Segment information (Continued)

The depreciation of plant and equipment and right-of-use assets for the six months ended 30th June 2020 are HK\$5,135,000 (2019: HK\$6,253,000).

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Capital expenditure:		
The PRC	17	60
Hong Kong	49	62
	66	122

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

Capital expenditure comprises mainly additions to plant and equipment.

Note:

- (a) Other countries mainly include Germany, Finland, Taiwan, Singapore, Macau, Indonesia and Malaysia.

7 Plant and equipment, right-of-use assets and investment properties

	Right-of-use assets HK\$'000	Unaudited Plant and equipment HK\$'000	Investment property HK\$'000
As at 1st January 2020	294,613	7,942	55,674
Additions	135	66	–
Depreciation (Note 14)	(4,171)	(964)	–
Lease modification	(56)	–	–
Exchange differences	(614)	(78)	(299)
As at 30th June 2020	<u>289,907</u>	<u>6,966</u>	<u>55,375</u>
As at 1st January 2019	–	242,684	55,611
Change in accounting policy	293,335	(233,159)	–
As at 1st January 2019, as restated	293,335	9,525	55,611
Additions	4,902	116	–
Depreciation (Note 14)	(5,282)	(971)	–
Exchange differences	(263)	(53)	62
As at 30th June 2019	<u>292,692</u>	<u>8,617</u>	<u>55,673</u>

At 30th June 2020, the Group's right-of-use assets includes land and buildings of HK\$286,334,000 (31st December 2019: HK\$290,289,000) and leased properties of HK\$3,573,000 (31st December 2019: HK\$4,324,000).

The Group's land and buildings and investment property were revalued at 31st December 2019 or acquired during the period which represents the latest market value of the assets. No valuation was performed during the period as there was no indication of significant changes in the values since previous annual reporting date.

Bank borrowings are secured on land and buildings and investment property with a carrying amount of HK\$306,326,000 (31st December 2019: HK\$258,474,000) (Note 13).

8 Investments in associates

Movements of investments in associates are as follows:

	Unaudited	
	30th June 2020 HK\$'000	30th June 2019 HK\$'000
Beginning of the period	63,895	155,300
Share of post-tax (loss)/profits of associates	(7,128)	4,884
Share of other comprehensive (loss)/income of associates	(389)	1,051
Dividend received from an associate	–	(8,000)
End of the period	56,378	153,235

The Group's share of the results in material associates and their aggregated assets and liabilities are shown below.

	Unaudited 30th June 2020	
	Prima Power Suzhou Co., Ltd. ("Prima") HK\$'000	OPS-Ingersoll Funkenerosion GmbH ("OPS") HK\$'000
Assets	86,959	78,930
Liabilities	60,062	49,449
Revenue	19,395	30,659
Share of loss	(2,749)	(4,379)
Share of other comprehensive loss	(282)	(107)
Percentage held	30.00%	22.34%

8 Investments in associates (Continued)

	Unaudited 30th June 2019		
	Prima Power Suzhou Co., Ltd. ("Prima") HK\$'000	Mitutoyo Leeport Metrology Corporation ("MLMC") HK\$'000	OPS-Ingersoll Funkenerosion GmbH ("OPS") HK\$'000
Assets	109,702	113,539	90,931
Liabilities	<u>77,838</u>	<u>34,656</u>	<u>51,895</u>
Revenue	45,868	60,730	40,103
Share of profit	80	4,748	56
Share of other comprehensive (loss)/income	<u>(149)</u>	<u>1,880</u>	<u>(680)</u>
Percentage held	<u>30.00%</u>	<u>49.00%</u>	<u>22.34%</u>

9 Asset classified as held for sale

MLMC, a 49% owned associate of the Group, has been presented as held for sale following the signing of sale and purchase agreement for a consideration of HK\$100,000,000 and approval by the Stock Exchange of Hong Kong Limited in December 2019.

As at 31st December 2019, investment in an associate of HK\$83,374,000 has been classified as held for sale in the consolidated balance sheet.

On 23rd January 2020, a subsidiary of the Group, Lleeport Machine Tool Company Limited, disposed 49% of the issued shares in MLMC.

	Unaudited 30th June 2020 HK\$'000
Consideration	100,000
Carrying amount of investment in MLMC	(83,374)
	16,626
Release of accumulated exchange reserve	(8,147)
	8,479

10 Trade and bills receivables

At 30th June 2020 and 31st December 2019, the ageing analysis of trade and bills receivables by invoice date are as follows:

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Within 3 months	80,343	78,851
4 – 6 months	11,780	6,257
7 – 12 months	7,725	7,959
Over 12 months	5,369	11,504
	105,217	104,571
Less: provision for impairment of receivables	(4,027)	(5,568)
	101,190	99,003

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

11 Share capital

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000

11 Share capital (Continued)

	Number of shares (in thousand)	Share capital HK\$'000
Issued and fully paid:		
At 30th June 2019, 1st January 2020, and 30th June 2020	230,076	23,007

12 Trade and bills payables

At 30th June 2020 and 31st December 2019, the ageing analysis of the trade and bills payables are as follows:

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Current	95,035	93,937
1 – 3 months	5,201	4,570
4 – 6 months	4,358	4
7 – 12 months	2,240	637
Over 12 months	2,495	1,513
	109,329	100,661

13 Borrowings

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Current		
Bank overdrafts	163	–
Trust receipt loans	93,273	113,793
Portions of term loans from banks due for repayment within one year or with repayment on demand clause	77,215	125,301
Total borrowings	170,651	239,094

Bank borrowings are secured by certain land and buildings, investment properties (Note 7) and restricted bank deposits of the Group.

Movements in borrowings are analysed as follows:

	Unaudited HK\$'000
As at 1st January 2020	239,094
Repayments of borrowings	(168,235)
Proceeds from borrowings	99,769
Net proceeds from bank overdrafts	163
Exchange difference	(140)
As at 30th June 2020	170,651
	Unaudited HK\$'000
As at 1st January 2019	203,408
Repayments of borrowings	(70,569)
Proceeds from borrowings	91,423
Exchange difference	39
As at 30th June 2019	224,301

14 Operating loss

The following items have been charged to the operating loss during the period:

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold	245,240	309,685
Depreciation on plant and equipment	964	971
Depreciation on right-of-use assets	4,171	5,282
Employee benefits expenses (including directors' remuneration)	32,553	41,183
Foreign exchange losses, net	214	558
Short-term leases	366	594
Provision for slow moving inventories	406	23
Professional fee	3,659	3,228

15 Income tax expense

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

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Current income tax:		
– PRC and overseas taxation	1,672	1,385
Deferred income tax	–	504
	1,672	1,889

Income tax expense is recognised based on management's best estimate of the projected annual effective income tax rate which is expected for the full financial year.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the period.

15 Income tax expense (Continued)

Enterprise income tax ("EIT") in the PRC has been provided at the rate of 25% (2019: 25%) on the estimated assessable profit for the period with certain preferential provisions.

Corporate tax in Singapore has been provided at the rate of 17% (2019: 17%) on the estimated assessable profit for the period.

Taxation on other 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 subsidiaries of the Group operate.

16 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Loss from continuing operations attributable to owners of the Company (HK\$'000)	(7,516)	(6,241)
Weighted average number of ordinary shares in issue (in thousands)	230,076	230,076
Basic loss per share attributable to owners of the Company (HK cents per share)	(3.27)	(2.71)

16 Loss per share (Continued)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary share: share options. For share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share. There are no share options issued/outstanding for the period ended 30th June 2020 and 2019, hence no diluted loss per share was presented.

17 Dividends

A special dividend of HK\$5,752,000 is payable as at 30th June 2020. (2019: dividend of HK\$5,752,000 that relates to the year ended 31st December 2018 is payable as at 30th June 2019).

No interim dividend is proposed for the period ended 30th June 2020 (2019: Nil).

18 Contingent liabilities

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Letters of guarantee given to customers	6,301	10,281

Certain subsidiaries have given undertakings to banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided letters of guarantee to third parties on behalf of these subsidiaries.

19 Related party transactions

The Group is controlled by Peak Power Technology Limited (incorporated in the British Virgin Islands), which owns 62.8% of the Company's shares. The remaining 37.2% of the shares are widely held.

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

(a) Key management compensation

Key management includes directors (executive and non-executive), members of Executive Committee and the Company Secretary. The compensation paid or payable to key management for employee service is shown below:

	Unaudited	
	Six months ended 30th June	
	2020	2019
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	5,180	4,337
Pension costs – defined contribution plans	123	138
	5,303	4,475

19 Related party transactions (Continued)

(b) Sales and purchase of goods and services

	Unaudited Six months ended 30th June	
	2020 HK\$'000	2019 HK\$'000
Purchase of goods from associates		
– MLMC	–	5,600
– Prima	3,177	12,814
	3,177	18,414
Management fee income from an associate		
– MLMC	–	773

The transaction price was determined by the directors and agreed with the related parties.

(c) Period/year-end balance arising from sales of goods/services

	Unaudited 30th June 2020 HK\$'000	Audited 31st December 2019 HK\$'000
Receivables from an associate		
– MLMC	–	247
Payable to an associate		
– MLMC	–	668

19 Related party transactions (Continued)

(d) Loan to an associate

The balance represents a loan effectively made to OPS. As at 30th June 2020, the carrying value of the loan to an associate was HK\$17,668,000 (31st December 2019: HK\$17,690,000). The loan is unsecured, interest bearing at HIBOR plus 4.5% per annum (2019: HIBOR plus 4.5% per annum). The Group does not expect to demand payment from OPS within the next twelve months. During the period, interest received from OPS amounted to HK\$539,000 (2019: HK\$586,000).

Based on the assessment on the recoverability of the balance, management considers no impairment provision is necessary.