# LEEPORT (HOLDINGS) LIMITED
# 力 豐（集 團）有 限 公 司*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 387)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 30 June 2005, 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 Directors are pleased to declare an interim dividend of HK7 cents (2004: HK6 cents) per ordinary share, amounting to a total of HK$14,247,000 (2004: HK$12,000,000), which will be payable on 7 October 2005 to shareholders whose names appear on the Register of Members on 4 October 2005.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

| | Note | Unaudited Six months ended 30 June 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Turnover | 3 | **363,563** | 316,258 |
| Cost of sales | | **(279,802)** | (241,861) |
| Gross profit | | **83,761** | 74,397 |
| Other revenues | | **7,196** | 6,265 |
| Gain on disposal of an investment property | | **–** | 4,668 |
| Gain on acquisition of a subsidiary | 4 | **2,087** | – |
| Selling and distribution costs | | **(16,449)** | (16,521) |
| Administrative expenses | | **(49,509)** | (45,348) |
| Operating profit | 5 | **27,086** | 23,461 |
| Finance costs | | **(2,006)** | (1,063) |
| Profit before taxation | | **25,080** | 22,398 |
| Taxation | 6 | **(1,604)** | (1,514) |
| Profit for the period | | **23,476** | 20,884 |
| Attributable to: | | | |
| Equity holders of the Company | | **22,530** | 20,321 |
| Minority interests | | **946** | 563 |
| | | **23,476** | 20,884 |
| Dividends | 7 | **14,247** | 12,000 |
| Basic earnings per share | 8 | **HK11.13 cents** | HK10.16 cents |
| Diluted earnings per share | 8 | **HK11.11 cents** | HK10.16 cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**

| | Note | Unaudited 30 June 2005 HK$'000 | Restated 31 December 2004 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **54,234** | 48,947 |
| Leasehold land | | **37,102** | 31,558 |
| | | **91,336** | 80,505 |
| **Current assets** | | | |
| Inventories | | **111,478** | 78,038 |
| Trade receivables and bills receivable | 10 | **150,806** | 140,457 |
| Other receivables, prepayments and deposits | | **23,470** | 21,801 |
| Derivative financial instruments | 9 | **554** | – |
| Bank balances and cash | | **63,816** | 79,226 |
| | | **350,124** | 319,522 |
| **Total assets** | | **441,460** | 400,027 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 13 | **20,353** | 20,028 |
| Other reserves | | **43,934** | 41,752 |
| Retained profits | | | |
| Proposed dividend | | **14,247** | 14,020 |
| Others | | **104,550** | 96,130 |
| | | **183,084** | 171,930 |
| **Minority interest** | | **7,194** | 6,848 |
| **Total equity** | | **190,278** | 178,778 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred taxation | | **6,169** | 6,320 |
| **Current liabilities** | | | |
| Trade payables and bills payable | 11 | **76,550** | 59,197 |
| Trust receipt loans-secured | 12 | **119,068** | 106,826 |
| Other payables, accruals and deposits received | | **40,036** | 42,930 |
| Derivative financial instruments | 9 | **1,928** | – |
| Taxation | | **2,071** | 1,246 |
| Bank overdrafts – secured | 12 | **5,360** | 4,730 |
| | | **245,013** | 214,929 |
| **Total liabilities** | | **251,182** | 221,249 |
| **Total equity and liabilities** | | **441,460** | 400,027 |
| **Net current assets** | | **105,111** | 104,593 |
| **Total assets less current liabilities** | | **196,447** | 185,098 |

*Notes:*

1 **Basis of preparation and accounting policies**

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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

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

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

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

2 **Effect of adopting new HKFRS**

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

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

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

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

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

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

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

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

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

In accordance with the provisions of HKFRS 3:

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

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

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

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

| | As at 30 June 2005 HK$'000 | 31 December 2004 HK$'000 |
|---|---|---|
| Decrease in property, plant and equipment | **37,102** | 31,558 |
| Increase in leasehold land | **37,102** | 31,558 |

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

| | As at 30 June 2005 HK$'000 |
|---|---|
| Increase in derivative financial instruments (assets) | 554 |
| Increase in derivative financial instruments (liabilities) | 1,928 |
| Decrease in retained earnings | 1,356 |

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

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

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

* *For identification purpose*

3 **Segment information**

*(a) Primary reporting format – geographical segments*

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

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

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

*(b) Secondary reporting format – business segments*

No business segment analysis is presented as the Group has been operating in a single business segment, which is the trading of machines, tools, accessories and measuring instruments, throughout the period.

4 **Business combination**

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

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

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

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

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

5 **Operating profit**

Operating profit is stated after crediting and charging the following:

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

6 **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

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

7 **Dividends**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** *HK$'000* | 2004 *HK$'000* |
| Interim, proposed, of HK7 cents (2004: HK6 cents) per ordinary share *(note (b))* | **14,247** | 12,000 |
| | **14,247** | 12,000 |

*Notes:*

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

(b) At a board meeting held on 10 September 2005, the Directors proposed an interim dividend of HK7 cents per ordinary share for the year ending 31 December 2005. This declared dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

8 **Earnings per share**

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to equity holders of HK$22,530,000 (2004: HK$20,321,000).

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

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

9 **Derivative financial instruments**

| | **As at 30 June 2005** | |
|---|---|---|
| | **Assets** *HK$'000* | **Liabilities** *HK$'000* |
| Forward foreign exchange contracts – non-hedging instruments | 554 | 1,928 |

10 **Trade receivables and bills receivable**

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

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

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

11 **Trade payables and bills payable**

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

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

12 **Borrowings**

| | **30 June 2005** *HK$'000* | 31 December 2004 *HK$'000* |
|---|---|---|
| Current | | |
| Bank overdrafts | **5,360** | 4,730 |
| Trust receipts loans | **119,068** | 106,826 |
| Total borrowings | **124,428** | 111,556 |

13 **Share capital**

| | **30 June 2005** *HK$'000* | 31 December 2004 *HK$'000* |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK$0.10 each (At 31 December 2004: 1,000,000,000 shares) | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 203,528,000 ordinary shares of HK$0.10 each (At 31 December 2004: 200,284,000 shares) | **20,353** | 20,028 |

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 September 2005 (Friday) to 4 October 2005 (Tuesday), both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar at Hong Kong Tricor Investor Services Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 29 September 2005 (Thursday).

## BUSINESS REVIEW

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

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

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

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

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

## FUTURE PLANS AND PROSPECTS

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

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

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

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

The Group will for the first time invest in manufacturing and will take up a 49% shareholding of a cutting tool manufacturing plant in Dongguan that is wholly owned by a Hong Kong company. The plant has signed a License Agreement with Mitsubishi Materials Corporation, our current Japanese supplier of cutting tools, to produce and sell the licensed products of patented tool holders, and Mitsubishi will provide the know-how and technology. The cutting tool business is very promising in China, especially for high-quality products. The import value of high-end cutting tools in 2004 was US$400 million. Our investment in the plant will secure our sources of supply, will grow our cutting tools business and will certainly make a significant contribution to the Group.

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

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

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

## EMPLOYEES

As at 30 June 2005, the Group had 410 employees (2004: 322), of whom 184 were based in Hong Kong and 203 were based in China (the remaining 23 were based in other offices around Asia). Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses and share options.

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

Certain properties in Hong Kong and in Singapore with an aggregate carrying value of approximately HK$14,328,000 have been pledged to secure the bank loans and overdrafts of the Group by way of a fixed charge.

## CONTINGENT LIABILITIES

At 30 June 2005, the Group had contingent liabilities in respect of letters of guarantee given to customers and bills of exchange discounted with recourse of approximately HK$9,578,000 and HK$16,156,000 respectively.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's revenue and purchase were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign exchange received from its customers to settle the payment to overseas suppliers. In the event that any material payment which cannot be fully matched, the Group will enter into foreign currency contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks. As at 30 June 2005, the Group has commitments for foreign currency forward contracts amounting to approximately HK$148,079,000 (31 December 2004: HK$38,420,000).

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

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

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

For the six months period to 30 June 2005, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2005, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The Company has set up an audit committee, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Dr LUI Sun Wing and Mr. NIMMO, Walter Gilbert Mearns. The audit committee has reviewed the accounting principles and practices adopted by the Group with management and has discussed internal controls and financial reporting matters, including a review of the unaudited condensed accounts for the six months ended 30 June 2005 with the directors.

## SUBSEQUENT EVENT

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

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

Hong Kong, 10 September 2005

*As at the date of this announcement, the board of directors comprise 3 executive directors, namely Mr. Lee Sou Leung, Joseph, Ms. Tan, Lisa Marie and Mr. Chan Ching Huen, Stanley and 3 independent non-executive directors, namely Dr. Lui Sun Wing, Mr. Pike, Mark Terence and Mr. Nimmo, Walter Gilbert Mearns.*