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Leeport

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 30TH JUNE 2014

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 2014, 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 which have been reviewed by the Audit Committee of the Company.

INTERIM DIVIDEND

No interim dividend is proposed for the six months ended 30th June 2014 (2013: same).

* *For identification purpose only*

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2014

		Unaudited Six months ended 30th June	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Sales	*3*	**331,207**	352,162
Cost of goods sold	*5*	**(266,133)**	(284,643)
Gross profit		**65,074**	67,519
Other income and gains – net	*4*	**9,937**	8,508
Selling and distribution costs	*5*	**(16,250)**	(17,783)
Administrative expenses	*5*	**(63,308)**	(67,791)
Operating loss		**(4,547)**	(9,547)
Finance income		**1,405**	1,473
Finance costs		**(2,179)**	(2,664)
Finance costs – net		**(774)**	(1,191)
Share of post-tax profits of associates		**8,471**	7,719
Profit/(loss) before income tax		**3,150**	(3,019)
Income tax (expense)/credit	*6*	**(307)**	172
Profit/(loss) for the period		**2,843**	(2,847)
Attributable to owners of the Company		**2,843**	(2,847)

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE 2014

		Unaudited	
		Six months ended 30th June	
		2014	2013
	Note	***HK cents per share***	*HK cents per share*
Earnings/(loss) per share attributable to owners of the Company			
Basic and diluted earnings/(loss) per share	*8*	**1.28**	(1.28)

		Unaudited	
		Six months ended 30th June	
		2014	2013
	Note	***HK'000***	*HK'000*
Dividends	*7*	**–**	–

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE 2014

	Unaudited	
	Six months ended 30th June	
	2014	2013
	HK$'000	*HK$'000*
Profit/(loss) for the period	**2,843**	(2,847)
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Currency translation differences	**8,305**	(26,303)
Items that may be reclassified to profit or loss		
Movement of deferred tax	**407**	481
Change in value of available-for-sale financial assets, net of tax	**7,109**	(1,308)
Currency translation differences	**(1,286)**	6,858
Share of other comprehensive income/(loss) of associates	**1,309**	(8,087)
Other comprehensive income/(loss), net of tax	**15,844**	(28,359)
Total comprehensive income/(loss) for the period	**18,687**	(31,206)
Attributable to owners of the Company	**18,687**	(31,206)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30TH JUNE 2014

	Note	Unaudited 30th June 2014 HK$'000	Audited 31st December 2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**182,249**	178,433
Leasehold land		**9,200**	9,359
Investment property		**37,700**	37,700
Investments in associates		**79,629**	69,205
Loan to an associate		**31,768**	32,148
Prepayment for property, plant equipment		**–**	1,705
		340,546	328,550
Current assets			
Inventories		**75,282**	65,761
Trade receivables and bills receivables	*9*	**114,205**	115,616
Other receivables, prepayments and deposits		**33,656**	30,336
Available-for-sale financial assets		**24,351**	17,242
Derivative financial instruments		**370**	105
Tax recoverable		**420**	311
Amount due from an associate		**233**	1,764
Restricted bank deposits		**85,683**	139,030
Cash and cash equivalents		**66,955**	51,509
		401,155	421,674
Total assets		**741,701**	750,224

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

AS AT 30TH JUNE 2014

	Note	**Unaudited 30th June 2014 HK$'000**	Audited 31st December 2013 HK$'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	12	**22,193**	22,193
Other reserves		**187,351**	173,973
Retained earnings			
– Proposed dividend		**–**	3,329
– Others		**146,576**	141,267
		356,120	340,762
Total equity		**356,120**	340,762
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**22,219**	22,188
Current liabilities			
Trade payables and bills payables	10	**117,742**	103,033
Other payables, accruals and deposits received		**92,077**	62,016
Derivative financial instruments		**48**	290
Borrowings	11	**153,495**	221,935
		363,362	387,274
Total liabilities		**385,581**	409,462
Total equity and liabilities		**741,701**	750,224
Net current assets		**37,793**	34,400
Total assets less current liabilities		**378,339**	362,950

NOTES

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30th June 2014 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. 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 2013, 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.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning on or after 1st January 2014 that either have no significant impact or are not currently relevant to the Group:

HKAS 32 (Amendment)	Financial Instruments: Presentation on Asset and Liability Offsetting
HKAS 36 (Amendment)	Impairment of Assets on Recoverable Amount Disclosure
HKAS 39 (Amendment)	Financial Instruments: Recognitions and Measurement – Novation of derivatives
HK(IFRIC) – Int 21	Levies
HKFRS 10, 12 and HKAS 27 (Amendment)	Consolidation for Investment Entities

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning 1st January 2014 that not currently relevant to the Group and have not been early adopted:

HKAS 19 (2011)(Amendment)	Defined Benefit Plans: Employee Contribution[1]
Annual Improvements 2012	Annual Improvements 2010-2012 Cycle[1]
Annual Improvements 2013	Annual Improvements 2011-2013 Cycle[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKAS 11 (Amendment)	Accounting for Acquisitions of Interest in Joint Operations[2]
HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation[2]
HKFRS 15	Revenue of Contracts from Customers[3]
HKFRS 9	Financial Instrument[4]

[1] Effective for the Group for the annual periods beginning on or after 1st July 2014

[2] Effective for the Group for the annual periods beginning on or after 1st January 2016

[3] Effective for the Group for the annual periods beginning on or after 1st January 2017

[4] The effective date is to be announced

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations that have been issued but are not effective for annual periods beginning on or after 1st January 2014, and does not expect there will be a significant impact to the Group's financial statements.

3. 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, installation and provision of after-sales service of metalworking machinery, measuring instruments, cutting tools and electronic equipment in three main geographical areas, namely the PRC, Hong Kong and other countries (principally Taiwan, Singapore, Macau, Malaysia and Indonesia). The PRC, for the purpose of this condensed consolidated interim financial information, excludes Hong Kong, Taiwan and Macau.

3. **SEGMENT INFORMATION (Continued)**

The Board assesses the performance of the operating segments based on a measure of segment result, total assets 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.

	Unaudited			
	Six months ended 30th June 2014			
	The PRC	**HK**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Sales	**233,335**	**71,635**	**26,237**	**331,207**
Segment results	**(2,793)**	**(2,148)**	**394**	**(4,547)**
Finance costs – net				**(774)**
Share of profit of associates				**8,471**
Profit before income tax				**3,150**
Income tax expense				**(307)**
Profit for the period				**2,843**

	Unaudited			
	Six months ended 30th June 2013			
	The PRC	HK	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Sales	242,136	69,391	40,635	352,162
Segment results	(3,108)	(3,456)	(2,983)	(9,547)
Finance costs – net				(1,191)
Share of profit of associates				7,719
Loss before income tax				(3,019)
Income tax credit				172
Loss for the period				(2,847)

3. SEGMENT INFORMATION (Continued)

During the period ended 30th June 2014, revenue derived from the Group's largest customer amounted to HK$41,314,000 or 12.5% of the Group's revenue. For the period ended 30th June 2013, there was no revenue from transactions with a single external customer amounting to 10% or more of the Group's revenue.

	Unaudited 30th June 2014 *HK$'000*	Audited 31st December 2013 *HK$'000*
Total assets:		
The PRC	**244,695**	212,441
Hong Kong	**381,725**	431,822
Other countries *(Note (a))*	**115,281**	105,961
	741,701	750,224

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

Segment assets consist primarily of property, plant and equipment, leasehold land, investment in associates, inventories, receivables, derivative financial instruments, available-for-sale financial assets, operating cash and restricted bank deposits.

	Unaudited 30th June 2014 *HK$'000*	Audited 31st December 2013 *HK$'000*
Capital expenditure:		
The PRC	**674**	3,648
Hong Kong	**2,869**	607
	3,543	4,255

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

Capital expenditure comprises mainly additions to property, plant and equipment.

Note:

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

4. OTHER INCOME AND GAINS – NET

	Unaudited Six months ended 30th June **2014** ***HK$'000***	 2013 *HK$'000*
Derivative instruments – forward contracts:		
– Realised and unrealised net fair value gain	**507**	975
Service income	**5,283**	4,091
Commission income	**37**	81
Other income	**4,110**	3,361
	9,937	8,508

5. EXPENSES BY NATURE

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

	Unaudited Six months ended 30th June **2014** ***HK$'000***	 2013 *HK$'000*
Costs of inventories sold	**262,655**	281,255
Depreciation on property, plant and equipment	**4,407**	6,073
Amortisation on leasehold land	**196**	111
Provision for slow moving inventories	**1,317**	930
Net provision for impairment of trade receivables and bills receivables	**174**	921
Employee benefits expenses (including directors' remuneration)	**37,561**	41,386
Foreign exchange loss/(gain)	**795**	(804)
Operating lease rentals	**2,023**	1,895
Exhibition and promotion expenses	**112**	2,187
Travelling expenses	**10,448**	9,244
Commission expenses	**1,884**	1,213
Professional fee	**2,453**	2,970
Other expenses	**21,666**	22,836
Total cost of goods sold, selling and distribution costs and administrative expenses	**345,691**	370,217

6. INCOME TAX (EXPENSE)/CREDIT

The amount of taxation (charged)/credited to the condensed consolidated interim income statement represents:

	Unaudited Six months ended 30th June	
	2014	2013
	HK$'000	*HK$'000*
Current income tax:		
– Hong Kong profits tax	**(100)**	–
– PRC and overseas taxation	**(7)**	(100)
– Over-provision in previous years	**238**	240
Deferred income tax	**(438)**	32
	(307)	172

Income tax (expense)/credit are 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% (2013: 16.5%) on the estimated assessable profit for the period.

Enterprise income tax ("EIT") in the PRC has been provided at the rate of 25% (2013: 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% (2013: 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.

7. DIVIDENDS

A dividend of HK$3,329,000 that relates to the year ended 31st December 2013 was paid in June 2014 (2013: HK$7,768,000). No interim dividend is proposed for the period ended 30th June 2014 (2013: same).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(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 **2014**	 2013
Profit/(loss) from continuing operations attributable to owners of the Company *(HK$'000)*	**2,843**	(2,847)
Weighted average number of ordinary shares in issue *(in thousands)*	**221,934**	221,934
Basic earnings/(loss) per share attributable to owners of the Company *(HK cents per share)*	**1.28**	(1.28)

(b) Diluted

The Group's diluted earnings/(loss) per share is the same as its basic earnings/(loss) per share, as the conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the earnings/(loss) per share for the period ended 30th June 2014 and 2013.

9. TRADE RECEIVABLES AND BILLS RECEIVABLES

At 30th June 2014 and 31st December 2013, the ageing analysis of trade receivables and bills receivables by due date are as follows:

	Unaudited 30th June 2014	Audited 31st December 2013
	HK$'000	*HK$'000*
Current	**55,888**	69,148
1 – 3 months	**29,129**	30,582
4 – 6 months	**20,365**	8,900
7 – 12 months	**7,528**	4,630
Over 12 months	**5,894**	9,355
	118,804	122,615
Less: provision for impairment of receivables	**(4,599)**	(6,999)
	114,205	115,616

The Group generally grants limited credit terms to its customers. Payment terms of approximately 60 days might be granted to those customers who have good payment history and long-term business relationship with the Group.

10. TRADE PAYABLES AND BILLS PAYABLES

At 30th June 2014 and 31st December 2013, the ageing analysis of the trade payables and bills payables are as follows:

	Unaudited 30th June 2014	Audited 31st December 2013
	HK$'000	*HK$'000*
Current	**110,638**	87,991
1 – 3 months	**2,847**	12,365
4 – 6 months	**220**	184
7 – 12 months	**3,104**	611
Over 12 months	**933**	1,882
	117,742	103,033

11. BORROWINGS

	Unaudited 30th June 2014 *HK$'000*	Audited 31st December 2013 *HK$'000*
Current		
Trust receipt loans	**53,887**	71,818
Short-term bank loans	**99,133**	150,052
Bank overdrafts	**475**	65
Total borrowings	**153,495**	221,935

Bank borrowings are secured by the leasehold land, property, plant and equipment, investment property and restricted bank deposits of the Group.

Movements in borrowings are analysed as follows:

	Unaudited *HK$'000*
As at 1st January 2014	221,935
Repayments of borrowings	(144,531)
Proceeds from borrowings	74,503
Proceeds from bank overdrafts	410
Exchange differences	1,178
As at 30th June 2014	153,495
As at 1st January 2013	226,126
Repayments of borrowings	(159,259)
Proceeds from borrowings	179,444
Proceeds from bank overdrafts	498
Exchange differences	(1,326)
As at 30th June 2013	245,483

Interest expenses on borrowings and loans for the period ended 30th June 2014 is HK$2,179,000 (30th June 2013: HK$2,664,000).

12. SHARE CAPITAL

	Unaudited 30th June 2014 *HK$'000*	Audited 31st December 2013 *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
221,934,062 ordinary shares of HK$0.10 each	**22,193**	22,193

Share options

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

During the period, no share options were exercised, granted or cancelled.

Movements in the number of share options outstanding and their related exercise price are as follows:

Eligible participants	Date of grant	Exercise period	Exercise price *HK$*	At beginning of the period	Exercised during the period	Lapsed during the period	At end of the period
Dr. LUI Sun Wing	15th November 2013	15th November 2013 to 14th November 2016	1.13	1,740,000	–	–	1,740,000
				1,740,000	–	–	1,740,000

No share-based payment was recognized in the condensed consolidated interim income statement for the six months ended 30th June 2014 and 30th June 2013.

FINANCIAL PERFORMANCE

Sales

The business situation in China in the first six months of 2014 continued the weak economic environment of 2013. Most manufacturing industries have been relatively stagnant compared to last year. Only the mobile phone and car manufacturing industries were active, showing high demand for manufacturing equipment.

In the first six months of 2014, the Group's sales amounted to HK$331,207,000 compared to HK$352,162,000 in the same period last year, representing a decrease of 6.0%. The gross profit amounted to HK$65,074,000, compared to HK$67,519,000 in the same period last year, representing a decrease of 3.6%. The gross profit percentage was 19.6%, which was slightly better than the figure of 19.2% in the same period last year.

Other Income and Gains

The total value of other income and gains was HK$9,937,000, compared to HK$8,508,000 in the same period last year, representing an increase of 16.8%.

The service income was HK$5,283,000, compared to HK$4,091,000 in the same period last year. Other income included rental of HK$813,000, a management fee of HK$702,000 charged against Mitutoyo Leeport Metrology Corporation, and gains on derivative financial instruments of HK$507,000.

Operating Expenses

Selling and distribution costs were HK$16,250,000, compared to HK$17,783,000 in the same period last year, representing a decrease of 8.6%. In 2013, there were expenses related to the Beijing CIMT exhibition, which is held only once every two years. Savings on exhibition costs in the period were about HK$1,339,000.

Administrative expenses amounted to HK$63,308,000, compared to HK$67,791,000 in the same period last year, representing a decrease of 6.6%. In the middle of 2013, the Group started to restructure the organisation, with the aim of improving the cost-effectiveness of its operations. The headcount has become more productive. In the first half of 2014, the Group achieved a reduction in staff costs of HK$3,825,000 compared to the same period last year. The depreciation amount also fell by HK$1,666,000 compared to the same period last year. This was due mainly to the change in the status of one property from owner-occupied property to investment property after the middle of 2013, so a depreciation amount of HK$516,000 was incurred in the first six months of 2013 but not in the same period this year. Also, one set of capital assets (computer equipment) and some other equipment were fully depreciated at the end of 2013, resulting in a reduction for depreciation in the amount of HK$946,000.

The business performance of two associated companies, Mitutoyo Leeport Metrology Corporation and OPS Ingersoll Funkenerosion GmbH, continued to be good. The share of the profits of associated companies was HK$8,471,000, better than the figure of HK$7,719,000 in the same period last year.

Finance Costs net of interest income were HK$774,000, compared to HK$1,191,000 in the same period last year. Finance costs incurred in the first half of 2014 were HK$2,179,000, compared to HK$2,664,000 in the same period last year. Finance costs were lower due to the lower level of bank loans during the period. Interest income, derived from the loan to OPS Ingersoll Funkenerosion GmbH and other deposits to the banks, was HK$1,405,000, similar to the amount of HK$1,473,000 in the same period last year.

Profit Attributable to Owners of the Company and Earnings per Share

In the first six months of 2014, the profit attributable to owners of the Company was HK$2,843,000, compared to a loss of HK$2,847,000 in the same period last year.

The operating loss of the Company was HK$4,547,000, compared to the figure of HK$9,547,000 in the same period last year. There were significant improvements in the operating situation. The saving in operating expenses after a series of restructuring and cost-control measures contributed to the lower operating loss. The Group's management aims to achieve an operating profit in the second half of 2014.

The basic earnings per share were HK1.28 cents, compared to a loss per share of HK1.28 cents in the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

The balance of cash net of overdraft of the Group as at 30th June 2014 was HK$66,480,000 (31st December 2013: HK$51,444,000). The Group maintained a reasonable cash position. The Group's inventory balance as at 30th June 2014 was HK$75,282,000 (31st December 2013: HK$65,761,000). The turnover days of inventory was 52 at the end of June 2014, compared to 40 at the end of December 2013. The inventory level was higher at 30th June 2014 than at 31st December 2013. This was due to the delivery of more cutting tools from suppliers by the end of June 2014, so that we could catch up on the outstanding contracts on hand. Also, more showroom machines were added during the period. The balance of trade receivables and bills receivable was HK$114,205,000 as at 30th June 2014 (31st December 2013: HK$115,616,000). The turnover days of trade receivable was 63, compared to 57 at the end of December 2013. The balance of trade payables and bills payable was HK$117,742,000 as at 30th June 2014 (31st December 2013: HK$103,033,000). The balance of short-term borrowings was HK$153,495,000 as at 30th June 2014 (31st December 2013: HK$221,935,000).

The Group's net gearing ratio was approximately 24% as at 30th June 2014 (31st December 2013: 50%). The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalent. This reduction in the gearing ratio came about because of a significant reduction in pledged loans, in order to save on finance costs. The Group is now in a stronger financial position.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 30th June 2014, the Group had aggregate banking facilities of approximately HK$827,995,000, of which approximately HK$228,866,000 was utilised, bearing interest at prevailing market rates and secured by certain leasehold land, land and buildings, investment property and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK$276,915,000 (31st December 2013: HK$331,012,000). The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

BUSINESS REVIEW

The economic situation in China in the first half of 2014 can only be described as steady. The sentiment has been better since the beginning of the year, but the momentum of economic growth is mild. The GDP growth rate was 7.4% in the first half of 2014, which was actually lower than the GDP growth rate of 7.7% in 2013 and the GDP growth rate of 7.6% in same period last year. The value of industrial production in the first half of 2014 grew by 8.8%, compared to 9.3% growth in the same period last year. The value of exports grew by only 0.9%, compared to 10.4% growth in the same period last year.

In the first half of 2014, the mobile phone and car manufacturing industries were still very active. The core income of the Group related mainly to these industries in the first half of the year.

The value of the Group's contract bookings in the first half of 2014 was HK$366,538,000, compared to HK$396,436,000 in the same period last year and HK$374,429,000 in the second half of 2013, so business did not improve. The value of outstanding contracts at the end of July 2014 was HK$192,994,000.

The business performance of two associated companies, Mitutoyo Leeport Metrology Corporation and OPS Ingersoll Funkenerosion GmbH, continued to be good, making a valuable contribution to the financial result of the Group. The progress of the construction work of the joint-venture manufacturing company, Prima Power Suzhou Company Limited, has been satisfactory, and the production of sheetmetal machines will commence by the end of the year.

In the first half of 2014, the Group continued to restructure the organisation in order to enhance the cost-effectiveness and productivity of its operations. The service and support teams of various business divisions were merged and some job roles were re-assigned. The operating loss at the end of June 2014 was lower than in same period last year. The Group will continue to implement strict control over operating costs. At the same time, however, the Group will continue to improve its sales performance by training the existing sales staff and recruiting additional skilled salespeople.

FUTURE PLANS AND PROSPECTS

It is commonly believed that the GDP growth rate in China in the second half of 2014 will not vary significantly from the growth rate of 7.4% in the first half of the year. On the other hand, the economic situation in China is expected to improve at a reasonable rate. The HSBC PMI (Purchasing Managers Index) of China's manufacturing industries increased from 48.0 in March 2014 to over 50 in June 2014, and reached 51.7 in July 2014, the highest figure in the last 18 months.

Since the beginning of 2014, the Chinese Government has taken measures to improve the liquidity of capital in some specific industries. There are indications of more capital expenditure investing in the following industries: high-speed trains and systems, nuclear power generation and energy-saving cars. The mobile phone and car manufacturing industries are expected to continue to be promising in the second half of the year. The improving economy in the USA and Europe will probably result in an increase in the value of exports from China. The manufacturing industries are expected to be more active in the near future.

The economy in Germany is still strong, and there has been some recovery in the USA. The machine tool business of OPS Ingersoll Funkenerosion GmbH in these two markets is promising. The measuring business of Mitutoyo Leeport Metrology Corporation continues to grow steadily in Southern China. The Group foresees that the business of these associated companies in second half of 2014 will be as good as in the first half of the year.

It is encouraging to see the effect of enhancements in the Group's sales management processes and improvements in its operational effectiveness. We expect that the business of the Group will be better as a more cost-effective operation is achieved. As a result of the reduction in operating costs and the expectation of business improvement, the Group is confident that its financial performance in the second half of 2014 will be better than in the first half of the year.

EMPLOYEES

As at 30th June 2014, the Group had 376 employees (30th June 2013: 416). Of these, 103 were based in Hong Kong, 247 were based in mainland China, and 26 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.

A new share option scheme was adopted by the Company on 15th May 2013 to replace the old one for a period of 10 years for employees and other eligible participants so as to provide incentives and rewards for their continued contributions to the Group.

DETAILS OF THE CHARGES ON THE GROUP'S ASSETS

As at 30th June 2014, certain land and buildings, leasehold land, investment property and restricted bank deposits in Hong Kong and Singapore, with an aggregate carrying value of approximately HK$276,915,000 (31st December 2013: HK$331,012,000), 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 2014, the Group spent a total of HK$3,543,000 (30th June 2013: HK$457,000) in capital expenditure, primarily consisting of property, plant and equipment. As at 30th June 2014, the Group had no capital commitments (31st December 2013: HK$736,000 on property, plant and equipment), and an investment of HK$4,713,000 in an associated company (31st December 2013: HK$7,073,000). In the meantime, a total of HK$16,968,000 (31st December 2013: HK$24,155,000) in contingent liabilities in respect of letters of guarantee was given to customers.

EXPOSURE TO FLUCTUATIONS ON 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 uses the foreign currencies received from its customers to settle payment to overseas suppliers. In the event that any material payment cannot be fully matched, the Group enters into foreign currency forward contracts with its bankers to minimise the Group's exposure to foreign-exchange-rate risks.

As at 30th June 2014, the Group had outstanding gross-settled foreign currency forward contracts to buy RMB11,000,000 for HK$13,606,000; JPY426,000,000 for HK$32,468,000; EUR1,997,000 for HK$21,146,000; USD425,000 for HK$3,295,000; GBP47,000 for HK$610,000; JPY67,200,000 for USD657,000; EUR245,000 for USD334,000; and JPY89,450,000 for RMB5,424,000 (2013: Buy EUR626,000 for HK$6,625,000; JPY101,800,000 for USD1,008,000; RMB11,000,000 for HK$13,987,000; and EUR3,000,000 for USD4,139,000).

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.

CORPORATE GOVERNANCE

During the six months ended 30th June 2014, 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

Mr. LEE Sou Leung, Joseph is the Chairman and the Managing Director of the Company but the daily operation and management of the Company are monitored by executive directors as well as the senior management to ensure the balance of power and authority.

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 2014.

AUDIT COMMITTEE

The Audit Committee, comprised of three independent non-executive directors of the Company, namely Mr. PIKE, Mark Terence, Mr. NIMMO, Walter Gilbert Mearns and Dr. LEE Tai Chiu, 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 2014 with the directors.

2014 INTERIM REPORT

The interim report of the Company for the six months ended 30th June 2014 containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company and dispatched to the shareholders by the end of September 2014.

On behalf of the Board
LEE Sou Leung, Joseph
Chairman

Hong Kong, 14th August 2014

As at the date of this announcement, the executive directors of the Company are Mr. LEE Sou Leung, Joseph, Mr. CHAN Ching Huen, Stanley, Mr. WONG Man Shun, Michael and the independent non-executive directors are Mr. PIKE, Mark Terence, Mr. NIMMO, Walter Gilbert Mearns and Dr. LEE Tai Chiu.