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 2012

The Board of Directors (the "Directors") of Leeport (Holdings) Limited (the "Company") would like to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June 2012, 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 DIVIDENDS

No interim dividend is proposed for the six months ended 30th June 2012 (2011: HK3.5 cents per share).

* *For identification purpose only*

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2012

	Note	**Unaudited Six months ended 30th June 2012 HK$'000**	2011 HK$'000
Continuing operations			
Sales	3	**446,335**	506,624
Cost of goods sold	5	**(377,546)**	(418,689)
Gross profit		**68,789**	87,935
Other income and gains – net	4	**8,040**	12,147
Selling and distribution costs	5	**(15,411)**	(19,812)
Administrative expenses	5	**(70,988)**	(60,601)
Operating (loss)/profit		**(9,570)**	19,669
Finance costs – net		**(2,114)**	(1,333)
Share of post-tax profits of associates		**2,378**	–
(Loss)/profit before income tax		**(9,306)**	18,336
Income tax expense	6	**(1,315)**	(1,895)
(Loss)/profit for the period from continuing operations		**(10,621)**	16,441
Discontinued operations			
Profit for the period from discontinued operations	7	**20,963**	32
Profit for the period		**10,342**	16,473
Profit attributable to:			
– Owners of the Company		**9,780**	16,428
– Non-controlling interests		**562**	45
		10,342	16,473

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE 2012

	Note	Unaudited Six months ended 30th June **2012** **HK$'000**	 2011 HK$'000
(Loss)/earnings per share from continuing and discontinued operations attributable to owners of the Company (expressed in HK cents per share)			
Basic (loss)/earnings per share	9		
From continuing operations		**HK(4.80) cents**	HK7.59 cents
From discontinued operations		**HK9.22 cents**	HK(0.01) cents
		HK4.42 cents	HK7.58 cents
Diluted (loss)/earnings per share	9		
From continuing operations		**HK(4.80) cents**	HK7.55 cents
From discontinued operations		**HK9.22 cents**	HK(0.01) cents
		HK4.42 cents	HK7.54 cents
Dividends	8	**–**	7,714

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE 2012

	Unaudited	
	Six months ended 30th June	
	2012	2011
	HK$'000	HK$'000
Profit for the period	**10,342**	16,473
Other comprehensive (loss)/income		
Movement of deferred tax	**339**	276
Change in value of available-for-sale financial assets, net of tax	**(370)**	–
Currency translation differences	**(4,167)**	11,321
Other comprehensive (loss)/income, net of tax	**(4,198)**	11,597
Total comprehensive income for the period	**6,144**	28,070
Total comprehensive income for the period attributable to:		
– Owners of the Company	**6,080**	27,706
– Non-controlling interests	**64**	364
	6,144	28,070
Total comprehensive income attributable to owners of the Company arising from:		
– Continuing operations	**(12,327)**	25,225
– Discontinued operations	**18,407**	2,481
	6,080	27,706

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2012

	Note	**Unaudited 30th June 2012 HK$'000**	Audited 31st December 2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**202,972**	207,885
Leasehold land		**6,867**	6,947
Investments in associates		**58,057**	–
Loan to an associate		**29,664**	–
		297,560	214,832
Current assets			
Inventories		**131,300**	125,051
Trade receivables and bills receivables	11	**163,734**	141,533
Other receivables, prepayments and deposits		**63,359**	49,193
Available-for-sale financial assets		**13,503**	7,236
Derivative financial instruments	10	**345**	55
Tax recoverable		**1,698**	–
Amount due from an associate		**3,212**	–
Restricted bank deposits		**66,397**	100,697
Cash and cash equivalents		**45,030**	52,802
		488,578	476,567
Assets of disposal group classified as held for sale		**–**	116,128
		488,578	592,695
Total assets		**786,138**	807,527
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	14	**22,193**	22,055
Other reserves		**188,328**	211,503
Retained earnings			
– Proposed dividend		**–**	13,233
– Others		**133,565**	121,729
		344,086	368,520
		–	14,853
Total equity		**344,086**	383,373

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 30TH JUNE 2012

	Note	**Unaudited 30th June 2012 HK$'000**	Audited 31st December 2011 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**17,821**	18,519
Current liabilities			
Trade payables and bills payables	12	**148,702**	93,910
Other payables, accruals and deposits received		**110,108**	79,967
Derivative financial instruments	10	**114**	510
Borrowings	13	**165,307**	174,884
Tax payables		**–**	24
		424,231	349,295
Liabilities of disposal group classified as held for sale		**–**	56,340
		424,231	405,635
Total liabilities		**442,052**	424,154
Total equity and liabilities		**786,138**	807,527
Net current assets		**64,347**	187,060
Total assets less current liabilities		**361,907**	401,892

NOTES

1 Basis of preparation

This unaudited condensed interim consolidated financial information for the six months ended 30th June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting".

The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 2011, 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 2012 that either have no significant impact or are not currently relevant to the Group:

HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time adopters
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets

2 Accounting policies (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning 1st January 2012 that not currently relevant to the Group and have not been early adopted:

HKAS 1 (Amendment)	Presentation of Financial statement [1]
HKAS 19 (Amendment)	Employee Benefits [1]
HKAS 27 (revised 2011)	Separate Financial Statements [1]
HKAS 28 (revised 2011)	Associates and Joint Ventures [1]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities [1]
HKFRS 10	Consolidated Financial Statements [1]
HKFRS 11	Joint Arrangements [1]
HKFRS 12	Disclosure of Interests in Other Entities [1]
HKFRS 13	Fair Value Measurement [1]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine [1]
HKAS 32 (Amendment)	Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities [2]
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory Effective Date and Transition Disclosures [3]
HKFRS 9	Financial Instrument [3]

[1] Effective for the Group for annual periods beginning on or after 1st January 2013
[2] Effective for the Group for annual periods beginning on or after 1st January 2014
[3] Effective for the Group for annual periods beginning on or after 1st January 2015

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 2012, 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. 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 Singapore). The PRC, for the purpose of this condensed interim consolidated financial information, excludes Hong Kong, the Republic of China ("Taiwan") and Macau.

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							
	Continuing operations Six months ended 30th June 2012				Discontinued operations Six months ended 30th June 2012			
	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000
Sales	**285,065**	**88,766**	**72,504**	**446,335**	**2,720**	**12,877**	**68**	**15,665**
Segment results	**(7,923)**	**1,981**	**(1,250)**	**(7,192)**	**(107)**	**1,211**	**9**	**1,113**
Finance costs				**(2,114)**				**–**
(Loss)/profit before income tax				**(9,306)**				**1,113**
Income tax expense				**(1,315)**				**–**
(Loss)/profit after income tax				**(10,621)**				**1,113**
Gain on disposal of discontinued operations				**–**				**19,850**
(Loss)/profit for the period				**(10,621)**				**20,963**

3 Segment information (Continued)

	Unaudited							
	Continuing operations Six months ended 30th June 2011				Discontinued operations Six months ended 30th June 2011			
	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000	The PRC HK$'000	HK HK$'000	Others HK$'000	Total HK$'000
Sales	391,699	65,980	48,945	506,624	28,794	40,682	440	69,916
Segment results	16,494	3,291	(116)	19,669	(13)	146	–	133
Finance costs				(1,333)				(101)
Profit before income tax				18,336				32
Income tax expense				(1,895)				–
Profit for the period				16,441				32

There are no sales or other transactions between the geographical segments.

There is no revenue from transactions with a single external customer amounting to 10% or more of the Group's revenues.

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Total assets:		
The PRC	**315,893**	365,787
Hong Kong	**339,450**	378,859
Other countries (Note a)	**130,795**	62,881
	786,138	807,527

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

3 Segment information (Continued)

The total assets of disposal group classified as held for sale are mainly located in Hong Kong. As at 31st December 2011, the total assets of disposal group was HK$116,128,000.

Segment assets consist primarily of property, plant and equipment, leasehold land, inventories, receivables, derivative financial instruments, operating cash and restricted bank deposits.

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Capital expenditure:		
The PRC	**828**	644
Hong Kong	**4,320**	3,414
Other countries (Note a)	**–**	6
	5,148	4,064

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

The capital expenditure of disposal group classified as held for sales are mainly located in Hong Kong. During the year ended 31st December 2011, the total capital expenditure by the disposal group was HK$27,000.

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

Notes:

(a) Other countries mainly include Taiwan, Singapore, United States, Macau, Greece, Germany, United Kingdom, Italy, Japan and Malaysia.

4 Other income and gains – net

	Unaudited Six months ended 30th June	
	2012	2011
	HK$'000	HK$'000
Derivative instruments – forward contracts:		
– Realised and unrealised net fair value gain/(loss)	**686**	(260)
Service income	**3,717**	6,074
Commission income	**136**	2,975
Other income	**3,501**	3,358
	8,040	12,147

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	
	2012	2011
	HK$'000	HK$'000
Costs of inventories sold	**374,839**	414,003
Depreciation on property, plant and equipment	**6,138**	5,206
Amortisation on leasehold land	**111**	107
(Reversal of)/provision for slow moving inventories	**(1,415)**	353
Net provision for impairment of trade and bills receivables	**822**	68
Employee benefits expenses (including directors' remuneration)	**41,115**	35,626
Other expenses	**42,335**	43,739
Total cost of sales, selling and distribution costs and administrative expenses	**463,945**	499,102

6 Income tax expense

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

	Unaudited Six months ended 30th June	
	2012	2011
	HK$'000	HK$'000
Current income tax:		
– Hong Kong profits tax	**12**	484
– PRC and overseas taxation	**2,467**	1,513
– (Over)/under-provision in previous years	**(805)**	875
Deferred income tax	**(359)**	(977)
	1,315	1,895

Income tax expense 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% (2011: 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% (2011: 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% (2011: 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 Discontinued operations

On 28th February 2012, the Group has disposed 31% equity interest of Mitutoyo Leeport Metrology Corporation ("MLMC") resulting in a loss of control on the subsidiary. As a result, MLMC becomes an 49% own associated company of the Group. The subsidiary was sold for a cash consideration of HK$21,700,000 and results are presented in the condensed interim financial information as a discontinued operation.

Financial information relating to MLMC for the period to the date of disposal is set out below. The income statement distinguish discontinued operations from continuing operations. Comparative figures have been restated.

	Unaudited Six months ended 30th June	
	2012	2011
	HK$'000	HK$'000
Revenue	**15,665**	69,916
Expenses – net	**(14,552)**	(69,884)
Profit before income tax of discontinued operations	**1,113**	32
Income tax expense	**–**	–
	1,113	32
Gain on disposal of discontinued operations	**19,850**	–
Profit from discontinued operations	**20,963**	32
Profit for the year from discontinued operations attributable to:		
– Owners of the company	**20,401**	(13)
– Non-controlling interests	**562**	45
	20,963	32

8 Dividends

	Unaudited Six months ended 30th June	
	2012	2011
	HK$'000	HK$'000
Interim, proposed, of HK Nil cents (2011: HK3.5 cents) per ordinary share	**–**	7,714

No interim dividend is proposed for the period ended 30th June 2012 (2011: HK3.5 cents per ordinary share).

9 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit 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	
	2012	2011
(Loss)/profit from continuing operations attributable to owners of the Company (HK$'000)	**(10,621)**	16,441
Profit/(loss) from discontinued operations attributable to owners of the Company (HK$'000)	**20,401**	(13)
	9,780	16,428
Weighted average number of ordinary shares in issue (in thousands)	**221,462**	216,781

9 (Loss)/earnings per share (Continued)

(a) Basic (Continued)

	Unaudited Six months ended 30th June	
	2012	2011
Basic (loss)/earnings per share attributable to owners of the Company (HK cents per share)		
– From continuing operations	**(4.80)**	7.59
– From discontinued operations	**9.22**	(0.01)

(b) Diluted

The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the (loss)/earnings per share for the period ended 30th June 2012.

In 2011, the diluted (loss)/earnings per share is based on the weighted average number of ordinary shares, including the adjustment for share options granted during the period, of 217,928,000.

	Unaudited Six months ended 30th June	
	2012	2011
Weighted average number of ordinary shares in issue (in thousands)	**221,462**	216,781
Adjustment for:		
– Share options (in thousands)	**–**	1,147
Weighted average number of ordinary shares for diluted (loss)/earnings per share (in thousands)	**221,462**	217,928
Diluted (loss)/earnings per share attributable to owners of the Company (HK cents per share)		
– From continuing operations	**(4.80)**	7.55
– From discontinued operations	**9.22**	(0.01)

10 Derivative financial instruments

	Unaudited As at 30th June 2012	
	Assets	**Liabilities**
	HK$'000	**HK$'000**
Forward foreign exchange contracts		
– non-hedging instruments	**345**	**114**

	Audited As at 31st December 2011	
	Assets	Liabilities
	HK$'000	HK$'000
Forward foreign exchange contracts		
– non-hedging instruments	55	510

11 Trade receivables and bills receivables

At 30th June 2012 and 31st December 2011, the ageing analysis of trade receivables and bills receivables by due dates are as follows:

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Current	**79,703**	82,206
1-3 months	**63,602**	34,257
4-6 months	**10,969**	9,314
7-12 months	**5,278**	11,856
Over 12 months	**9,863**	8,761
	169,415	146,394
Less: provision for impairment of receivables	**(5,681)**	(4,861)
	163,734	141,533

11 Trade receivables and bills receivables (Continued)

The Group generally grants credit terms of 30 to 90 days to its customers. Longer payment terms of approximately 120 days might be granted to those customers who have good payment history and long-term business relationship with the Group.

12 Trade payables and bills payables

At 30th June 2012 and 31st December 2011, the ageing analysis of the trade payables and bills payables by due dates are as follows:

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Current	**146,458**	90,902
1-3 months	**736**	1,768
4-6 months	**904**	23
7-12 months	**21**	30
Over 12 months	**583**	1,187
	148,702	93,910

13 Borrowings

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Current		
Collateralised borrowings	**–**	4,547
Trust receipt loans	**60,620**	67,531
Short-term bank loans	**101,167**	97,659
Bank overdrafts	**3,520**	5,147
Total borrowings	**165,307**	174,884

13 Borrowings (Continued)

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

Movements in borrowings are analysed as follows:

	Unaudited HK$'000
As at 1st January 2012	174,884
Repayments of borrowings	(142,254)
Proceeds from borrowings	132,136
Exchange differences	541
As at 30th June 2012	165,307
As at 1st January 2011	121,291
Repayments of borrowings	(93,180)
Proceeds from borrowings	87,580
Exchange differences	379
As at 30th June 2011	116,070

Interest expenses on borrowings and loans for the period ended 30th June 2012 is HK$2,840,000 (30th June 2011: HK$1,747,000).

14 Share capital

	Unaudited 30th June 2012 HK$'000	Audited 31st December 2011 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000

	Number of shares (in thousand)	**Share Capital HK$'000**
Issued and fully paid:		
At 1st January 2012		
220,546,062 ordinary shares of HK$0.10 each	220,546	22,055
1,388,000 ordinary shares of HK$0.10 each issued on exercise of share option	1,388	138
At 30th June 2012		
221,934,062 ordinary shares of HK$0.10 each	221,934	22,193

Share options

On 17th June 2003, the Company approved and adopted a share option scheme (the "Scheme").

14 Share capital (Continued)

Movements in the number of share options outstanding and their related exercise prices 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
Director							
TAN, Lisa Marie (Ms. Tan)	29th March 2010	29th March 2011 – 28th March 2012	0.61	580,000	(580,000)	–	–
LUI Sun Wing (Dr. Lui)	4th July 2011	2nd July 2012 – 1st July 2013	0.96	260,000	–	–	260,000
NIMMO, Walter Gilbert Mearns (Mr. Nimmo)	29th March 2010	29th March 2011 – 28th March 2012	0.61	100,000	(100,000)	–	–
Employees (excluding directors)	29th March 2010	29th March 2011 – 28th March 2012	0.61	2,098,000	(708,000)	(1,390,000)	–
				3,038,000	(1,388,000)	(1,390,000)	260,000

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$0.95.

During the six months ended 30th June 2012, 1,388,000 shares of the Company were issued upon the exercise of share options at exercise price of HK$0.61, and resulting in approximately HK$708,000 credited to share premium.

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

The share-based payment recognised in the condensed interim consolidated income statement for these share options granted to directors and employees for the six months ended 30th June 2012 is HK$34,000 (2011: HK$379,000).

FINANCIAL PERFORMANCE

Since the beginning of 2012, the continuing weakening economic situation in Europe and USA has affected China's economy. The continuing slowdown in the growth rate of the country's exports has inevitably dragged down the economic momentum. The Group's sales in the first half of 2012 amounted to HK$446,335,000, compared with HK$506,624,000 in the same period last year, representing a decrease of 11.9%.

The Group's gross profit amounted to HK$68,789,000, compared with HK$87,935,000 in the same period last year, representing a decrease of 21.8%. The gross profit percentage was 15.4%, compared with 17.4% in the same period last year. The decrease in the gross profit percentage was due mainly to the different product mix for the cost of goods sold in the current period.

OTHER INCOME AND GAINS

The total of other income and gains in the first half of 2012 amounted to HK$8,040,000, compared with HK$12,147,000 in the same period last year, representing a decrease of 33.8%. The service income in the first half of 2012 was only HK$3,717,000, compared with HK$6,074,000 in the same period last year. The recession in the market also affected the Group's service income. The commission income received from suppliers was HK$136,000, compared with HK$2,975,000 in the same period last year. The decrease in commission income was in line with the reduction in business. On the other hand, service fees have been charged against the associated company, Mitutoyo Leeport Metrology Corporation, for the administrative support of the operation since March 2012.

OPERATING EXPENSES

Selling and distribution costs were HK$15,411,000 in the first half of 2012, compared with HK$19,812,000 in the same period last year, representing a decrease of 22.2%.

Exhibition costs were much lower in the first half of 2012. For example, the Group incurred significant costs participating in the CIMT exhibition in Beijing last year. Freight and delivery charges were lower as a result of the decrease in business.

Administrative expenses amounted to HK$70,988,000 in the first half of 2012, compared with HK$60,601,000 in the same period last year, representing an increase of 17.1%. The increase in administrative expenses was due mainly to professional charges incurred for the acquisition of an equity shareholding in a German machine tool company OPS Ingersoll, increase in staff costs and higher overseas travelling expenses.

Finance costs in the first half of 2012 were HK$2,114,000, compared with HK$1,333,000 in the same period last year. The higher finance costs were due mainly to the HK$50,000,000 bank loan raised for the acquisition of the shareholding in OPS Ingersoll.

There was gain of HK$19,850,000 on completion of the disposal of a 31% shareholding in Mitutoyo Leeport Metrology Corporation at the end of February 2012. Leeport now has a 49% shareholding in this associated company.

After the completion of the disposal of a 31% shareholding in Mitutoyo Leeport Metrology Corporation at the end of February 2012 and the completion of the acquisition of a 22.3% shareholding in OPS Ingersoll at the end of March 2012, the Group started to book the share of profit or loss of these associated companies in the first half of 2012. The total share of net profit for the associated companies was HK$2,378,000 during the period.

The income tax provision was HK$1,315,000 in the first half of 2012, compared with HK$1,895,000 in the same period last year. The income tax provision was mainly for the Group's subsidiaries in China.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's financial result in the first half of 2012 was adversely affected by the decrease in sales transaction, the reduction of income derived from other gains, and the additional professional charges for the acquisition of an equity shareholding in OPS Ingersoll. However, the gain on disposal of 31% shareholding in Mitutoyo Leeport Metrology Corporation compensated for these losses.

Profit attributable to owners of the Company was HK$9,780,000, compared with HK$16,428,000 in the same period last year, representing a decrease of 40.5%. The basic earnings per share were HK4.42 cents in the first half of 2012, compared with HK7.58 cents in the same period last year, representing a decrease of 41.7%.

LIQUIDITY AND FINANCIAL RESOURCES

The balance of cash net of overdraft of the Group as at 30th June 2012 was HK$41,510,000 (31st December 2011: HK$47,655,000). The Group has maintained a good level of cash position. The Group's inventory balance as at 30th June 2012 was HK$131,300,000 (31st December 2011: HK$125,051,000). The turnover days of inventory was 61 and it was at a reasonable level. The trade receivables and bills receivables balance was HK$163,734,000 as at 30th June 2012 (31st December 2011: HK$141,533,000). The turnover days of sales was 62 which was also at a reasonable level. The trade payables and bills payables balance was HK$148,702,000 as at 30th June 2012 (31st December 2011: HK$93,910,000). The balance of short-term borrowings including the bank loan of HK$41,667,000 for the acquisition of an equity shareholding in OPS Ingersoll was HK$165,307,000 as at 30th June 2012 (31st December 2011: HK$174,884,000). More pledged loan for Renminbi was made in first half of the year 2012.

The Group's net gearing ratio was approximately 35.0% as at 30th June 2012 (31st December 2011: 21.8%). The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 30th June 2012, the Group had aggregate banking facilities of approximately HK$831,430,000 of which approximately HK$326,032,000 was utilised, bearing interest at prevailing market rates and secured by certain leasehold land, land and buildings and restricted bank deposits of the Group in Hong Kong and Singapore, with an aggregate carrying amount of HK$227,588,000 (31st December 2011: HK$265,446,000). The Directors are confident that the Group is able to meet its operational and capital expenditure and requirements.

BUSINESS REVIEW

The economic situation in China and the world has been tight in the first half of 2012. China's economy has inevitably been affected by the weakening economy in Europe and the USA. China's GDP growth rate in the first half of 2012 was only 7.8%, the lowest since 2008. The value of industrial production still grew at 10.5% in the first half of 2012, but this was 3.8% lower than in the same period last year. The value of exports grew at 9.2%, much lower than the growth rate of 24% in the same period last year.

The value of the Group's contract booking in the first half of 2012 was HK$536,000,000 (including Mitutoyo Leeport Metrology Corporation), compared with HK$790,000,000 in the first half of 2011. So currently, the overall market situation is clearly unfavourable. Most manufacturing equipment and tools suppliers have faced a reduction in orders in the China market since the beginning of the year. Many potential customers have slowed down their purchase plans and are taking a "wait and see" attitude. The Group is thus facing a challenge, and is working hard for the limited potential orders in the market.

In terms of customer segments, smart phone manufacturers and sub-vendors are the major active equipment buyers in the market. The automotive industry is also an important source for equipment and tools orders. Manufacturers from the infrastructure industry have also demonstrated a reasonable demand for equipment and tools. During the first half of 2012, the Group organised more customer visits to machine tool manufacturers, especially in Europe, in order to promote the business, and the results have been very positive.

In general, the business of the Group in the first half of 2012 was not satisfactory. The lack of capital investment by the Chinese Government and the country's weakening export have clearly affected the demand for manufacturing equipment and tools.

FUTURE PLANS AND PROSPECTS

The changeover of the Standing Committee of the Political Bureau of the Chinese Communist Party will be completed within a few months. It is generally expected that the new leadership group will implement some measures to stimulate the country's economy. However, the effects of these measures will probably not be seen until about early 2013.

The Group will continue to enhance staff productivity, attract more new customers and strengthen customer support. Leeport and Prima Power, a European sheetmetal machinery manufacturer, have just completed a new strategic partnership. The newly established Prima Power Technology Centre in our showroom in Shanghai was opened in July 2012, and is strategically important. It provides machine demonstrations and technical training for customers. It will also be an application and service training centre for all Leeport staff in China and South East Asia. Prima Power has seconded a team of technical and service staff to support the operations of the Technology Centre.

Another technology centre for the new product line, the OPS Ingersoll machine tool from Germany, will be established at our Shenzhen showroom in mid-September this year. At the OPS Ingersoll Technology Centre, we will offer machine demonstrations and technical training for customers. It will also support the training for the OPS Ingersoll sales and service team in this region.

The Group's investment in the establishment of technology centres will enable us to enhance our support to customers, and raise our marketing and technical capabilities for the relevant products.

Due to the weakening market in Europe and the USA, more equipment and tool manufacturers are willing to put additional resources into the China market. The Group is therefore able to gain stronger support from suppliers in the development of the market in this region.

The increasing labour costs in China also create more business opportunities for highly automated machinery. The Group's machine tool products such as the OPS Ingersoll automated mould-centre and the Prima Power automation systems in sheetmetal fabrication will meet our customers' need for greater automation, so the future for these products looks very promising.

The Group is prudent but optimistic about the business prospects for the second half of 2012. Even in the current environment, we see that these is still room for market growth. We are confident that the Group's performance in the second half of the year will improve.

EMPLOYEES

As at 30th June 2012, the Group had 480 employees (2011: 452), of whom 116 were based in Hong Kong; 337 were based in mainland China, and 27 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the offered staff benefits also include medical schemes, educational subsidies and discretionary performance bonuses.

A share option scheme was adopted by the Company on 17th June 2003 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 2012, certain leasehold land, land and buildings and restricted bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK$227,588,000 (31st December 2011: HK$265,446,000) have been 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 2012, the Group spent a total of HK$5,148,000 (30th June 2011: HK$241,000) in capital expenditure, which primarily consisted of property, plant and equipment. As at 30th June 2012, the Group had no material capital commitments and HK$29,142,000 (31st December 2011: HK$31,415,000) 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 purchase were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign currencies received from customers to settle the payments to overseas suppliers. In the event that any material payment which cannot be fully matched, the Group will enter into foreign currency contracts with its bankers to minimise the Group's exposure to foreign exchange rate risks.

The Group is committed to buy the following foreign currencies under forward contracts:

	At end 30th June 2012		At end 31st December 2011	
	Buy	**For HK$**	Buy	For HK$
JPY	**67,300,000**	**6,306,000**	118,000,000	12,012,000
EUR	**1,591,000**	**15,576,000**	2,780,000	28,262,000
SGD	**515,000**	**3,187,000**	–	–
AUD	**715,000**	**5,540,000**	260,000	1,976,000
		30,609,000		42,250,000

Apart from those set out above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2011 annual report.

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, 2012, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (effective until 31st March, 2012) and Corporate Governance Code (effective from 1st April, 2012) 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 2012.

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 Professor Tai-Chiu LEE, 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 interim consolidated financial information for the six months ended 30th June 2012 with the directors.

2012 INTERIM REPORT

The interim report of the Company for the six months ended 30th June 2012 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 2012.

On behalf of the Board
LEE Sou Leung, Joseph
Chairman

Hong Kong, 30th August 2012

As at the date of this announcement, the executive directors of the Company are Mr. LEE Sou Leung, Joseph, Ms. TAN, Lisa Marie, Mr. CHAN Ching Huen, Stanley, Dr. LUI Sun Wing and the independent non-executive directors are Mr. PIKE, Mark Terence, Mr. NIMMO, Walter Gilbert Mearns and Professor Tai-Chiu LEE.