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## K & P International Holdings Limited

堅寶國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock code: 675)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

#### UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of K & P International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 together with the comparative figures for the previous period. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
<b>REVENUE</b>	2	<b>226,947,051</b>	194,849,928
Cost of sales		<b>(187,314,478)</b>	(159,432,768)
Gross profit		<b>39,632,573</b>	35,417,160
Other income and gains	3	<b>2,953,908</b>	7,584,637
Selling and distribution costs		<b>(17,088,068)</b>	(16,433,724)
Administrative expenses		<b>(14,392,769)</b>	(14,251,300)
Other expenses	4	<b>(2,654,010)</b>	(1,014,858)
Finance costs	5	<b>(649,836)</b>	(357,423)
<b>PROFIT BEFORE TAX</b>	6	<b>7,801,798</b>	10,944,492
Income tax credit/(expense)	7	<b>1,379,598</b>	(1,517,223)
<b>PROFIT FOR THE PERIOD</b>			
ATTRIBUTABLE TO OWNERS OF THE COMPANY		<b>9,181,396</b>	9,427,269
<b>EARNINGS PER SHARE</b>			
ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		<b>HK3.44 cents</b>	HK3.53 cents
Diluted		<b>HK3.44 cents</b>	HK3.53 cents

Details of the interim dividend are disclosed in note 9 to the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2014*

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>PROFIT FOR THE PERIOD</b>	<b>9,181,396</b>	<b>9,427,269</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation of foreign operations	<u><b>13,033</b></u>	<u>1,694,181</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<u><u><b>9,194,429</b></u></u>	<u><u>11,121,450</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014 (Unaudited) HK\$	31 December 2013 (Audited) HK\$
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		187,440,516	186,415,614
Prepaid land lease payments		13,194,534	13,350,738
Available-for-sale financial investment		680,000	680,000
Deferred tax assets		434,200	434,200
Prepaid rent		78,425	156,850
		201,827,675	201,037,402
<b>CURRENT ASSETS</b>			
Inventories		55,653,294	52,823,362
Derivative financial instruments	12	-	3,153,075
Prepayments, deposits and other receivables		16,758,596	15,878,797
Trade and bills receivables	10	82,613,494	71,447,340
Cash and cash equivalents		54,903,285	55,645,830
		209,928,669	198,948,404
<b>CURRENT LIABILITIES</b>			
Trade payables	11	47,485,178	48,497,085
Accrued liabilities and other payables		42,764,590	48,106,038
Derivative financial instruments	12	647,448	-
Interest-bearing bank and other borrowings		39,661,865	29,112,005
Dividend payable		10,680,192	-
Tax payable		7,255,923	9,122,965
		148,495,196	134,838,093
<b>NET CURRENT ASSETS</b>		61,433,473	64,110,311
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		263,261,148	265,147,713
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		1,276,385	1,677,187
Deferred tax liabilities		8,503,908	8,503,908
		9,780,293	10,181,095
Net assets		253,480,855	254,966,618
<b>EQUITY</b>			
Issued capital		26,700,480	26,700,480
Reserves		221,440,279	217,585,946
Proposed dividend		5,340,096	10,680,192
		253,480,855	254,966,618
Total equity		253,480,855	254,966,618

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31 December 2013, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

Amendments to HKAS 27 (2011), HKFRS 10 and HKFRS 12	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Presentation – Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC) – Int 21	<i>Levies</i>

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has three reportable operating segments as follows:

- (a) the precision parts and components segment comprises the manufacture and sale of precision parts and components comprising keypads, synthetic rubber and plastic components and parts, and liquid crystal displays;
- (b) the consumer electronic products segment comprises the design, manufacture and sale of consumer electronic products comprising time, weather forecasting and other products; and
- (c) the corporate and others segment comprises the Group's long term investments, together with corporate income and expense items.

Management, the chief decision makers, monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that bank interest income and finance costs are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the cost of sales.

In previous periods, the intersegment management fee between each individual segment were eliminated in full in the presentation of operating segment information. In current period, the management re-assessed the classification of the intersegment management fee and concluded that present gross results on individual segments reflect the profit or loss which reviewed by and regularly provided to the chief decision makers. The 2013 figures had been restated to reflect the substance.

<b>For the six months ended 30 June 2014</b>	<b>Precision parts and components (Unaudited) HK\$</b>	<b>Consumer electronic products (Unaudited) HK\$</b>	<b>Corporate and others (Unaudited) HK\$</b>	<b>Total (Unaudited) HK\$</b>
<b>Segment revenue:</b>				
Sales to external customers	170,228,131	56,718,920	-	226,947,051
Intersegment sales	361,232	154,515	-	515,747
Intersegment management fee	-	-	2,460,000	2,460,000
Other income and gains, excluding bank interest income	<u>1,909,015</u>	<u>565,272</u>	<u>151,594</u>	<u>2,625,881</u>
	<b>172,498,378</b>	<b>57,438,707</b>	<b>2,611,594</b>	<b>232,548,679</b>
<i>Reconciliation:</i>				
Elimination of intersegment sales				(515,747)
Elimination of intersegment management fee				<u>(2,460,000)</u>
Total segment revenue				<u><u>229,572,932</u></u>
<b>Segment results:</b>	<b>10,241,327</b>	<b>(1,478,433)</b>	<b>(639,287)</b>	<b>8,123,607</b>
<i>Reconciliation:</i>				
Bank interest income				328,027
Finance costs				<u>(649,836)</u>
Profit before tax				<u><u>7,801,798</u></u>

## 2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2014	Precision parts and components (Unaudited) <i>HK\$</i>	Consumer electronic products (Unaudited) <i>HK\$</i>	Corporate and others (Unaudited) <i>HK\$</i>	Total (Unaudited) <i>HK\$</i>
<b>Other segment information:</b>				
Depreciation and amortisation of other intangible assets	3,841,613	1,816,805	1,439,036	7,097,454
Amortisation of prepaid land lease payments	114,834	-	41,370	156,204
Fair value loss on derivative financial instruments – transactions not qualified for hedge accounting	1,346,227	303,573	-	1,649,800
Realised loss arising from a derivative financial instrument – transaction not qualified for hedge accounting	763,200	241,010	-	1,004,210
Capital expenditure – additions	<u>7,986,666</u>	<u>202,807</u>	<u>4,290</u>	<u>8,193,763</u>
For the six months ended 30 June 2013	Precision parts and components (Unaudited) <i>HK\$</i> (Restated)	Consumer electronic products (Unaudited) <i>HK\$</i> (Restated)	Corporate and others (Unaudited) <i>HK\$</i> (Restated)	Total (Unaudited) <i>HK\$</i> (Restated)
<b>Segment revenue:</b>				
Sales to external customers	139,427,330	55,422,598	-	194,849,928
Intersegment sales	145,784	149,760	-	295,544
Intersegment management fee	-	-	2,100,000	2,100,000
Other income and gains, excluding bank interest income	<u>4,425,809</u>	<u>277,165</u>	<u>2,759,218</u>	<u>7,462,192</u>
	143,998,923	55,849,523	4,859,218	204,707,664
<b><u>Reconciliation:</u></b>				
Elimination of intersegment sales				(295,544)
Elimination of intersegment management fee				<u>(2,100,000)</u>
Total segment revenue				<u>202,312,120</u>
<b>Segment results:</b>	6,872,237	2,974,210	1,333,023	11,179,470
<b><u>Reconciliation:</u></b>				
Bank interest income				122,445
Finance costs				<u>(357,423)</u>
Profit before tax				<u>10,944,492</u>

## 2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2013	Precision parts and components (Unaudited) <i>HK\$</i> (Restated)	Consumer electronic products (Unaudited) <i>HK\$</i> (Restated)	Corporate and others (Unaudited) <i>HK\$</i> (Restated)	Total (Unaudited) <i>HK\$</i> (Restated)
<b>Other segment information:</b>				
Depreciation and amortisation of other intangible assets	3,775,754	1,689,949	1,000,998	6,466,701
Amortisation of prepaid land lease payments	113,026	-	41,370	154,396
Fair value gain on derivative financial instruments – transactions not qualified for hedge accounting	2,952,452	-	-	2,952,452
Capital expenditure				
– additions	6,723,914	325,498	81,282	7,130,694
– additions – business combination	<u>9,522,904</u>	<u>-</u>	<u>-</u>	<u>9,522,904</u>

### Geographical information

#### (a) Revenue from external customers

	For the six months ended 30 June	
	2014 (Unaudited) <i>HK\$</i>	2013 (Unaudited) <i>HK\$</i>
Hong Kong	32,017,170	33,731,959
Mainland China	34,743,493	17,434,655
Japan and other Asian countries	29,525,324	29,306,870
North America	24,040,105	33,311,058
South America	13,451,283	10,650,580
Europe	91,317,118	65,915,394
Other countries	1,852,558	4,499,412
	<u>226,947,051</u>	<u>194,849,928</u>

The revenue information above is based on the geographical location of the customers.

## 2. OPERATING SEGMENT INFORMATION (continued)

### Geographical information (continued)

(b) Non-current assets

	<b>30 June 2014 (Unaudited) HK\$</b>	31 December 2013 (Audited) HK\$
Hong Kong	<b>48,330,684</b>	49,509,858
Mainland China	<b>152,361,199</b>	150,377,583
Other countries	<b>21,592</b>	35,761
	<b><u>200,713,475</u></b>	<u>199,923,202</u>

The non-current asset information above is based on the geographical location of assets and excludes an available-for-sale financial investment and deferred tax assets.

### Information about a major customer

For the six months ended 30 June 2014, no customer contributed over 10% of the total sales of the Group.

For the six months ended 30 June 2013, revenue of approximately HK\$19.5 million, contributing over 10% of the total sales of the Group, was derived from sales by the precision parts and components segment to a single customer.

## 3. OTHER INCOME AND GAINS

	<b>For the six months ended 30 June</b>	
	<b>2014 (Unaudited) HK\$</b>	2013 (Unaudited) HK\$
Bank interest income	<b>328,027</b>	122,445
Tooling charge income	<b>109,535</b>	68,719
Gain on disposal of items of property, plant and equipment	<b>317,712</b>	-
Fair value gain on derivative financial instruments		
– transactions not qualified for hedge accounting	-	2,952,452
Foreign exchange differences, net	<b>886,868</b>	-
Gain on bargain purchase	-	2,758,413
Others	<b>1,311,766</b>	1,682,608
	<b><u>2,953,908</u></b>	<u>7,584,637</u>

#### 4. OTHER EXPENSES

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Fair value loss on derivative financial instruments		
– transactions not qualified for hedge accounting	1,649,800	-
Realised loss arising from a derivative financial instrument		
– transaction not qualified for hedge accounting	1,004,210	-
Foreign exchange differences, net	-	1,014,858
	<u>2,654,010</u>	<u>1,014,858</u>

#### 5. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts		
wholly repayable within five years	576,548	267,099
Interest on finance leases	73,288	90,324
	<u>649,836</u>	<u>357,423</u>

#### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Provision/(reversal of provision) for slow-moving inventories*	149,604	(1,546,585)
Depreciation	7,097,454	6,282,951
Amortisation of prepaid land lease payments	156,204	154,396
Amortisation of other intangible assets*	-	183,750
Fair value loss/(gain) on derivative financial instruments		
– transactions not qualified for hedge accounting	1,649,800	(2,952,452)
Realised loss arising from a derivative financial instrument		
– transaction not qualified for hedge accounting	1,004,210	-
Foreign exchange differences, net	(886,868)	1,014,858
Gain on disposal of items of property, plant and equipment	(317,712)	-
	<u>(317,712)</u>	<u>-</u>

\* The amortisation of other intangible assets and the provision/reversal of provision for slow-moving inventories for the period are included in "Cost of sales" in the consolidated income statement respectively.

## 7. INCOME TAX

	For the six months ended 30 June	
	2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
Group:		
Current – Hong Kong		
Charge for the period	470,000	100,000
Provision written back	(1,009,261)	-
Overprovision in prior years	-	(140,130)
Current – outside Hong Kong		
Charge for the period	862,401	1,557,353
Provision written back	(1,702,738)	-
	<u>                    </u>	<u>                    </u>
Tax (credit)/charge for the period	<u>(1,379,598)</u>	<u>1,517,223</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits outside Hong Kong have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the Company for the period of HK\$9,181,396 (six months ended 30 June 2013: HK\$9,427,269), and on the weighted average number of 267,004,800 (six months ended 30 June 2013: 267,004,800) ordinary shares in issue during the period.

As there were no dilutive potential ordinary shares, diluted earnings per share was the same as basic earnings per share for the period ended 30 June 2014 and 2013.

## 9. DIVIDENDS

	For the six months ended 30 June	
	2014 (Unaudited) HK\$	2013 (Unaudited) HK\$
Attributable to the period:		
Interim dividend – HK2 cents (2013: HK2 cents) per ordinary share	<u>5,340,096</u>	<u>5,340,096</u>
Attributable to the previous year, approved during the period:		
Final dividend – HK4 cents (2013: HK4 cents) per ordinary share	<u>10,680,192</u>	<u>10,680,192</u>

## 10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. As at 30 June 2014, there is a significant concentration of credit risk as 18.5% (at 31 December 2013: 15.0%) of the balance representing a receivable from a single customer (at 31 December 2013: single customer), which was derived from sales by the precision parts and components segment. Trade receivables are non-interest-bearing. The carrying amounts of these balances are approximate to their fair values.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	<b>30 June 2014 (Unaudited) HK\$</b>	31 December 2013 (Audited) HK\$
Within 90 days	<b>77,101,933</b>	68,396,055
Between 91 to 180 days	<b>5,317,166</b>	3,003,877
Over 180 days	<b>194,395</b>	47,408
	<hr/> <b>82,613,494</b> <hr/>	<hr/> 71,447,340 <hr/>

## 11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2014 (Unaudited) HK\$</b>	31 December 2013 (Audited) HK\$
Within 90 days	<b>44,871,639</b>	44,674,862
Between 91 to 180 days	<b>2,607,750</b>	3,513,618
Over 180 days	<b>5,789</b>	308,605
	<hr/> <b>47,485,178</b> <hr/>	<hr/> 48,497,085 <hr/>

The trade payables are non-interest-bearing and are normally settled on terms varying from 60 to 120 days.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2014 (Unaudited) HK\$</b>	31 December 2013 (Audited) HK\$
Current asset:		
Forward currency contracts	-	3,153,075
Current liability:		
Forward currency contracts	<b>647,448</b>	-

The carrying amount of forward currency contracts are the same as their fair values. The Group entered into one forward currency contract of US\$6,423,742 and three forward currency contracts of US\$7,250,000 each (at 31 December 2013: three forward currency contracts of US\$14,500,000, US\$6,423,742 and US\$7,250,000 respectively) for the exchange of United States Dollars (“US\$”) with Renminbi (“RMB”). The maturity date of these forward currency contracts are 29 August 2014, 17 October 2014, 16 February 2015 and 17 March 2015 respectively (at 31 December 2013: 6 June 2014, 29 August 2014 and 17 October 2014 respectively). The forward rates of these forward currency contracts range from RMB6.1150 to RMB6.2269 (at 31 December 2013: RMB6.1365 to RMB6.2320) per US\$1.

As at 30 June 2014, the forward currency contracts did not meet the criteria for hedge accounting. The change in the fair value of these non-hedging currency derivatives amounting to a loss of HK\$1,649,800 was recognised in the income statement for the six months ended 30 June 2014 (six months ended 30 June 2013: gain of HK\$2,952,452).

The above forward currency contracts are classified in Level 2 of the fair value measurements with the fair value is measured by comparing the contracted forward rates and the quoted forward exchange rates for the remaining contractual maturity, by the same bank, which are observable at the end of the reporting period.

## 13. SHARE OPTION SCHEME

Pursuant to 2012 share option scheme, no share options were granted, outstanding, lapsed, cancelled or exercised at any time during the period ended 30 June 2014 and 2013.

## 14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	<b>2014 (Unaudited) HK\$</b>	2013 (Unaudited) HK\$
Short term employee benefits	<b>4,340,905</b>	4,321,458
Contributions to retirement benefits schemes	<b>17,249</b>	10,453
Total compensation paid to key management personnel	<b>4,358,154</b>	4,331,911

**15. CONTINGENT LIABILITIES**

As at 30 June 2014, contingent liabilities not provided for in the financial statements include guarantees given to banks by the Company to secure banking facilities granted to the subsidiaries to the extent of approximately HK\$168.8 million (at 31 December 2013: HK\$168.8 million).

**16. APPROVAL OF THE FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 22 August 2014.

## **INTERIM DIVIDEND**

The directors recommend the payment of an interim dividend of HK2 cents per ordinary share (2013: HK2 cents) on Thursday, 16 October 2014 to the shareholders whose names appear on the Register of Members of the Company on Friday, 19 September 2014.

## **CLOSURE OF REGISTERS**

The Register of Members of the Company will be closed from Wednesday, 17 September 2014 to Friday, 19 September 2014, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the above dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 16 September 2014.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

For the period ended 30 June 2014, the Group's turnover amounted to approximately HK\$226.9 million, representing an 16.5% increase from the previous period. Overall gross profit increased by 11.9% to approximately HK\$39.6 million this period. Profit attributable to owners of the Company was approximately HK\$9.2 million (six months ended 30 June 2013: HK\$9.4 million). This included the loss of approximately HK\$2.7 million from the derivative financial instruments purchased to manage the impact of appreciation of Renminbi needed for the operating expenses of our factories in Mainland China and income tax credit included provisions of written back on tax of approximately HK\$2.7 million.

Basic earning per share for the period ended 30 June 2014 amounted to HK3.44 cents (six months ended 30 June 2013: HK3.53 cents).

### **Business Review and Future Plan**

For the first half of the year, market demand on the products did vary and customers became very cautious on making purchase decision. Due to the change in product mix and continuous increase of the manufacturing costs, the gross profit margin of the Group had decreased by 0.7% to 17.5% (six months ended 30 June 2013: 18.2%). Due to the growth in sales turnover and rise in production cost, the manufacturing overhead costs had increased by 6.3% to approximately HK\$89.5 million comparing with the previous period. The selling and distribution costs increased by approximately HK\$0.7 million and the administrative costs went up by approximately HK\$0.1 million, representing an increase of 4.0% and 1.0% respectively. The finance cost had been gone up by approximately HK\$0.3 million, representing an increase of 81.8% comparing with the same period last year.

Benefited from the synergetic effect with the newly acquired business last year and the demand growth from the major customers, the sales turnover of the precision parts and component segment increased to approximately HK\$170.2 million, representing an increase of 22.1% comparing with the previous period. The operating results of this segment increased by 49.0% to approximately HK\$10.2 million, which included the loss of approximately HK\$2.1 million from the derivative financial instruments purchased to manage the impact of appreciation of Renminbi needed for the operating expenses of our factories in Mainland China.

The sales turnover of the consumer electronic products segment went up by 2.3% to approximately HK\$56.7 million. However, because of the change in product mix and the increase in manufacturing costs, the operating results of the segment recorded loss of approximately HK\$1.5 million (profit of approximately HK\$3.0 million in the previous period) which included the loss of approximately HK\$0.6 million from the derivative financial instruments purchased to manage the impact of appreciation of Renminbi needed for the operating expenses of our factory in Mainland China.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Business Review and Future Plan (continued)**

Due to the volatility of Renminbi, we will evaluate and reconsider the policy of utilising the derivative financial instruments to manage the impact of appreciation of Renminbi needed for the operating expenses. With the continuous shortage of labour in Mainland China and the rise of the operating costs, the Group will continue to invest on automation in production, new machines and equipments in order to improve the profitability of our business.

### **Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers and other financial institution in Hong Kong.

The total borrowings from banks and other financial institution include all term loans, finance leases, import and export loans, which amounted to approximately HK\$40.9 million as at 30 June 2014.

The Group's financial position remains healthy. As at 30 June 2014, the aggregate balance of cash and cash equivalents and the time deposits of the Group amounted to approximately HK\$54.9 million.

The Group's borrowings are on a floating rate basis and are mainly denominated in Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business.

The gearing ratio on the basis of net debt divided by the total capital plus net debt as at 30 June 2014 is 25.7% (at 31 December 2013: 22.0%).

### **Charge on the Group's Assets**

As at 30 June 2014, none of the bank borrowings were secured by charges over the Group's assets.

### **Contingent Liabilities**

Except for corporate guarantees given to banks in relation to banking facilities granted to the subsidiaries, the Company had no other contingent liabilities as at 30 June 2014.

### **Capital Structure**

As at 30 June 2014, the Company had 267,004,800 ordinary shares in issue with total shareholders' funds of the Group amounting to approximately HK\$253.5 million.

### **Fund Raising**

Other than obtaining additional general banking facilities to finance the Group's trading requirements, the Group did not have any special fund raising activities during the period ended 30 June 2014.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued)**

### **Employees**

As at 30 June 2014, the Group had a total workforce of approximately 2,080 of which approximately 59 were based in Hong Kong, approximately 5 were based overseas and approximately 2,016 were based in Mainland China.

The Group remunerates its employees largely based on the prevailing industry practice and labour laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operated a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and Mainland China employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period.

### **CORPORATE GOVERNANCE CODE**

In the opinion of the directors, saved for the deviation discussed below, the Company has complied with all the code provisions of the Corporate Governance Code, as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The roles of the Chairman and the Chief Executive Officer are not separate and are performed by Mr. Lai Pei Wor. Since the Board will meet regularly to consider major matters affecting the operations of the Company, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and believes that this structure will enable the Company to make and implement decisions promptly and efficiently.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of Appendix 10 of the Listing Rules. Based on specific enquiry of the Company's directors, all directors have complied with the required standard set out in the Model Code throughout the period.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Leung Man Kay and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2014.

## **PUBLICATION OF INTERIM REPORT**

The Company's interim report containing all the relevant information required by the Listing Rules will be published in due course on the websites of the HKEx ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Company ([www.kpihl.com](http://www.kpihl.com)).

On behalf of the Board  
**K & P International Holdings Limited**  
Lai Pei Wor  
*Chairman*

Hong Kong, 22 August 2014

*As at the date of this announcement, the Board comprises Messrs. Lai Pei Wor and Chan Yau Wah (being executive directors) and Messrs. Kung Fan Cheong, Leung Man Kay and Li Yuen Kwan, Joseph (being independent non-executive directors).*

*\* For identification purpose only*