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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 2019

#### UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of K & P International Holdings Limited (the “Company”) herein announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019 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 2019

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		HK\$	HK\$
	<i>Notes</i>		
<b>REVENUE</b>	3	<b>180,861,217</b>	230,899,364
Cost of sales		<b>(148,245,706)</b>	(194,608,925)
		<b>32,615,511</b>	36,290,439
Gross profit			
Other income and gains	3	<b>3,904,650</b>	2,810,558
Selling and distribution costs		<b>(12,729,241)</b>	(14,926,789)
Administrative expenses		<b>(13,354,320)</b>	(15,385,018)
Other expenses	4	<b>(6,135,737)</b>	(6,039,971)
Finance costs	5	<b>(688,946)</b>	(809,796)
		<b>3,611,917</b>	1,939,423
<b>PROFIT BEFORE TAX</b>	6	<b>3,611,917</b>	1,939,423
Income tax expense	7	<b>(1,159,808)</b>	(565,811)
		<b>2,452,109</b>	1,373,612
<b>PROFIT FOR THE PERIOD</b>			
ATTRIBUTABLE TO OWNERS OF THE COMPANY		<b>2,452,109</b>	1,373,612
<b>EARNINGS PER SHARE</b>			
ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		<b>HK0.92 cent</b>	HK0.51 cent
Diluted		<b>HK0.92 cent</b>	HK0.51 cent

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 2019*

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>PROFIT FOR THE PERIOD</b>	<b>2,452,109</b>	<b>1,373,612</b>
<b>OTHER COMPREHENSIVE INCOME / (LOSS)</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation of foreign operations	<b>81,475</b>	<b>(291,934)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>2,533,584</b>	<b>1,081,678</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 (Unaudited) HK\$	31 December 2018 (Audited) HK\$
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		208,082,335	211,573,006
Prepaid land lease payments		10,699,957	10,844,406
Right-of-use asset		831,791	-
Financial asset at fair value through profit or loss		680,000	680,000
		220,294,083	223,097,412
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories		46,508,641	64,120,558
Prepayments, deposits and other receivables		5,419,353	7,217,855
Trade and bills receivables	10	73,867,877	87,367,262
Cash and cash equivalents		39,995,472	43,762,395
		165,791,343	202,468,070
Total current assets			
<b>CURRENT LIABILITIES</b>			
Trade payables	11	32,052,707	44,923,952
Accrued liabilities and other payables		28,245,405	46,704,221
Derivative financial instruments	12	1,881,935	-
Interest-bearing bank and other borrowings		20,834,661	34,105,228
Tax payable		3,307,557	2,535,010
		86,322,265	128,268,411
Total current liabilities			
<b>NET CURRENT ASSETS</b>		<b>79,469,078</b>	<b>74,199,659</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>299,763,161</b>	<b>297,297,071</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		1,080,915	1,704,471
Lease liability		556,062	-
Deferred tax liabilities		22,018,678	22,018,678
		23,655,655	23,723,149
Total non-current liabilities			
Net assets		276,107,506	273,573,922
<b>EQUITY</b>			
Issued capital		26,700,480	26,700,480
Reserves		246,736,978	246,873,442
Proposed dividend		2,670,048	-
		276,107,506	273,573,922
Total equity		<b>276,107,506</b>	<b>273,573,922</b>

## 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 2018, except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that are relevant to the Group and adopted for the first time of the current period’s financial statements:

Annual Improvements to HKFRSs	<i>2015-2017 Cycle</i>
HKFRS 16	<i>Lease</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKAS 19	<i>Employee benefits</i>
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>

Other than changes in the accounting policies resulting from application of new/revised to HKFRSs as described below, the adoption of the above other 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.

In the current period, the Group has adopted HKFRS 16 *Lease*. HKFRS 16 is effective for the accounting periods beginning on or after 1 January 2019. The Group has applied HKFRS 16 using the modified retrospective approach without restating comparative information retrospectively. HKFRS 16 introduces a comprehensive model for identification of lease arrangement and accounting treatments for both lessors and lessees.

Prior to 1 January 2019, lease contracts were classified as operating leases or finance leases. From 1 January 2019 onwards, HKFRS 16 distinguishes lease contracts on the basis of whether an identified asset is controlled by the entity. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets. For short-term leases and leases of low-value assets, the Group recognizes lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within operating costs in the consolidated income statement.

Right-of-use assets are initially measured at cost and subsequently carried at cost less accumulated depreciation and impairment losses. Lease liabilities are initially measured at the present value of the remaining lease payments discounted using the incremental borrowing rate of the lessee. Subsequently, lease liabilities are adjusted by interest accretion and lease payments. Lease payments are separated into principal portion and interest portion and presented within financing activities in the consolidated statement of cash flows.

## 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short term lease exemptions to lease with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

*The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:*

	<i>HK\$</i> (Unaudited)
<b>Assets</b>	
Increase in right-of-use asset	141,407
<b>Increase in total assets</b>	<u>141,407</u>
<b>Liabilities</b>	
Increase in other payables	141,407
<b>Increase in total liabilities</b>	<u>141,407</u>

*Nature of the effect of adoption of HKFRS 16*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>HK\$</i> (Unaudited)
<b>Operating lease commitments as at 31 December 2018</b>	
Weighted average incremental borrowing rate as at 1 January 2019	3.60%
Discounted operating lease commitments as at 1 January 2019	884,449
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	<u>(743,042)</u>
Lease liability as at 1 January 2019	<u>141,407</u>

*Amounts recognized in the statement of financial position and income statements*

	<b>Right-of-use asset</b> <i>HK\$</i> (Unaudited)	<b>Lease liability and other payables</b> <i>HK\$</i> (Unaudited)
As at 1 January 2019	<u>141,407</u>	<u>141,407</u>
Additions	855,556	855,556
Depreciation charge	(165,847)	-
Interest expense	-	854
Payments	-	(168,058)
Exchange realignment	675	675
<b>As at 30 June 2019</b>	<u><u>831,791</u></u>	<u><u>830,434</u></u>

## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products 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;
- (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 operating 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 before tax from continuing operations. The adjusted profit before tax is measured consistently with the Group's profit 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 and are eliminated on consolidation.

<b>For the six months ended 30 June 2019</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	176,714,696	4,146,521	-	<u>180,861,217</u>
Revenue				<u>180,861,217</u>
<b>Segment results:</b>	<b>6,607,519</b>	<b>(789,488)</b>	<b>(1,578,019)</b>	<b>4,240,012</b>
<i>Reconciliation:</i>				
Bank interest income				60,851
Finance costs				<u>(688,946)</u>
Profit before tax				<u>3,611,917</u>
<b>Other segment information:</b>				
Other income and gains	3,893,650	10,930	70	3,904,650
Depreciation of property, plant and equipment	(4,468,254)	-	(1,891,662)	(6,359,916)
Depreciation of right-of-use assets	(165,847)	-	-	(165,847)
Amortisation of prepaid land lease payments	(144,449)	-	-	(144,449)
Foreign exchange (loss)/gain	(1,011,128)	35,624	1,861	(973,643)
Fair value loss on derivative financial instruments – transactions not qualified for hedge accounting	(1,881,935)	-	-	(1,881,935)
Realised loss arising from derivative financial instruments – transactions not qualified for hedge accounting	(1,537,704)	-	-	(1,537,704)
Capital expenditure	(4,873,436)	-	(51,072)	<u>(4,924,508)</u>

## 2. OPERATING SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2018	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
<b>Segment revenue:</b>				
Sales to external customers	215,032,576	15,866,788	-	230,899,364
Intersegment sales	487,800	4,024	-	491,824
Reportable segment revenue	215,520,376	15,870,812	-	231,391,188
<i>Reconciliation:</i>				
Elimination of intersegment sales				(491,824)
Revenue				230,899,364
<b>Segment results:</b>	10,341,481	(6,541,466)	(1,075,650)	2,724,365
<i>Reconciliation:</i>				
Bank interest income				24,854
Finance costs				(809,796)
Profit before tax				1,939,423
<b>Other segment information:</b>				
Other income and gains	2,558,132	250,719	1,707	2,810,558
Depreciation of property, plant and equipment	(5,200,410)	(415)	(1,648,631)	(6,849,456)
Amortisation of prepaid land lease payments	(149,875)	-	-	(149,875)
Foreign exchange (loss)/gain	(5,464,405)	(177,782)	87,854	(5,554,333)
Capital expenditure	(2,117,901)	-	(8,330)	(2,126,231)

## 2. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical information

#### (a) Revenue from external customers

	For the six months ended 30 June	
	2019	2018
	(Unaudited) HK\$	(Unaudited) HK\$
Hong Kong	5,823,553	14,908,091
Mainland China	26,729,856	47,012,158
Japan and other Asian countries	85,465,176	85,082,595
North America	22,979,248	20,377,844
South America	5,071,221	4,620,724
Europe	30,458,837	56,166,843
Other countries	4,333,326	2,731,109
	<u>180,861,217</u>	<u>230,899,364</u>

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

#### (b) Non-current assets

	30 June	31 December
	2019	2018
	(Unaudited) HK\$	(Audited) HK\$
Hong Kong	75,155,390	76,711,487
Mainland China	143,547,197	145,579,088
Other countries	79,705	126,837
	<u>218,782,292</u>	<u>222,417,412</u>

The non-current asset information above is based on the geographical location of assets and excludes the financial asset at fair value through profit or loss and right-of-use asset as at 30 June 2019 and 31 December 2018.

### Information about a major customer

For the six months ended 30 June 2019 and 2018, revenue of approximately HK\$44.2 million and HK\$53.8 million respectively was derived from a single customer of the precision parts and components segment that contributing over 10% of the Group's revenue respectively.



### 3. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2019 (Unaudited) HK\$	2018 (Unaudited) HK\$
<b>Revenue</b>		
Sale of goods	<u>180,861,217</u>	<u>230,899,364</u>
<b>Other income and gains</b>		
Bank interest income	60,851	24,854
Tooling charge income	205,800	341,676
Sale of scrap and material	1,629,133	1,239,593
Sale of sample	1,299,196	858,476
Others	709,670	345,959
	<u>3,904,650</u>	<u>2,810,558</u>
<b>Total revenue, other income and gains</b>	<u>184,765,867</u>	<u>233,709,922</u>

### 4. OTHER EXPENSES

	For the six months ended 30 June	
	2019 (Unaudited) HK\$	2018 (Unaudited) HK\$
Loss on disposal of items of property, plant and equipment, net	1,742,455	485,638
Fair value loss on derivative financial instruments		
- transactions not qualified for hedge accounting	1,881,935	-
Realised loss arising from derivative financial instruments		
- transactions not qualified for hedge accounting	1,537,704	-
Foreign exchange loss, net	973,643	5,554,333
	<u>6,135,737</u>	<u>6,039,971</u>

### 5. FINANCE COSTS

	For the six months ended 30 June	
	2019 (Unaudited) HK\$	2018 (Unaudited) HK\$
Interest on bank loans and overdrafts		
wholly repayable within five years	604,602	627,750
Interest on finance leases	83,490	182,046
Interest on lease liability	854	-
	<u>688,946</u>	<u>809,796</u>

## 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Reversal of provision for slow-moving inventories*	(245,893)	(2,195,946)
Depreciation of property, plant and equipment*	6,359,916	6,849,456
Amortisation of prepaid land lease payments	144,449	149,875
Fair value loss on derivative financial instruments		
- transactions not qualified for hedge accounting	1,881,935	-
Realised loss arising from derivative financial instruments		
- transactions not qualified for hedge accounting	1,537,704	-
Foreign exchange loss, net	973,643	5,554,333
Loss on disposal of items of property, plant and equipment, net	1,742,455	485,638

\* The depreciation of property, plant and equipment amounting to HK\$4,685,888 (six months ended 30 June 2018: HK\$5,343,659) and the reversal of provision for slow-moving inventories for the period are included in "Cost of sales" in the condensed consolidated income statement.

## 7. INCOME TAX

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Current – Hong Kong		
Charge for the period	860,000	-
Overprovision in prior periods	-	(114,946)
Current – outside Hong Kong		
Charge for the period	299,808	680,757
Tax expense for the period	1,159,808	565,811

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 and diluted earnings per share is based on the profit attributable to owners of the Company for the period of HK\$2,452,109 (six months ended 30 June 2018: HK\$1,373,612) and the weighted average number of 267,004,800 (six months ended 30 June 2018: 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 2019 and 2018.

## 9. DIVIDENDS

	For the six months ended 30 June	
	2019 (Unaudited) HK\$	2018 (Unaudited) HK\$
Attributable to the period:		
Interim dividend – HK1 cent (2018: Nil) per ordinary share	<u>2,670,048</u>	<u>-</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 2019, there is a significant concentration of credit risk as 33% (at 31 December 2018: 29%) of the balance representing a receivable from a single customer (at 31 December 2018: 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 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:

	30 June 2019 (Unaudited) HK\$	31 December 2018 (Audited) HK\$
Within 90 days	69,359,868	79,690,366
91 to 180 days	4,280,965	6,813,196
Over 180 days	227,044	863,700
	<u>73,867,877</u>	<u>87,367,262</u>

## 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:

	30 June 2019 (Unaudited) HK\$	31 December 2018 (Audited) HK\$
Within 90 days	31,142,804	42,446,950
91 to 180 days	900,093	2,473,819
Over 180 days	9,810	3,183
	<u>32,052,707</u>	<u>44,923,952</u>

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

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2019 (Unaudited) HK\$</b>	31 December 2018 (Audited) HK\$
Current liabilities:-		
Forward currency contracts	<u><b>1,881,935</b></u>	<u>-</u>

The derivative financial instruments were forward currency contracts, which were initially recognized at fair value and subsequently remeasured at their fair values with changes in fair value recognized in the income statement. As at 30 June 2019, the forward currency contracts did not meet the criteria for hedge accounting. The change in fair value of these non-hedging currency derivatives amounting to a loss of HK\$1,881,935 was recognized in the income statement for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The Group entered four forward currency contracts range from US\$2,912,904 to US\$2,981,292 and four of US\$2,560,000 each (at 31 December 2018: Nil) for the exchange of United States Dollars (“US\$”) with Renminbi (“RMB”). The maturity dates of these forward currency contracts are 26 July 2019, 28 August 2019, 27 September 2019, 28 October 2019, 26 November 2019, 27 December 2019, 23 January 2020 and 26 February 2020 (at 31 December 2018: Nil). The forward rates of these forward currency contracts range from RMB6.7085 to RMB6.8720 (at 31 December 2018: Nil) per US\$1.

## 13. SHARE OPTION SCHEME

Pursuant to 2012 share option scheme, no share options were granted, exercised, cancelled or forfeited since the adoption of the scheme and there was no outstanding share option as at 30 June 2019 and 2018.

## 14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	<b>2019 (Unaudited) HK\$</b>	2018 (Unaudited) HK\$
Short term employee benefits	<b>3,514,850</b>	4,073,954
Contributions to retirement benefit schemes	<b>18,000</b>	18,000
Total compensation paid to key management personnel	<u><b>3,532,850</b></u>	<u>4,091,954</u>

## 15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27 August 2019.

## **INTERIM DIVIDEND**

The directors recommend the payment of an interim dividend of HK1 cent per ordinary share (six months ended 30 June 2018: Nil) on Tuesday, 22 October 2019 to the shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 September 2019.

## **CLOSURE OF REGISTERS**

The Register of Members of the Company will be closed from Thursday, 19 September 2019 to Tuesday, 24 September 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 18 September 2019.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

The Group's turnover for the period ended 30 June 2019 amounted to approximately HK\$180.9 million, representing a decrease of 21.7%, comparing with the same period last year. Overall gross profit was decreased by 10.1% to approximately HK\$32.6 million. Profit attributable to owners of the Company was approximately HK\$2.5 million (six months ended 30 June 2018: HK\$1.4 million).

Basic earnings for the period ended 30 June 2019 amounted to HK0.92 cent (six months ended 30 June 2018: HK0.51 cent) per share.

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

In the first half of 2019, one of the factories under the precision parts and components segment had been closed down in February 2019 after the failure in renewing the tenancy agreement, and also the operation of consumer electronic products segment had been ceased in April 2019 due to the continuous decline in demand of its products, which both had been discussed in the annual report of 2018. In addition, since the cost of manufacturing at Mainland China was highly impacted by Renminbi exchange rate, the Group had utilised the derivative financial instruments managing the impact of appreciation of Renminbi since April 2019.

Due to the deprived output and contribution from the closed factory, the turnover of the precision parts and components segment decreased to approximately HK\$176.7 million, representing a decrease of 17.8% comparing with the same period of 2018, and the operating profit decreased to approximately HK\$6.6 million (six months ended 30 June 2018: HK\$10.3 million). Another reason for the drop in segment result was the fair value loss of approximately HK\$1.9 million incurred in the first half of 2019 (six months ended 30 June 2018: Nil) on the outstanding derivative financial instruments managing the impact of appreciation of Renminbi.

With the cessation of operation, the turnover of the consumer electronic products segment was decreased by 73.9% to approximately HK\$4.1 million. Since most of the staff had been laid off at end of 2018, the segment loss was decreased to approximately HK\$0.8 million from HK\$6.5 million in the same period of 2018.

The gross profit margin of the Group in the first half of this year had increased by 2.3% to 18.0% (six months ended 30 June 2018: 15.7%), comparing with the same period last year. The improvement in profit margin was mainly attributable to the depreciation of Renminbi exchange rate as compared with the first half of 2018 releasing the cost of manufacturing at Mainland China and the change in customer or product portfolio with higher profit margin. The selling and distribution costs and the administrative expenses decreased to approximately HK\$12.7 million and HK\$13.4 million, representing decrease of 14.7% and 13.2% respectively as compared with the same period last year, which were mainly arising from the closure of the factory under precision parts and components segment and also the cessation of operation under the consumer electronic products segment as discussed above. The finance costs slightly decreased to approximately HK\$0.7 million from HK\$0.8 million in the same period of 2018.

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

Looking ahead, the trade war between the United State of America and China disrupts global supply chains, market confidence and currency volatility, which is unlikely to solve in the nearest future. With our proven strategy of exploring and serving diversified customers at the global markets during the past few years, the Group is capable mitigating the negative market impact. After the cessation of consumer electronic product segment, the Group will focus on development of the precision parts and components segment which had achieved steady business growth at the past few years. Together with the successful migration of production facility from the closed factory to the other two existing manufacturing plants, the Group believes the synergy effect under the precision parts and components segment will be reflected, and therefore, the Group is confidence in improving the profitability in the future. The Group's financial position remains healthy and is strong enough to finance our daily operation.

## **Liquidity and Financial Resources**

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

The total borrowings from banks and other financial institution included all term loans, finance leases, import and export loans, which amounted to approximately HK\$21.9 million as at 30 June 2019.

The Group's financial position remains healthy. As at 30 June 2019, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$40.0 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 2019 was 13.3% (at 31 December 2018: 23.4%).

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

As at 30 June 2019, the Group's machines and equipment with carrying amount of approximately HK\$5.4 million (at 31 December 2018: HK\$7.9 million) were pledged under finance leases.

## **Capital Structure**

As at 30 June 2019, the Company had 267,004,800 ordinary shares in issue with total shareholders' equity of the Group amounted to approximately HK\$276.1 million.

## **Fund Raising**

Other than obtaining general loan facilities to finance the Group's trading requirements and finance leases to finance the acquisition of machines and equipment, the Group did not have any fund raising activities during the period ended 30 June 2019.

## **Employees**

As at 30 June 2019, the Group had a total workforce of approximately 1,155 of which approximately 34 were based in Hong Kong, approximately 5 were based in overseas and approximately 1,116 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 governments.

## **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 currently comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Mak Kwai Wing and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2019.

## **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, 27 August 2019

*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, Mak Kwai Wing and Li Yuen Kwan, Joseph (being independent non-executive directors).*

*\* For identification purpose only*