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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 2020

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 2020 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 2020

		For the six months ended 30 June	
		2020 (Unaudited) HK\$	2019 (Unaudited) HK\$ (re-presented)
	Notes		
CONTINUING OPERATIONS			
REVENUE	3	141,931,609	176,714,696
Cost of sales		(100,058,214)	(143,824,880)
Gross profit		41,873,395	32,889,816
Other income and gains	3	2,614,959	3,893,720
Selling and distribution costs		(10,843,712)	(12,160,485)
Administrative and other expenses		(13,430,008)	(16,113,945)
Realised loss on financial asset at fair value through profit or loss		(1,113,015)	(1,537,704)
Fair value loss on financial asset at fair value through profit or loss		(2,872,106)	(1,881,935)
Finance costs	4	(296,960)	(688,946)
PROFIT BEFORE TAX	5	15,932,553	4,400,521
Income tax expense	6	(2,510,069)	(1,159,808)
PROFIT FOR THE PERIOD			
FROM CONTINUING OPERATIONS		13,422,484	3,240,713
DISCONTINUED OPERATION			
Loss for the period from discontinued operation	7	-	(788,604)
PROFIT FOR THE PERIOD		13,422,484	2,452,109

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)*For the six months ended 30 June 2020*

		For the six months ended 30 June	
		2020 (Unaudited) HK\$	2019 (Unaudited) HK\$ (re-presented)
	Notes		
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Continuing operations		13,422,484	3,240,713
Discontinued operation		-	(788,604)
		<u>13,422,484</u>	<u>2,452,109</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
	9		
Basic and diluted			
- from continuing operations (HK cents)		5.03	1.22
- from discontinued operation (HK cents)		-	(0.30)
Total		<u>5.03</u>	<u>0.92</u>

Details of the interim dividend are disclosed in note 8 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2020*

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
PROFIT FOR THE PERIOD	13,422,484	2,452,109
OTHER COMPREHENSIVE (LOSS) / INCOME		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>(305,243)</u>	<u>81,475</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>13,117,241</u>	<u>2,533,584</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		208,877,972	214,273,903
Financial asset at fair value through profit or loss	<i>10</i>	680,000	680,000
Total non-current assets		209,557,972	214,953,903
CURRENT ASSETS			
Financial asset at fair value through profit or loss	<i>10</i>	-	1,845,132
Inventories		57,119,916	53,620,905
Prepayments, deposits and other receivables		5,248,906	6,100,225
Trade and bills receivables	<i>11</i>	60,509,757	73,167,064
Bank balances and cash	<i>12</i>	62,115,989	51,505,394
Total current assets		184,994,568	186,238,720
CURRENT LIABILITIES			
Financial liability at fair value through profit or loss	<i>10</i>	1,490,550	-
Trade payables	<i>13</i>	19,968,290	36,254,341
Accrued liabilities and other payables		33,685,557	33,812,113
Interest-bearing bank and other borrowings		11,643,000	12,040,876
Lease liabilities		1,311,487	1,460,865
Dividend payable		5,340,096	-
Tax payable		4,030,850	7,682,773
Total current liabilities		77,469,830	91,250,968
NET CURRENT ASSETS		107,524,738	94,987,752
TOTAL ASSETS LESS CURRENT LIABILITIES		317,082,710	309,941,655
NON-CURRENT LIABILITIES			
Lease liabilities		303,501	939,591
Deferred tax liabilities		22,696,398	22,696,398
Total non-current liabilities		22,999,899	23,635,989
Net assets		294,082,811	286,305,666
EQUITY			
Share capital		26,700,480	26,700,480
Reserves		267,382,331	259,605,186
Total equity		294,082,811	286,305,666

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 2019, 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:

Amendments to HKAS 1 and 8	<i>Definition of Material</i>
Amendments to HKAS 39, HKFRSs 7 and 9	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 16	<i>COVID-19 Related Rent Concessions</i>

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.

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.

The consumer electronic products segment was discontinued in the third quarter of 2019, and the information about the discontinued operation is provided in note 7. The comparative figures in the consolidated income statement have been represented to disclose the results of consumer electronic products segment as discontinued operation.

2. OPERATING SEGMENT INFORMATION (CONTINUED)

For six months ended 30 June 2020	Continuing operations		Discontinued operation		Total (Unaudited) HK\$
	Precision parts and components (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Sub-total (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	
Segment revenue:					
Sales to external customers	141,931,609	-	141,931,609	-	141,931,609
Reportable segment revenue and revenue	141,931,609	-	141,931,609	-	141,931,609
Segment results:	17,250,126	(1,311,981)	15,938,145	-	15,938,145
<i>Reconciliation:</i>					
Bank interest income			291,368	-	291,368
Finance costs			(296,960)	-	(296,960)
Profit before tax			15,932,553	-	15,932,553
Other segment information:					
Other income and gains, net of foreign exchange gain	1,444,802	34,419	1,479,221	-	1,479,221
Depreciation of property, plant and equipment (excluding right-of-use assets)	(3,926,960)	(421,280)	(4,348,240)	-	(4,348,240)
Depreciation of right-of-use assets	(428,577)	(1,521,593)	(1,950,170)	-	(1,950,170)
Foreign exchange gain, net	1,135,738	-	1,135,738	-	1,135,738
Capital expenditure	(987,612)	-	(987,612)	-	(987,612)
Fair value loss on financial asset at fair value through profit or loss	(2,872,106)	-	(2,872,106)	-	(2,872,106)
Realised loss on financial asset at fair value through profit or loss	(1,113,015)	-	(1,113,015)	-	(1,113,015)

2. OPERATING SEGMENT INFORMATION (CONTINUED)

	Continuing operations			Discontinued operation	Total (Unaudited) HK\$
	Precision parts and components (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Sub-total (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$ (re-presented)	
For six months ended 30 June 2019					
Segment revenue:					
Sales to external customers	176,714,696	-	176,714,696	4,146,521	180,861,217
Reportable segment revenue and revenue	176,714,696	-	176,714,696	4,146,521	180,861,217
Segment results:	6,607,519	(1,578,019)	5,029,500	(789,488)	4,240,012
<i>Reconciliation:</i>					
Bank interest income			59,967	884	60,851
Finance costs			(688,946)	-	(688,946)
Profit before tax			4,400,521	(788,604)	3,611,917
Other segment information:					
Other income and gains	3,893,650	70	3,893,720	10,930	3,904,650
Depreciation of property, plant and equipment (excluding right-of-use assets)	(4,316,066)	(378,946)	(4,695,012)	-	(4,695,012)
Depreciation of right-of-use assets	(462,484)	(1,512,716)	(1,975,200)	-	(1,975,200)
Foreign exchange (loss)/gain, net	(1,011,128)	1,861	(1,009,267)	35,624	(973,643)
Capital expenditure	(4,873,436)	(51,072)	(4,924,508)	-	(4,924,508)
Fair value loss on financial asset at fair value through profit or loss	(1,881,935)	-	(1,881,935)	-	(1,881,935)
Realised loss on financial asset at fair value through profit or loss	(1,537,704)	-	(1,537,704)	-	(1,537,704)

2. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2020 (Unaudited) HK\$	2019 (Unaudited) HK\$ (re-presented)
Continuing operations		
Hong Kong	2,667,084	5,590,474
Mainland China	14,125,531	26,729,856
Japan and other Asian countries	82,179,520	85,465,176
North America	15,695,929	22,888,611
South America	3,058,297	5,071,221
Europe	21,228,852	26,636,032
Other countries	2,976,396	4,333,326
	141,931,609	176,714,696
Discontinued operation	-	4,146,521
Total revenue	141,931,609	180,861,217

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

(b) Non-current assets

	30 June 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Continuing operations		
Hong Kong	71,223,653	72,782,675
Mainland China	137,116,529	140,758,447
Other countries	537,790	732,781
	208,877,972	214,273,903

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.

Information about major customers

Revenue of the precision parts and components segment derived from customers that contributing over 10% of the Group's revenue is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) HK\$	2019 (Unaudited) HK\$
Customer A	45,556,292	44,175,490
Customer B	16,285,792	N/A*

* The corresponding customer did not contribute over 10% of the Group's revenue for the respective period.

3. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
		(re-presented)
Revenue from contracts with customers within the scope of HKFRS 15:		
Continuing operations		
Sale of goods	141,931,609	176,714,696
Discontinued operation		
Sale of goods	-	4,146,521
	<u>141,931,609</u>	<u>180,861,217</u>
Other income and gains:		
Continuing operations		
Bank interest income	291,368	59,967
Tooling charge income	173,363	195,800
Sale of scrap and material	226,016	1,629,133
Sale of sample	508,839	1,299,196
Foreign exchange gain, net	1,135,738	-
Gain on disposal of items of property, plant and equipment, net	45,932	-
Others	233,703	709,624
	<u>2,614,959</u>	<u>3,893,720</u>
Discontinued operation	-	10,930
	<u>2,614,959</u>	<u>3,904,650</u>
Total revenue, other income and gains	<u>144,546,568</u>	<u>184,765,867</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
		(re-presented)
Continuing operations		
Interest on bank loans and overdrafts wholly repayable within five years	248,753	604,602
Interest on lease liabilities	48,207	84,344
	<u>296,960</u>	<u>688,946</u>

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
		<i>(re-presented)</i>
Continuing operations		
Staff cost*#	44,766,185	54,151,367
Reversal of provision for slow-moving inventories*	-	(245,893)
Depreciation of property, plant and equipment (excluding right-of-use assets)*	4,348,240	4,695,012
Depreciation of right-of-use assets*	1,950,170	1,975,200
Foreign exchange (gain)/loss, net	(1,135,738)	1,009,267
(Gain)/loss on disposal of items of property, plant and equipment, net	(45,932)	1,742,455

* The staff cost and depreciation amounting to HK\$32,703,967 and HK\$4,375,744 (six months ended 30 June 2019: HK\$42,742,695 and HK\$4,685,888) respectively and the reversal of provision for slow-moving inventories for the period are included in "Cost of sales" in the condensed consolidated income statement.

During the six months ended 30 June 2020, the Group had been waived from making employer's social security contribution obligations amounting HK\$3,060,252 between February and June 2020 by the relevant government authority at Mainland China in view of the outbreak of COVID-19.

6. INCOME TAX

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Continuing operations		
Current – Hong Kong		
Charge for the period	2,350,000	860,000
Current – outside Hong Kong		
Charge for the period	160,069	299,808
Tax expense for the period	2,510,069	1,159,808

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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.

7. DISCONTINUED OPERATION

The result of the discontinued operation is summarised as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Revenue	-	4,146,521
Cost of sales	-	(4,420,826)
Gross loss	-	(274,305)
Other income and gains	-	10,930
Selling and distribution costs	-	(568,756)
Administrative and other expenses	-	43,527
Loss for the period from discontinued operation	-	(788,604)

8. DIVIDENDS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Attributable to the period		
Interim dividend – HK2.5 cents (2019: HK1 cent) per ordinary share	6,675,120	2,670,048
Attributable to the previous year, approved during the period:		
Final dividend – HK2 cents (2019: Nil) per ordinary share	5,340,096	-

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted earnings/(loss) per share is based on the profit/(loss) for the period attributable to owners of the Company and the weighted average number of ordinary shares in issue during the period. The calculations of the basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Earnings/(loss)		<i>(re-presented)</i>
Profit/(loss) attributable to owners of the Company used in the basic and diluted earnings/(loss) per share calculation:		
- Continuing operations	13,422,484	3,240,713
- Discontinued operation	-	(788,604)
	13,422,484	2,452,109
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings/(loss) per share calculation	267,004,800	267,004,800

As there were no dilutive potential ordinary shares, diluted earnings/(loss) per share was the same as basic earnings/(loss) per share for period ended 30 June 2020 and 2019.

10. FINANCIAL ASSET/(LIABILITY) AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Non-current asset		
Club membership	680,000	680,000
Current (liability)/asset		
Forward currency contracts	(1,490,550)	1,845,132

Club membership

At 30 June 2020, the unlisted investment represented club membership issued by a private entity. It is measured at fair value at the end of each reporting period. The fair value of the club membership is determined with reference to the publicly available price information.

Forward currency contracts, at fair values

The Group entered into thirteen (at 31 December 2019: twelve) forward currency contracts at a total of US\$33,709,407 (at 31 December 2019: US\$31,621,958) for the exchange of United States Dollars ("US\$") with Renminbi ("RMB") with the forward rates ranged from RMB7.010 to RMB7.175 per US\$1 (at 31 December 2019: RMB6.870 to RMB7.175 per US\$1). The maturity dates of these forward currency contracts are during the period from 15 July 2020 to 15 July 2021 (at 31 December 2019: from 23 January 2020 to 17 December 2020).

For six month ended 30 June 2020, the Group has realised loss of HK\$1,113,015 arising from six forward currency contracts of a total of US\$16,427,227 (six months ended 30 June 2019: realised loss of HK\$1,537,704 from three forward currency contracts of a total of US\$8,945,211) for the exchange of US\$ with RMB which was depreciated.

As at 30 June 2020, 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\$2,872,106 (six months ended 30 June 2019: HK\$1,881,935) was recognised in the consolidated income statement for the six months ended 30 June 2020.

11. 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 2020, there is a significant concentration of credit risk as 41% of the balance representing receivables from two customers (at 31 December 2019: 51% of the balance from a 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 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Within 90 days	57,469,066	67,071,358
91 to 180 days	2,915,827	5,921,791
Over 180 days	124,864	173,915
	60,509,757	73,167,064

12. BANK BALANCES AND CASH

	30 June 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Time deposits with original maturity over three months		
- Continuing operations	31,390,313	23,340,000
Cash and cash equivalents		
- Continuing operations	30,443,776	27,861,009
- Discontinued operation	281,900	304,385
As stated in the consolidated statement of cash flows	30,725,676	28,165,394
	62,115,989	51,505,394

13. 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 2020 (Unaudited) HK\$	31 December 2019 (Audited) HK\$
Within 90 days	19,166,661	35,894,120
91 to 180 days	683,811	333,783
Over 180 days	117,818	26,438
	19,968,290	36,254,341

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

14. 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 2020 and 2019.

15. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June 2020 (Unaudited) HK\$	2019 (Unaudited) HK\$
Short term employee benefits	3,507,700	3,514,850
Contributions to retirement benefit schemes	18,000	18,000
Total compensation paid to key management personnel	3,525,700	3,532,850

16. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 August 2020.

INTERIM DIVIDEND

The directors recommend the payment of an interim dividend of HK2.5 cents per ordinary share (six months ended 30 June 2019: HK1 cent) on Friday, 16 October 2020 to the shareholders whose names appear on the Register of Members of the Company on Thursday, 24 September 2020.

CLOSURE OF REGISTERS

The Register of Members of the Company will be closed from Monday, 21 September 2020 to Thursday, 24 September 2020, 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 Friday, 18 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's turnover from continuing operations for the period ended 30 June 2020 amounted to approximately HK\$141.9 million, representing a decrease of 19.7%, comparing with the same period last year. Overall gross profit from continuing operations was increased by 27.3% to approximately HK\$41.9 million. Profit attributable to owners of the Company was approximately HK\$13.4 million (six months ended 30 June 2019: HK\$2.5 million).

Basic earnings for the period ended 30 June 2020 amounted to HK5.03 cents (six months ended 30 June 2019: HK0.92 cent) per share.

Business Review and Future Plan

The outbreak of COVID-19 and subsequent quarantine measures induced the Group suspended the manufacturing activities at Mainland China from 1 to 20 of February 2020, and afterwards the lockdowns instituted in multiple countries impacted the operation of several customers of the Group. Furthermore, as discussed in the annual report of 2019, a factory (the "Shiyan factory") in the precision parts and component segment closed down after the expiry of its tenancy agreement in February 2019. Hence, in the first half of 2020, the outbreak of COVID-19 coupled with the absence of the contribution from Shiyan factory resulted in a drop in turnover as compared with the same period of 2019. Despite this, benefitted from weak Renminbi ("RMB") exchange rate in the first half of 2020 releasing the cost of manufacturing in Mainland China and the wavier by the relevant government authority of the employer's social security contribution obligation of the Group, the profit margin improved as compared with the same period of last year.

For the precision parts and components segment, the turnover decreased by 19.7% to approximately HK\$141.9 million, comparing with the same period of 2019, while the segment profit increased to approximately HK\$17.3 million (six months ended 30 June 2019: HK\$6.6 million). The segment profit included the fair value loss of approximately HK\$2.9 million (six months ended 30 June 2019: HK\$1.9 million) arising from the outstanding forward currency contracts entered for managing the impact of appreciation of RMB.

For the consumer electronic products segment, the business operation had discontinued in the third quarter of 2019, as discussed in the annual report of 2019, the turnover and segment loss for six month ended 30 June 2019 were approximately HK\$4.1 million and HK\$0.8 million respectively.

The gross profit margin from continuing operations of the Group for six month ended 30 June 2020 increased 10.9% to 29.5% (six months ended 30 June 2019: 18.6%), comparing with the same period last year. The selling and distribution costs, the administrative and other expenses from continuing operations dropped by 10.8% and 16.7% to approximately HK\$10.8 million and HK\$13.4 million respectively, which were mainly attributable from the drop in revenue in the first half of 2020 and absence of loss on disposal for low-performing machineries incurred at same period last year. The finance costs from continuing operations had decreased by HK\$0.4 million to approximately HK\$0.3 million due to the drop in financing activities and market interest rate.

Business Review and Future Plan (continued)

The escalating US-China tensions and lingering COVID-19 pandemic will remain the major concern at the global market, and will disrupt the currency volatility, market sentiment and global supply in the second half of 2020. Based on the International Monetary Fund's forecast released in June 2020, the global economic output is estimated to drop 4.9% in 2020 (further drop 1.9% from their previous forecast in April 2020). In view of the uncertainties in 2020, the business outlook of the Group remains full of challenges. Despite this, the Group will keep on exploring and diversifying the customer base globally minimising the impact from these uncertainties. Furthermore, the Group will actively seek opportunity investing in production automation mitigating the pressure of labor shortage and the rising wages in Mainland China, and also continue utilizing forward currency contracts releasing the impacts from the appreciation of RMB on the manufacturing cost in Mainland China. 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 and import and export loans, which amounted to approximately HK\$11.6 million as at 30 June 2020.

The Group's financial position remains healthy. As at 30 June 2020, the aggregate balance of bank balances and cash of the Group amounted to approximately HK\$62.1 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 2020 was 3.8% (at 31 December 2019: 10.3%).

Charge on the Group's Assets

As at 30 June 2020, the Group's machines and equipment with carrying amount of approximately HK\$2.5 million (at 31 December 2019: HK\$3.3 million) were pledged under lease.

Capital Structure

As at 30 June 2020, the Company had 267,004,800 ordinary shares in issue with total shareholders' equity of the Group amounted to approximately HK\$294.1 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 2020.

Employees

As at 30 June 2020, the Group had a total workforce of approximately 1,019 of which approximately 33 were based in Hong Kong, approximately 5 were based in overseas and approximately 981 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 2020.

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) and of the Company (www.kpihl.com).

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

Hong Kong, 25 August 2020

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*