



**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  
Report  
2011

\* For identification purpose only

## 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 2011 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 2011

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$	HK\$
<b>REVENUE</b>	2	<b>194,719,368</b>	191,655,556
Cost of sales		<b>(152,261,605)</b>	(148,228,686)
Gross profit		<b>42,457,763</b>	43,426,870
Other income and gains	3	<b>1,066,651</b>	1,726,829
Selling and distribution costs		<b>(14,110,484)</b>	(15,862,826)
Administrative expenses		<b>(11,089,266)</b>	(10,836,714)
Other expenses		<b>(83,371)</b>	(192,690)
Finance costs	4	<b>(534,625)</b>	(1,080,761)
<b>PROFIT BEFORE TAX</b>	5	<b>17,706,668</b>	17,180,708
Income tax expense	6	<b>(1,822,164)</b>	(2,802,324)
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>15,884,504</b>	14,378,384
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic		<b>HK5.98 cents</b>	HK5.42 cents
Diluted		<b>HK5.96 cents</b>	HK5.41 cents

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 2011*

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
<b>PROFIT FOR THE PERIOD</b>	<b>15,884,504</b>	14,378,384
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences on translation of foreign operations	<b>1,198,037</b>	(163,327)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>17,082,541</b>	14,215,057

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	30 June 2011 (Unaudited) HK\$	31 December 2010 (Audited) HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>139,196,463</b>	140,464,261
Prepaid land lease payments		<b>13,528,352</b>	13,504,017
Other intangible assets		<b>2,828,329</b>	4,070,829
Available-for-sale investment		<b>680,000</b>	680,000
Deferred tax assets		<b>4,175,385</b>	4,068,157
Prepaid rent		<b>117,000</b>	234,000
Total non-current assets		<b>160,525,529</b>	163,021,264
<b>CURRENT ASSETS</b>			
Inventories		<b>52,537,583</b>	32,873,562
Prepayments, deposits and other receivables		<b>10,012,960</b>	6,700,135
Trade and bills receivables	9	<b>73,312,589</b>	58,393,380
Cash and cash equivalents		<b>28,771,459</b>	42,759,628
Total current assets		<b>164,634,591</b>	140,726,705
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>57,394,474</b>	40,837,096
Accrued liabilities and other payables		<b>33,803,480</b>	31,143,002
Interest-bearing bank and other borrowings		<b>26,372,121</b>	28,656,395
Tax payable		<b>16,049,752</b>	15,378,484
Total current liabilities		<b>133,619,827</b>	116,014,977
<b>NET CURRENT ASSETS</b>		<b>31,014,764</b>	24,711,728
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>191,540,293</b>	187,732,992

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2011

	<b>30 June 2011 (Unaudited) HK\$</b>	31 December 2010 (Audited) HK\$
<hr/>		
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>1,650,867</b>	1,650,867
	<hr/>	
Net assets	<b>189,889,426</b>	186,082,125
	<hr/>	
<b>EQUITY</b>		
Issued capital	<b>26,550,480</b>	26,550,480
Reserves	<b>158,028,850</b>	146,256,405
Proposed interim/final dividend	<b>5,310,096</b>	7,965,144
Proposed special dividend	–	5,310,096
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Total equity	<b>189,889,426</b>	186,082,125
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Issued capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Share option reserve (Unaudited) HK\$	Contributed surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$ (Restated)	Exchange fluctuation reserve (Unaudited) HK\$	Retained profits (Unaudited) HK\$	Proposed dividends (Unaudited) HK\$	Total equity (Unaudited) HK\$
At 1 January 2011	26,550,480	50,541,281	96,000	660,651	11,289,052	5,597,338	78,072,083	13,275,240	186,082,125
Profit for the period	-	-	-	-	-	-	15,884,504	-	15,884,504
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	1,198,037	-	-	1,198,037
Total comprehensive income for the period	-	-	-	-	-	1,198,037	15,884,504	-	17,082,541
Proposed final and special dividend 2010	-	-	-	-	-	-	-	(13,275,240)	(13,275,240)
Proposed interim dividend 2011	-	-	-	-	-	-	(5,310,096)	5,310,096	-
At 30 June 2011	26,550,480	50,541,281	96,000	660,651	11,289,052	6,795,375	88,646,491	5,310,096	189,889,426
At 1 January 2010	26,550,480	50,541,281	96,000	660,651	9,312,390*	3,916,555	66,168,139	-	157,245,496
Profit for the period	-	-	-	-	-	-	14,378,384	-	14,378,384
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(163,327)	-	-	(163,327)
Total comprehensive income for the period	-	-	-	-	-	(163,327)	14,378,384	-	14,215,057
At 30 June 2010	26,550,480	50,541,281	96,000	660,651	9,312,390	3,753,228	80,546,523	-	171,460,553

\* The figure has been restated as disclosed in note 2.2 of the audited financial statements for the year ended 31 December 2010, to reflect the surplus arising from revaluation of land and buildings in adoption of Amendment to HKAS 17 Lease.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$	HK\$
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>5,899,483</b>	11,658,757
<b>NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(4,389,599)</b>	369,454
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(15,559,514)</b>	(21,050,724)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,049,630)</b>	(9,022,513)
Cash and cash equivalents at beginning of period	<b>42,759,628</b>	32,405,249
Effect of foreign exchange rate changes, net	<b>61,461</b>	15,943
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>28,771,459</b>	23,398,679
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>28,771,459</b>	23,398,679

# 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 2010, 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:

HKFRS 1 Amendment	<i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HK (IFRIC) -Int 14 Amendments	<i>Amendments to HK (IFRIC) -Int 14 Prepayments of a Minimum Funding Requirement</i>
HK (IFRIC) -Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK (IFRIC) -Int 13 are effective for the reporting period.

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.



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

### Adoption of revised accounting policies in 2010

As detailed in note 2.2 of the audited financial statements for the year ended 31 December 2010, the Group has adopted amendments to HKAS 17 *Lease* ("HKAS 17 Amendment") in preparing the financial statement for the year ended 31 December 2010.

In accordance with the HKAS 17 Amendment, the Group's leasehold land in Hong Kong that qualifies for finance lease classification should be included in "property, plant and equipment". Accordingly, certain comparative figures of these interim financial statements have been restated to conform with the adoption of the HKAS 17 Amendment and the effects are summarized as follows:

Condensed consolidated income statement for the six months ended 30 June 2010:

	(Unaudited) HK\$
Decrease in amortisation of land lease payments	(99,801)
Increase in depreciation of property, plant and equipment	99,801
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## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their 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 ("LCDs");
- (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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 2. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, 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, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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

For the six months ended 30 June 2011	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	137,920,138	56,799,230	–	194,719,368
Intersegment sales	1,016,046	432,987	–	1,449,033
Other income and gains	621,773	351,350	356	973,479
	139,557,957	57,583,567	356	197,141,880
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,449,033)
Total revenue				195,692,847
<b>Segment results</b>	18,326,348	2,039,800	(2,218,027)	18,148,121
<i>Reconciliation:</i>				
Bank interest income				93,172
Finance costs				(534,625)
Profit before tax				17,706,668
<b>Other segment information:</b>				
Depreciation and amortisation	3,892,018	3,979,741	569,172	8,440,931
Capital expenditure	4,256,083	86,547	57,100	4,399,730

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2010	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	129,747,036	61,908,520	–	191,655,556
Intersegment sales	1,395,283	590,644	–	1,985,927
Other income and gains	1,578,961	128,935	229	1,708,125
	132,721,280	62,628,099	229	195,349,608
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,985,927)
Total revenue				<u>193,363,681</u>
<b>Segment results</b>				
	22,294,224	(4,080,048)	28,589	18,242,765
<i>Reconciliation:</i>				
Bank interest income				18,704
Finance costs				(1,080,761)
Profit before tax				<u>17,180,708</u>
<b>Other segment information:</b>				
Depreciation and amortisation	4,583,883	5,441,860	529,978	10,555,721
Capital expenditure	160,699	154,650	16,300	331,649

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 2. OPERATING SEGMENT INFORMATION (continued)

#### Geographical information

Revenue from external customers

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Hong Kong	25,954,890	34,768,164
Mainland China	16,911,499	10,867,873
Japan and other Asian countries	33,404,951	25,537,611
North America	10,647,603	15,827,659
Europe	102,808,922	99,602,998
Other countries	4,991,503	5,051,251
	<b>194,719,368</b>	191,655,556

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

#### Information about a major customer

For the six months ended 30 June 2011, revenue of approximately HK\$46.0 million (six months ended 30 June 2010: HK\$46.4 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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Bank interest income	93,172	18,704
Tooling charge income	213,205	61,034
Gain on disposal of items of property, plant and equipment	10,125	701,103
Others	750,149	945,988
	<b>1,066,651</b>	1,726,829

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Interest on bank loans and overdrafts wholly repayable within five years	<b>518,483</b>	1,016,330
Interest on finance leases	<b>16,142</b>	64,431
	<b>534,625</b>	1,080,761

### 5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$ (Restated)
Depreciation	<b>7,048,556</b>	8,373,772
Amortisation of other intangible assets*	<b>1,242,500</b>	2,037,500
Amortisation of land lease payments	<b>149,875</b>	144,449
Provision for slow-moving inventories*	<b>706,538</b>	3,436,166
Foreign exchange differences, net	<b>161,433</b>	214,294
Impairment/(written back of impairment) of trade receivables	<b>(78,062)</b>	192,690
Gain on disposal of items of property, plant and equipment	<b>(10,125)</b>	(701,103)

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

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 6. INCOME TAX

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Group:		
Current – Hong Kong		
Charge for the period	1,220,000	1,725,000
Current – Elsewhere		
Charge for the period	602,164	1,077,324
Total tax charge for the period	1,822,164	2,802,324

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

### 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$15,884,504 (six months ended 30 June 2010: HK\$14,378,384), and on the weighted average of 265,504,800 (six months ended 30 June 2010: 265,504,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$15,884,504 (six months ended 30 June 2010: HK\$14,378,384). The weighted average number of ordinary shares used in the calculation is the 265,504,800 (six months ended 30 June 2010: 265,504,800) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 838,983 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

### 8. DIVIDEND

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Proposed interim – HK2 cents (six months ended 30 June 2010: Nil) per ordinary share	5,310,096	–

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 9. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. Bills receivable discounted with recourse are interest-bearing. The carrying amounts of these balances approximate to their fair values.

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

	<b>30 June 2011 (Unaudited) HK\$</b>	31 December 2010 (Audited) HK\$
Within 90 days	<b>71,872,109</b>	56,435,755
Between 91 to 180 days	<b>1,421,570</b>	1,383,640
Over 180 days	<b>18,910</b>	573,985
	<b>73,312,589</b>	58,393,380

### 10. TRADE PAYABLES

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

	<b>30 June 2011 (Unaudited) HK\$</b>	31 December 2010 (Audited) HK\$
Within 90 days	<b>51,801,877</b>	34,683,069
Between 91 to 180 days	<b>5,327,255</b>	6,049,046
Over 180 days	<b>265,342</b>	104,981
	<b>57,394,474</b>	40,837,096

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

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 11. SHARE OPTION SCHEME

The maximum number of unexercised share options currently permitted to be granted under the existing share option scheme of the Company ("the Scheme") must not in aggregate exceed 30% of the shares of the Company in issue at any time.

As at 30 June 2011, the Company had 1,500,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,500,000 additional ordinary shares of the Company and additional share capital of HK\$150,000 and share premium of HK\$240,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 1,500,000 share options outstanding under the Scheme, which represented approximately 0.6% of the Company's shares in issue as at that date.

### 12. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2011 (Unaudited) HK\$	2010 (Unaudited) HK\$
Short term employee benefits	4,320,315	6,386,798
Post-employment benefits	116,147	99,327
Total compensation paid to key management personnel	<b>4,436,462</b>	6,486,125

### 13. CONTINGENT LIABILITIES

As at 30 June 2011, contingent liabilities not provided for in the financial statements were as follows: -

	30 June 2011 (Unaudited) HK\$	31 December 2010 (Audited) HK\$
Guarantees of banking facilities granted to subsidiaries	<b>123,050,000</b>	145,050,000

### 14. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 25 August 2011.



## **INTERIM DIVIDEND**

The directors recommend the payment of an interim dividend of HK2 cents per ordinary share (2010: Nil) on Wednesday, 12 October 2011 to the shareholders whose names appear on the Register of Members of the Company on Wednesday, 21 September 2011.

## **CLOSURE OF REGISTERS**

The Register of Members of the Company will be closed from Monday, 19 September 2011 to Wednesday, 21 September 2011, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 September 2011.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

For the period ended 30 June 2011, the Group's turnover amounted to approximately HK\$194.7 million, representing an 1.6% increase from the previous period. However, overall gross profit decreased from approximately HK\$43.4 million in the previous period to approximately HK\$42.5 million this period, representing a 2.2% decrease from the previous period. Profit attributable to owners of the Company was approximately HK\$15.9 million (six months ended 30 June 2010: approximately HK\$14.4 million), representing an 10.5% increase from the previous period.

Basic earnings per share for the period ended 30 June 2011 amounted to HK5.98 cents (six months ended 30 June 2010: HK5.42 cents).

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

Due to the slowdown of the United States and European economies, combined with the disaster arose from the Japanese earthquake, the Group's turnover had only recorded a 1.6% growth. The appreciation of Renminbi, the increase in raw material costs coupled with the rise in labor wages caused the sharp rise in manufacturing costs. Our gross profit margin decreased by 0.9% to 21.8% comparing with the previous period (six months ended 30 June 2010: 22.7%).

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

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

The growth in sales turnover and the rise in production costs led to the increase in manufacturing overhead costs by 11.6% to approximately HK\$70.7 million. Selling and distribution expenses reduced by approximately HK\$1.8 million, and the administrative costs went up by approximately HK\$0.3 million, representing a decrease of 11.0% and an increase of 2.3% respectively comparing with the previous period. The finance cost had been reduced by approximately HK\$0.5 million, representing a decrease of 50.5% comparing with the previous period.

The sales turnover of the precision parts and components segment increased to approximately HK\$137.9 million, representing an increase of 6.3% comparing with the previous period. Most of the major customers had recorded growth in business. The operating results of this segment had reduced by 17.8% to approximately HK\$18.3 million, because of the rise in manufacturing costs.

The weakening in market demand had caused the sales turnover of consumer products segment decreased to approximately HK\$56.8 million, representing a reduction of 8.3% comparing with the previous period. However, due to the sharp reduction of daily operating expenses, the operating results of the segment had turned from loss into profit, and recorded a profit of approximately HK\$2.0 million.

In March, Japan had experienced one of the worst natural disasters and caused a shortage in supply on certain electronic components. By now, the supply had gradually gone back to normal. However, the recent financial crisis in United States and Europe had added uncertainties to the future of global economy. Facing the fact of the slowdown in global economy, the continuous rise of inflation in the Mainland China, the shortage in labor and appreciation in Renminbi will cause the manufacturing cost to keep increasing. The Group has already taken action to increase the price of our products to offset part of the increase in costs. At the same time, we will strengthen our management, enhance the efficiency in operation and find ways to increase profitability. With the strong and solid financial support, the Group aims to stride for continuous, healthy development and growth in business.

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

### **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 institutions in Hong Kong and Mainland China.

The total borrowings from banks and financial institutions include all term loans, finance leases, import and export loans, which amounted to approximately HK\$26.4 million as at 30 June 2011.

The Group's financial position remains healthy. As at 30 June 2011, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$28.8 million.

The Group's borrowings are on a floating rate basis and are mainly denominated in Hong Kong dollars, Renminbi or United States dollars. These match with the principal currencies in which the Group conducts its business. Currently, the Group has Renminbi-denominated loans amounting to approximately RMB6.1 million that are used by the Group's Zhongshan plants for working capital purpose.

The gearing ratio on the basis of total debts to total assets as at 30 June 2011 is 41.6% (at 31 December 2010: 38.7%).

### **Charge on the Group Assets**

As at 30 June 2011, certain of the Group's buildings with a net carrying value of approximately HK\$50.1 million (at 31 December 2010: HK\$49.9 million) and one of the Group's land with a net book value of approximately HK\$10.6 million (at 31 December 2010: HK\$10.5 million) were pledged to secure instalment loans to the Group.

### **Contingent Liabilities**

Except for corporate guarantees given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liability as at 30 June 2011.

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

### **Capital Structure**

As at 30 June 2011, the Company had 265,504,800 shares in issue with total shareholders' fund of the Group amounting to approximately HK\$189.9 million.

Pursuant to the Scheme, the Board granted share options to certain senior executives and employees of the Group. The exercise in full of those share options granted but remaining not exercised would result in the issue of 1,500,000 additional shares and proceeds of approximately HK\$0.39 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 2011.

### **Employees**

As at 30 June 2011, the Group had a total workforce of approximately 2,278 of which approximately 53 were based in Hong Kong, approximately 5 were based overseas and approximately 2,220 were based in the Mainland China.

The Group remunerates its employees largely based on the prevailing industry practice and labor 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 the 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.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Founder of a discretionary trust	Total	
Lai Pei Wor	7,654,000	97,242,000*	104,896,000	39.51
Chan Yau Wah	7,700,000	–	7,700,000	2.90
	15,354,000	97,242,000	112,596,000	42.41

\* *Details of Mr. Lai Pei Wor's other interests are set out in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.*

Save as disclosed above, as at 30 June 2011, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries, a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The following share options were outstanding under the Scheme of the Company during the period:

Category of participant	Number of share options					At 30 June 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of the Company's shares at grant date of options***
	At 1 January 2011	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited/ expired during the period					
Employees other than the directors	1,500,000	-	-	-	-	1,500,000	26.1.2005	1.1.2006 to 31.12.2012	0.260	0.260

*Notes to the reconciliation of share options outstanding during the period:*

- \* *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*
- \*\* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- \*\*\* *The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Number of shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Beneficiary of a trust	Total	
Chan Yuk Lin ( <i>Note a</i> )	-	7,654,000	97,242,000	104,896,000	39.51
Celaya (PTC) Limited ( <i>Note b</i> )	-	-	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited ( <i>Note c</i> )	-	-	97,242,000	97,242,000	36.63
Lai Yiu Chun ( <i>Note d</i> )	1,866,000	21,450,000	-	23,316,000	8.78
Lam Lin Chu, Winnie ( <i>Note d</i> )	23,116,000	200,000	-	23,316,000	8.78

### Notes:

- (a) *Ms. Chan Yuk Lin, spouse of Mr. Lai Pei Wor, was deemed to be interested in the shares.*
- (b) *Celaya (PTC) Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Trident Corporate Services (B.V.I.) Limited in its capacity as trustee of The Lai Family Trust, a discretionary trust of which the spouse and issue of Mr. Lai Pei Wor are discretionary objects.*
- (c) *The shares referred to herein relate to the same parcel of shares referred to in note (b) above.*
- (d) *Ms. Lam Lin Chu, Winnie is the wife of Mr. Lai Yiu Chun, who is a brother of Mr. Lai Pei Wor. Both Ms. Lam Lin Chu, Winnie and Mr. Lai Yiu Chun are declaring interests in the same parcel of shares.*

Save as disclosed above, as at 30 June 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## 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.

## DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rules 13.51B (1) and 13.51 (2) (g) of the Listing Rules, the changes in information on Directors of the Company are as follows:

### Directors' Emoluments/Fees

	For the six months ended 30 June			
	2011		2010	
	Emoluments HK\$	Fees HK\$	Emoluments HK\$	Fees HK\$
Executive directors:				
Lai Pei Wor	1,189,695	-	1,039,545	-
Chan Yau Wah	974,155	-	851,175	-
	<b>2,163,850</b>	<b>-</b>	<b>1,890,720</b>	<b>-</b>
Independent non-executive directors:				
Kung Fan Cheong	-	138,000	-	132,000
Leung Man Kay	-	138,000	-	132,000
Li Yuen Kwan, Joseph	-	138,000	-	132,000
	<b>-</b>	<b>414,000</b>	<b>-</b>	<b>396,000</b>

### Director's Biographical Note

Mr. Kung Fan Cheong, Independent Non-executive Director, retired as an independent non-executive director of Tack Hsin Holdings Limited, a company listed on the Main Board of the Stock Exchange, at its annual general meeting held on 18 August 2011 and did not seek re-election.

### CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, saved for the deviation discussed below, the Company has complied with all the code provisions of the Code on Corporate Governance Practices, 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 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 2011.

On behalf of the Board

**Lai Pei Wor**

*Chairman*

Hong Kong, 25 August 2011

*As at the date of this report, 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).*