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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 2013

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 2013 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 2013

		For the six months ended 30 June	
		2013 (Unaudited) HK\$	2012 (Unaudited) HK\$
	<i>Notes</i>		
REVENUE	2	194,849,928	205,348,006
Cost of sales		(159,432,768)	(164,159,521)
Gross profit		35,417,160	41,188,485
Other income and gains	3	7,584,637	1,742,693
Selling and distribution costs		(16,433,724)	(13,871,088)
Administrative expenses		(14,251,300)	(11,232,637)
Other expenses		(1,014,858)	(32,451)
Finance costs	4	(357,423)	(340,103)
PROFIT BEFORE TAX	5	10,944,492	17,454,899
Income tax expense	6	(1,517,223)	(1,060,429)
PROFIT FOR THE PERIOD			
ATTRIBUTABLE TO OWNERS OF THE COMPANY		9,427,269	16,394,470
EARNINGS PER SHARE			
ATTRIBUTABLE TO OWNERS OF THE COMPANY	7		
Basic		HK3.53 cents	HK6.16 cents
Diluted		HK3.53 cents	HK6.15 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 2013*

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$	HK\$
PROFIT FOR THE PERIOD	9,427,269	16,394,470
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>1,694,181</u>	<u>(117,289)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>11,121,450</u></u>	<u><u>16,277,181</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		30 June 2013 (Unaudited) HK\$	31 December 2012 (Audited) HK\$
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		170,898,970	159,467,363
Prepaid land lease payments		13,341,774	13,329,193
Other intangible assets		631,733	317,496
Available-for-sale financial investment		680,000	680,000
Deferred tax assets		514,989	514,989
Prepaid rent		235,275	313,700
		<hr/>	<hr/>
Total non-current assets		186,302,741	174,622,741
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		48,854,846	35,684,612
Derivative financial instruments	<i>11</i>	4,003,864	1,051,412
Prepayments, deposits and other receivables		10,257,473	12,846,245
Trade receivables	<i>9</i>	67,452,188	60,995,563
Non-pledged time deposits		12,500,000	–
Cash and cash equivalents		46,421,538	59,277,670
		<hr/>	<hr/>
Total current assets		189,489,909	169,855,502
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	<i>10</i>	39,892,486	34,410,318
Accrued liabilities and other payables		43,530,504	44,839,901
Interest-bearing bank and other borrowings		29,320,198	12,148,444
Dividend payable		10,680,192	–
Tax payable		13,160,400	13,146,766
		<hr/>	<hr/>
Total current liabilities		136,583,780	104,545,429
		<hr/>	<hr/>
NET CURRENT ASSETS		52,906,129	65,310,073
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		239,208,870	239,932,814
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,390,921	2,556,123
Deferred tax liabilities		5,621,460	5,621,460
		<hr/>	<hr/>
Total non-current liabilities		7,012,381	8,177,583
		<hr/>	<hr/>
Net assets		232,196,489	231,755,231
		<hr/>	<hr/>
EQUITY			
Issued capital		26,700,480	26,700,480
Reserves		200,155,913	194,374,559
Proposed dividend		5,340,096	10,680,192
		<hr/>	<hr/>
Total equity		232,196,489	231,755,231
		<hr/>	<hr/>

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 2012, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

Amendments to HKAS 1	<i>Presentation of items of other comprehensive income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate financial statements</i>
HKFRS 10	<i>Consolidated financial statements</i>
HKFRS 12	<i>Disclosures of Interests in Other Entities</i>
Amendments to HKFRS 10, HKFRS 11, HKFRS 12	<i>Additional transition relief – Consolidated financial statements, Joint Arrangements, Disclosures of Interests in Other Entities</i>
HKFRS 13	<i>Fair value measurement</i>
Amendments to HKFRS 1	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
Various HKFRSs	<i>Annual Improvements Project – 2009-2011 Cycle</i>
Amendments to HKFRS 7	<i>Disclosure – Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 34	<i>Interim Financial Reporting</i>

Following the amendments to HKAS 34, the disclosure of total liabilities for a particular reportable segment is required in the interim financial statements if such information is regularly provided to the chief decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The adoption of the amendments to HKAS 34 does not have any impact to the Group as information relating to segment liabilities is not regularly reported to the chief decision maker.

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

2. OPERATING SEGMENT INFORMATION

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

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

Management, the chief decision maker, 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 result, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that bank interest income and finance costs are excluded from such measurement.

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

For the six months ended 30 June 2013	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Segment revenue:				
Sales to external customers	139,427,330	55,422,598	–	194,849,928
Intersegment sales	145,784	149,760	–	295,544
Other income and gains	4,425,809	277,165	2,759,218	7,462,192
	<u>143,998,923</u>	<u>55,849,523</u>	<u>2,759,218</u>	<u>202,607,664</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(295,544)</u>
Total segment revenue				<u><u>202,312,120</u></u>
Segment results:	8,342,237	3,604,210	(766,977)	11,179,470
<i>Reconciliation:</i>				
Bank interest income				122,445
Finance costs				<u>(357,423)</u>
Profit before tax				<u><u>10,944,492</u></u>
Other segment information:				
Depreciation and amortisation of other intangible assets	3,775,754	1,689,949	1,000,998	6,466,701
Amortisation of prepaid land lease payments	113,026	–	41,370	154,396
Capital expenditure				
- additions during the period	6,723,914	325,498	81,282	7,130,694
- arising from acquisition (note 15)	<u>9,522,904</u>	<u>–</u>	<u>–</u>	<u>9,522,904</u>

2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2012	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Segment revenue:				
Sales to external customers	137,244,847	68,103,159	–	205,348,006
Intersegment sales	954,397	713,333	–	1,667,730
Other income and gains	1,516,996	175,711	497	1,693,204
	<u>139,716,240</u>	<u>68,992,203</u>	<u>497</u>	<u>208,708,940</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(1,667,730)</u>
Total segment revenue				<u><u>207,041,210</u></u>
Segment results:	14,318,328	5,326,740	(1,899,555)	17,745,513
<i>Reconciliation:</i>				
Bank interest income				49,489
Finance costs				<u>(340,103)</u>
Profit before tax				<u><u>17,454,899</u></u>
Other segment information:				
Depreciation and amortisation of other intangible assets	3,435,007	2,599,949	606,866	6,641,822
Amortisation of prepaid land lease payments	111,217	–	41,370	152,587
Capital expenditure - additions during the period	<u>1,076,661</u>	<u>110,069</u>	<u>2,950</u>	<u>1,189,680</u>

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2013 (Unaudited) HK\$	2012 (Unaudited) HK\$
Hong Kong	33,731,959	28,834,575
Mainland China	17,434,655	15,301,626
Japan and other Asian countries	29,306,870	34,795,737
North America	33,311,058	19,210,962
Europe	65,915,394	101,982,698
Other countries	15,149,992	5,222,408
	<u>194,849,928</u>	<u>205,348,006</u>

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

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	30 June 2013 (Unaudited) HK\$	31 December 2012 (Audited) HK\$
Hong Kong	38,602,191	39,217,860
Mainland China	146,454,668	134,141,582
Other countries	50,893	68,310
	<u>185,107,752</u>	<u>173,427,752</u>

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

Information about a major customer

For the six months ended 30 June 2013, revenue of approximately HK\$19.5 million (six months ended 30 June 2012: HK\$33.7 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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	122,445	49,489
Tooling charge income	68,719	81,141
Gain on disposal of items of property, plant and equipment	–	4,305
Fair value gain on derivative financial instruments		
– transactions not qualified for hedge accounting	2,952,452	473,615
Gain on bargain purchase (note 15)	2,758,413	–
Others	1,682,608	1,134,143
	<u>7,584,637</u>	<u>1,742,693</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts		
wholly repayable within five years	267,099	219,202
Interest on finance leases	90,324	120,901
	<u>357,423</u>	<u>340,103</u>

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	6,282,951	5,999,322
Amortisation of other intangible assets*	183,750	642,500
Amortisation of prepaid land lease payments	154,396	152,587
(Reversal of provision)/provision for slow-moving inventories*	(1,546,585)	30,458
Foreign exchange differences, net	1,014,858	32,451
Fair value gain on derivative financial instruments		
– transactions not qualified for hedge accounting	(2,952,452)	(473,615)
Gain on disposal of items of property, plant and equipment	–	(4,305)
	<u>–</u>	<u>(4,305)</u>

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

6. INCOME TAX

	For the six months ended 30 June	
	2013 (Unaudited) HK\$	2012 (Unaudited) HK\$
Group:		
Current – Hong Kong		
Charge for the period	100,000	550,000
Overprovision in prior years	(140,130)	–
Current – Elsewhere		
Charge for the period	1,557,353	510,429
	<u>1,517,223</u>	<u>1,060,429</u>
Total tax charge for the period		

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the Company for the period of HK\$9,427,269 (six months ended 30 June 2012: HK\$16,394,470), and on the weighted average number of 267,004,800 (six months ended 30 June 2012: 265,941,613) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts for the period is the same as the basic earnings per share as the Company did not have any dilutive potential ordinary shares during the period.

During the period ended 30 June 2012, the calculation of diluted earnings per share amounts is based on the profit attributable to owners of the Company of HK\$16,394,470. The weighted average number of ordinary shares used in the calculation is 265,941,613 ordinary shares in issue during the previous period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary share during the previous period.

8. DIVIDENDS

	For the six months ended 30 June	
	2013 (Unaudited) HK\$	2012 (Unaudited) HK\$
Attributable to the period:		
Interim dividend - HK2 cents (2012: HK2 cents) per ordinary share	<u>5,340,096</u>	<u>5,340,096</u>
Attributable to the previous year, approved during the period:		
Final dividend - HK4 cents (2012: HK4 cents) per ordinary share	<u>10,680,192</u>	<u>10,680,192</u>

9. TRADE 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 2013, there is a significant concentration of credit risk as 17.9% (at 31 December 2012: 19.7%) of the balance representing a receivable from a single customer (at 31 December 2012: single customer), which was derived from sales by the precision parts and components segment. Trade receivables are non-interest-bearing. The carrying amounts of these balances are approximate to their fair values.

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

	30 June 2013 (Unaudited) HK\$	31 December 2012 (Audited) HK\$
Within 90 days	61,373,165	59,048,521
Between 91 to 180 days	4,799,151	1,842,760
Over 180 days	1,279,872	104,282
	<hr/> 67,452,188 <hr/>	<hr/> 60,995,563 <hr/>

10. 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 2013 (Unaudited) HK\$	31 December 2012 (Audited) HK\$
Within 90 days	37,172,648	33,040,573
Between 91 to 180 days	2,560,351	1,298,552
Over 180 days	159,487	71,193
	<hr/> 39,892,486 <hr/>	<hr/> 34,410,318 <hr/>

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2013 (Unaudited) HK\$	31 December 2012 (Audited) HK\$
Current asset:		
Forward currency contracts	<u>4,003,864</u>	<u>1,051,412</u>

The carrying amount of forward currency contracts are the same as their fair values. The Group entered into three forward currency contracts of US\$14,500,000 each (at 31 December 2012: two forward currency contracts of US\$14,500,000 each) for the exchange of United States Dollars (“US\$”) with Renminbi (“RMB”). The maturity date of these forward currency contracts are 25 July 2013, 19 December 2013 and 6 June 2014, respectively (at 31 December 2012: 25 July 2013 and 19 December 2013, respectively). The forward rate of these forward currency contracts are US\$1 to RMB6.412, to RMB6.294 and to RMB6.232, respectively (at 31 December 2012: US\$1 to RMB6.412 and to RMB6.294, respectively).

As at 30 June 2013, 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 gain of HK\$2,952,452 was recognised to the income statement for the period ended 30 June 2013 (six months ended 30 June 2012: HK\$473,615).

The valuation of the above foreign currency forward contracts are classified in level 2 of the fair value hierarchy with the fair value derived from inputs including interest rate and forward market rate that are observable for the asset or liability, either directly or indirectly.

12. SHARE OPTION SCHEME

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

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2013 (Unaudited) HK\$	2012 (Unaudited) HK\$
Short term employee benefits	4,321,458	4,300,824
Post-employment benefits	10,453	22,820
Total compensation paid to key management personnel	<u>4,331,911</u>	<u>4,323,644</u>

14. CONTINGENT LIABILITIES

As at 30 June 2013, contingent liabilities not provided for in the financial statements include guarantees given to banks and financial institution by the Company to secure banking facilities granted to the subsidiaries to the extent of approximately HK\$110.5 million (at 31 December 2012: HK\$84.5 million).

15. BUSINESS COMBINATION

On 2 January 2013, the Group acquired the entire issued ordinary share capital of Sun Ngai Plastic Products Factory Limited (“Sun Ngai”) and Hunpex Limited (“Hunpex”) for a total cash consideration of approximately HK\$12.3 million. Sun Ngai and Hunpex are engaged in trading and manufacturing of double injection plastic mould and products. The acquisition perfectly complements the precision parts and components business of the Group. Sun Ngai and Hunpex can leverage on one another and expand the business scope of the Group. Their operating results have been included in the precision parts and components segment.

The following summarises the consideration paid for Sun Ngai and Hunpex, the fair value of assets acquired and liabilities assumed at the acquisition date:-

	<i>HK\$</i>
Property, plant and equipment	9,032,885
Other intangible assets	490,019
Inventories	3,569,114
Trade receivables	11,639,897
Prepayments, deposits and other receivables	606,253
Cash and cash equivalents	3,600,883
Trade payables	(8,671,662)
Accrued liabilities and other payables	(5,202,498)
	<hr/>
Net assets	15,064,891
Gain on bargain purchase	(2,758,413)
	<hr/>
Total consideration satisfied by cash	<u>12,306,478</u>
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	12,306,478
Cash and cash equivalents acquired	(3,600,883)
	<hr/>
	<u>8,705,595</u>

The Group recognised a gain on bargain purchase of approximately HK\$2.8 million in the business combination. The gain was included in other income. The gain on bargain purchase was arising from the excess of share of the fair values of identifiable assets acquired and liabilities assumed over the consideration paid for the equity interest. It was mainly attributable to depressed market value of the acquired business because of years of losses due to challenging economic environment and the bad global economic environment during the period of negotiation of the acquisition.

The total revenue included in the consolidated statement of comprehensive income from its date of acquisition (i.e., 2 January 2013) to 30 June 2013 contributed by Sun Ngai and Hunpex was approximately HK\$21.0 million. Sun Ngai and Hunpex reported net loss of approximately HK\$3.5 million over the same period.

Had Sun Ngai and Hunpex been consolidated from 1 January 2013, there was no change for revenue and profit attributable to owners of the Company.

16. EXPENSES RELATING TO ACQUISITION

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Legal and professional fee	<u><u>791,605</u></u>	<u><u>–</u></u>

17. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 29 August 2013.

INTERIM DIVIDEND

The directors recommend the payment of an interim dividend of HK2 cents per ordinary share (2012: HK2 cents) on Friday, 18 October 2013 to the shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 September 2013.

CLOSURE OF REGISTERS

The Register of Members of the Company will be closed from Thursday, 19 September 2013 to Tuesday, 24 September 2013, 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 Wednesday, 18 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 June 2013, the Group's turnover amounted to approximately HK\$194.8 million, representing a 5.1% decrease from the previous period. Also, the overall gross profit decreased from approximately HK\$41.2 million in the previous period to approximately HK\$35.4 million this period, representing a 14.0% decrease from the previous period. Profit attributable to owners of the Company was approximately HK\$9.4 million (six months ended 30 June 2012: HK\$16.4 million), representing a 42.5% decrease from the previous period.

Basic earning per share for the period ended 30 June 2013 amounted to HK3.53 cents (six months ended 30 June 2012: HK6.16 cents).

Business Review and Future Plan

Due to the weakening demand in Europe and the United States market, the weak consumer sentiment and also the preserve of low inventory level by our customers in the first half of the year, the sales turnover of the Group had decreased by 5.1%, comparing with the previous period. The decline in demand from customers resulted in low utilisation of the production capacity, together with the rise in wages in Mainland China and the appreciation of Renminbi in the first half of the year led to the increase of the manufacturing cost, our gross profit margin decreased by 1.9% to 18.2% (six months ended 30 June 2012: 20.1%).

On 2 January 2013, the Group acquired the entire issued ordinary share capital of Sun Ngai Plastic Products Factory Limited ("Sun Ngai") and Hunpex Limited ("Hunpex") for a total cash consideration of approximately HK\$12.3 million. Sun Ngai and Hunpex are engaged in trading and manufacturing of double injection plastic mould and products. After the acquisition of Sun Ngai and Hunpex, their operating results had been consolidated into the Group, therefore the manufacturing overhead cost had increased by 6.7% to approximately HK\$84.2 million, comparing with the previous period. Selling and distribution expenses increased by approximately HK\$2.6 million, and the administrative costs went up approximately HK\$3.0 million, representing an increase of 18.5% and 26.9%, respectively. Due to the debt increased for financing the acquisition of Sun Ngai and Hunpex, the finance cost had increased by 5.1% to approximately HK\$0.4 million, comparing with the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review and Future Plan (continued)

Due to the consolidation of the sales turnover of Sun Ngai and Hunpex in the first half of the year, the sales turnover of the precision parts and components segment had slightly increased by 1.6% to approximately HK\$139.4 million, comparing with the previous period. The low utilisation of our production capacity mainly resulted from the weakening demand in the market, the preserve of low inventory level by customers, the decline in order and postponed shipments led to the decline in the operating results by 41.7% to approximately HK\$8.3 million. The operating results of Sun Ngai and Hunpex had been included in this segment. The restructuring of Sun Ngai and Hunpex had been completed, their productivity and sales turnover had been gradually improved. We expect their operating results in the second half of the year would make contributions to this segment.

The sales turnover of the consumer electronic products segment had decreased by 18.6% to approximately HK\$55.4 million mainly resulted from the weakening demand from European customers and postponed shipments. The operating results had been decreased by 32.3% to approximately HK\$3.6 million, comparing with the previous period.

As the economies in Europe and United States are recovering slowly, the business environment in the second half of the year is still filled with uncertainty. The Group will actively develop new products and new potential customers, and adopt the prudent fiscal policy in the current gloomy situation.

Liquidity and Financial Resources

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

The total borrowings from banks and financial institution include all term loans, finance leases, import and export loans, which amounted to approximately HK\$30.7 million as at 30 June 2013.

The Group's financial position remains healthy. As at 30 June 2013, the aggregate balance of cash and cash equivalents and the time deposits of the Group amounted to approximately HK\$58.9 million.

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

The gearing ratio on the basis of net debt divided by the total equity plus net debt as at 30 June 2013 is 22.1% (at 31 December 2012: 13.0%).

Charge on the Group's Assets

As at 30 June 2013, none of the bank borrowings were secured by charges over the Group's assets.

Contingent Liabilities

Except for corporate guarantees given to banks and financial institution in relation to banking facilities granted to the subsidiaries, the Company had no other contingent liabilities as at 30 June 2013.

Capital Structure

As at 30 June 2013, the Company had 267,004,800 ordinary shares in issue with total shareholders' funds of the Group amounting to approximately HK\$232.2 million.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Fund Raising

Other than obtaining additional general banking facilities to finance the Group's trading requirements and loans to finance the acquisition of Sun Ngai and Hunpex, the Group did not have any special fund raising activities during the period ended 30 June 2013.

Employees

As at 30 June 2013, the Group had a total workforce of approximately 2,136 of which approximately 59 were based in Hong Kong, approximately 5 were based overseas and approximately 2,072 were based in 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 overseas and Mainland China employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE CODE

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Leung Man Kay and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2013.

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, 29 August 2013

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

** For identification purpose only*