



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
2015**

* For identification purpose only

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 2015 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 2015

		For the six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	HK\$	HK\$
REVENUE	2	215,208,824	226,947,051
Cost of sales		(180,001,320)	(187,314,478)
Gross profit		35,207,504	39,632,573
Other income and gains	3	4,932,159	2,953,908
Selling and distribution costs		(18,200,036)	(17,088,068)
Administrative expenses		(16,498,387)	(14,392,769)
Other expenses	4	–	(2,654,010)
Finance costs	5	(908,226)	(649,836)
PROFIT BEFORE TAX	6	4,533,014	7,801,798
Income tax (expense)/credit	7	(1,660,870)	1,379,598
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		2,872,144	9,181,396
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		HK1.08 cents	HK3.44 cents
Diluted		HK1.08 cents	HK3.44 cents

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
PROFIT FOR THE PERIOD	2,872,144	9,181,396
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(119,895)	13,033
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	2,752,249	9,194,429

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	30 June 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		212,834,170	214,615,320
Prepaid land lease payments		12,882,126	13,038,330
Other intangible assets		–	–
Available-for-sale financial investment		680,000	680,000
		<hr/>	<hr/>
Total non-current assets		226,396,296	228,333,650
CURRENT ASSETS			
Inventories		74,144,615	56,553,529
Prepayments, deposits and other receivables		10,622,108	10,533,192
Trade and bills receivables	10	80,063,436	79,852,656
Cash and cash equivalents		32,891,892	35,305,971
		<hr/>	<hr/>
Total current assets		197,722,051	182,245,348
CURRENT LIABILITIES			
Trade payables	11	48,015,573	43,998,205
Accrued liabilities and other payables		52,686,504	51,138,294
Derivative financial instruments	12	–	256,447
Interest-bearing bank and other borrowings		37,822,787	28,395,144
Dividend payable		5,340,096	–
Tax payable		6,867,233	6,299,396
		<hr/>	<hr/>
Total current liabilities		150,732,193	130,087,486
		<hr/>	<hr/>
NET CURRENT ASSETS		46,989,858	52,157,862
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		273,386,154	280,491,512
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2015

	30 June 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	14,443,637	18,961,148
Deferred tax liabilities	9,295,324	9,295,324
	<hr/>	<hr/>
Total non-current liabilities	23,738,961	28,256,472
	<hr/>	<hr/>
Net assets	249,647,193	252,235,040
	<hr/>	<hr/>
EQUITY		
Issued capital	26,700,480	26,700,480
Reserves	222,946,713	220,194,464
Proposed dividend	–	5,340,096
	<hr/>	<hr/>
Total equity	249,647,193	252,235,040
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Issued capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Contributed surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$	Exchange fluctuation reserve (Unaudited) HK\$	Retained profits (Unaudited) HK\$	Proposed dividends (Unaudited) HK\$	Total equity (Unaudited) HK\$
At 1 January 2015	26,700,480	50,856,881	660,651	48,316,084	12,425,888	107,934,960	5,340,096	252,235,040
Profit for the period	-	-	-	-	-	2,872,144	-	2,872,144
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	(119,895)	-	-	(119,895)
Total comprehensive income for the period	-	-	-	-	(119,895)	2,872,144	-	2,752,249
Transactions with owners of the Company								
2014 final dividend approved	-	-	-	-	-	-	(5,340,096)	(5,340,096)
At 30 June 2015	26,700,480	50,856,881	660,651	48,316,084	12,305,993	110,807,104	-	249,647,193
At 1 January 2014	26,700,480	50,856,881	660,651	45,305,876	12,670,075	108,092,463	10,680,192	254,966,618
Profit for the period	-	-	-	-	-	9,181,396	-	9,181,396
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	13,033	-	-	13,033
Total comprehensive income for the period	-	-	-	-	13,033	9,181,396	-	9,194,429
Transactions with owners of the Company								
2013 final dividend approved	-	-	-	-	-	-	(10,680,192)	(10,680,192)
2014 interim dividend declared	-	-	-	-	-	(5,340,096)	5,340,096	-
At 30 June 2014	26,700,480	50,856,881	660,651	45,305,876	12,683,108	111,933,763	5,340,096	253,480,855

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(932,897)	(4,247,054)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(6,327,778)	(6,656,249)
NET CASH FLOWS FROM FINANCING ACTIVITIES	4,910,132	10,149,058
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,350,543)	(754,245)
Cash and cash equivalents at beginning of period	35,305,971	55,645,830
Effect of foreign exchange rate changes, net	(63,536)	11,700
CASH AND CASH EQUIVALENTS AT END OF PERIOD	32,891,892	54,903,285
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	32,891,892	42,203,285
Non-pledged time deposits	–	12,700,000
	32,891,892	54,903,285

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 2014, 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:

Various HKFRSs *Annual Improvements Project – 2010-2012 Cycle*

Various HKFRSs *Annual Improvements Project – 2011-2013 Cycle*

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;
- (b) the consumer electronic products segment comprises the design, manufacture and sale of consumer electronic products comprising time, weather forecasting and other products; and
- (c) the corporate and others segment comprises the Group’s long term investments, together with corporate income and expense items.

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

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

Intersegment management fee is eliminated on consolidation.

2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2015	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	172,675,785	42,533,039	–	215,208,824
Intersegment sales	1,771,569	168,185	–	1,939,754
Intersegment management fee	–	–	2,880,000	2,880,000
Other income and gains, excluding bank interest income	4,114,447	795,025	2,975	4,912,447
	178,561,801	43,496,249	2,882,975	224,941,025
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,939,754)
Elimination of intersegment management fee				(2,880,000)
Total segment revenue				220,121,271
Segment results:				
	12,950,870	(6,886,778)	(642,564)	5,421,528
<i>Reconciliation:</i>				
Bank interest income				19,712
Finance costs				(908,226)
Profit before tax				4,533,014
Other segment information:				
Depreciation	(5,658,308)	(1,351,092)	(1,503,594)	(8,512,994)
Amortisation of prepaid land lease payments	(156,204)	–	–	(156,204)
Realised gain arising from derivative financial instruments – transactions not qualified for hedge accounting	502,127	158,566	–	660,693
Capital expenditure	(6,699,520)	(26,050)	(6,458)	(6,732,028)

2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2014	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	170,228,131	56,718,920	–	226,947,051
Intersegment sales	361,232	154,515	–	515,747
Intersegment management fee	–	–	2,460,000	2,460,000
Other income and gains, excluding bank interest income	1,909,015	565,272	151,594	2,625,881
	172,498,378	57,438,707	2,611,594	232,548,679
<i>Reconciliation:</i>				
Elimination of intersegment sales				(515,747)
Elimination of intersegment management fee				(2,460,000)
Total segment revenue				<u>229,572,932</u>
Segment results:				
	10,241,327	(1,478,433)	(639,287)	8,123,607
<i>Reconciliation:</i>				
Bank interest income				328,027
Finance costs				(649,836)
Profit before tax				<u>7,801,798</u>
Other segment information:				
Depreciation	(3,841,613)	(1,816,805)	(1,439,036)	(7,097,454)
Amortisation of prepaid land lease payments	(114,834)	–	(41,370)	(156,204)
Fair value loss on derivative financial instruments – transactions not qualified for hedge accounting	(1,346,227)	(303,573)	–	(1,649,800)
Realised loss arising from a derivative financial instrument – transaction not qualified for hedge accounting	(763,200)	(241,010)	–	(1,004,210)
Capital expenditure	(7,986,666)	(202,807)	(4,290)	(8,193,763)

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Hong Kong	24,604,545	32,017,170
Mainland China	33,210,971	34,743,493
Japan and other Asian countries	34,894,972	29,525,324
North America	19,282,131	24,040,105
South America	6,863,720	13,451,283
Europe	91,146,939	91,317,118
Other countries	5,205,546	1,852,558
	215,208,824	226,947,051

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

(b) Non-current assets

	30 June 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
Hong Kong	48,868,800	50,231,789
Mainland China	176,661,328	177,412,407
Other countries	186,168	9,454
	225,716,296	227,653,650

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

Information about a major customer

For the six months ended 30 June 2015 and 2014, no customer contributed over 10% of the total sales of the Group.

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Bank interest income	19,712	328,027
Tooling charge income	688,703	109,535
Gain on disposal of items of property, plant and equipment	–	317,712
Realised gain arising from derivative financial instruments – transactions not qualified for hedge accounting	660,693	–
Foreign exchange gain, net	2,109,324	886,868
Others	1,453,727	1,311,766
	4,932,159	2,953,908

4. OTHER EXPENSES

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Fair value loss on derivative financial instruments – transactions not qualified for hedge accounting	–	1,649,800
Realised loss arising from a derivative financial instrument – transaction not qualified for hedge accounting	–	1,004,210
	–	2,654,010

5. FINANCE COSTS

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Interest on bank loans and overdrafts wholly repayable within five years	413,054	576,548
Interest on finance leases	495,172	73,288
	908,226	649,836

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Provision for slow-moving inventories*	225,531	149,604
Depreciation	8,512,994	7,097,454
Amortisation of prepaid land lease payments	156,204	156,204
Fair value loss on derivative financial instruments – transactions not qualified for hedge accounting	–	1,649,800
Realised (gain)/loss arising from derivative financial instruments – transactions not qualified for hedge accounting	(660,693)	1,004,210
Foreign exchange gain, net	(2,109,324)	(886,868)
Gain on disposal of items of property, plant and equipment	–	(317,712)

* The provision for slow-moving inventories for the period is included in "Cost of sales" in the consolidated income statement.

7. INCOME TAX

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	1,141,000	470,000
Overprovision in prior periods	–	(1,009,261)
Current – outside Hong Kong		
Charge for the period	999,761	862,401
Overprovision in prior periods	(479,891)	(1,702,738)
Tax charge/(credit) for the period	1,660,870	(1,379,598)

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits outside Hong Kong have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the Company for the period of HK\$2,872,144 (six months ended 30 June 2014: HK\$9,181,396) and the weighted average number of 267,004,800 (six months ended 30 June 2014: 267,004,800) ordinary shares in issue during the period.

As there were no dilutive potential ordinary shares, diluted earnings per share was the same as basic earnings per share for the period ended 30 June 2015 and 2014.

9. DIVIDENDS

	For the six months ended 30 June	
	2015 (Unaudited) HK\$	2014 (Unaudited) HK\$
Attributable to the period:		
Interim dividend – Nil (2014: HK2 cents) per ordinary share	–	5,340,096
Attributable to the previous year, approved during the period:		
Final dividend – HK2 cents (2014: HK4 cents) per ordinary share	5,340,096	10,680,192

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. As at 30 June 2015, there is a significant concentration of credit risk as 15.1% (at 31 December 2014: 15.0%) of the balance representing a receivable from a single customer (at 31 December 2014: 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.

10. TRADE AND BILLS RECEIVABLES (continued)

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 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
Within 90 days	75,495,487	75,932,473
91 to 180 days	4,549,474	3,734,894
Over 180 days	18,475	185,289
	80,063,436	79,852,656

11. TRADE PAYABLES

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

	30 June 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
Within 90 days	44,037,876	42,645,750
91 to 180 days	3,968,165	1,331,283
Over 180 days	9,532	21,172
	48,015,573	43,998,205

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2015 (Unaudited) HK\$	31 December 2014 (Audited) HK\$
Current liability:		
Forward currency contracts	-	256,447

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The carrying amount of forward currency contracts are the same as their fair values. The Group does not enter any forward currency contracts for the period ended 30 June 2015 (at 31 December 2014: two forward currency contracts of US\$7,250,000 each) for the exchange of United States Dollars ("US\$") with Renminbi ("RMB"). As at 31 December 2014, the maturity date of these forward currency contracts were 18 February 2015 and 19 March 2015 respectively and the forward rates of these forward currency contracts ranged from RMB6.1150 to RMB6.2150 per US\$1.

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

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

13. SHARE OPTION SCHEME

Pursuant to 2012 share option scheme, no share options were granted, exercised, cancelled, forfeited or expired during the period ended 30 June 2015 and 2014 and there was no outstanding share option as at 30 June 2015 and 2014.

14. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Short term employee benefits	4,511,937	4,340,905
Contributions to retirement benefits schemes	27,000	17,249
Total compensation paid to key management personnel	4,538,937	4,358,154

15. CONTINGENT LIABILITIES

As at 30 June 2015, contingent liabilities not provided for in the financial statements include guarantees given to the banks and other financial institution by the Company to secure loan facilities granted to the subsidiaries to the extent of approximately HK\$221.6 million (at 31 December 2014: HK\$221.6 million).

16. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 August 2015.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: HK2 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The strength of United States dollars, in the first half of this year significantly jeopardized the purchasing power of European countries. The uncertainties from the global economy adversely influenced the consumers willingness to spend and weakened the demand, causing the market continuously to shrink. For the period ended 30 June 2015, the Group's turnover amounted to approximately HK\$215.2 million, representing a 5.2% decrease from the previous period. Overall gross profit decreased by 11.2% to approximately HK\$35.2 million. Profit attributable to owners of the Company was approximately HK\$2.9 million (six months ended 30 June 2014: HK\$9.2 million).

Basic earning per share for the period ended 30 June 2015 amounted to HK1.08 cents (six months ended 30 June 2014: HK3.44 cents).

Business Review and Future Plan

For the first half of the year, due to the pressure of the price reduction because of the appreciation of the United States dollars, combined with the manufacturing cost went up because of the increase of labour wage in Mainland China, the gross profit margin of the Group had decreased by 1.1% to 16.4% (six months ended 30 June 2014: 17.5%). Manufacturing overhead costs had increased by 13.9% to approximately HK\$102.0 million, comparing with the previous period. The selling and distribution costs increased by approximately HK\$1.1 million, and the administrative expenses went up by approximately HK\$2.1 million, representing an increase of 6.5% and 14.6% respectively comparing with the previous period. The finance costs had been gone up to approximately HK\$0.9 million, representing an increase of 39.8% comparing with the previous period.

Despite the sales from the major customers decreased, the growth of the sales orders from the new customers increased the sales turnover of the precision parts and components segment to approximately HK\$172.7 million, representing an increase of 1.4% comparing with the previous period. The purchase of the new equipment boosted the productivity and the replacement of old machines and equipment improved the production efficiency. The operating results of this segment increased by 26.5% to approximately HK\$13.0 million, comparing with the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review and Future Plan (continued)

Due to the weakened demand and the depreciation of the Euro currency, the sales turnover of the consumer electronic products segment decreased by 25.0% to approximately HK\$42.5 million, comparing with the previous period. The increase of manufacturing costs in Mainland China, and the decrease in sales led to the under utilisation of production facilities resulted in the operating results of the segment recorded a loss to approximately HK\$6.9 million (the same period last year recorded a loss of HK\$1.5 million).

The Group's investment of the new production equipment for the precision parts and components segment was proved to be successful that improved our profitability and enhanced our competitiveness. The Group will continue invest in production automation to offset the impact of labour shortage and wage increase. At the same time, the Group will continue strengthen our sales and marketing, enhance the engineering capability and ability, continually invest in research and develop new technology to stay competitiveness. Due to the continuous loss from the consumer electronic products segment, the Group will evaluate the current operation structure and take necessary approach in hope of getting improvement shortly.

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 include all term loans, finance leases, import and export loans, which amounted to approximately HK\$52.3 million as at 30 June 2015.

The Group's financial position remains healthy. As at 30 June 2015, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$32.9 million.

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

The gearing ratio on the basis of net debt divided by the total capital plus net debt as at 30 June 2015 is 33.4% (at 31 December 2014: 29.8%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Charge on the Group's Assets

As at 30 June 2015, the Group's machines and equipment with carrying amount of approximately HK\$33.3 million (at 31 December 2014: HK\$35.5 million) were pledged under finance leases.

Contingent Liabilities

Except for corporate guarantees given to banks and other financial institution in relation to loan facilities granted to the subsidiaries, the Company had no other contingent liabilities as at 30 June 2015.

Capital Structure

As at 30 June 2015, the Company had 267,004,800 ordinary shares in issue with total shareholders' equity of the Group amounting to approximately HK\$249.6 million.

Fund Raising

Other than obtaining general loan facilities to finance the Group's trading requirements, the Group did not have any fund raising activities during the period ended 30 June 2015.

Employees

As at 30 June 2015, the Group had a total workforce of approximately 2,294 of which approximately 59 were based in Hong Kong, approximately 5 were based in overseas and approximately 2,230 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, 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	17,622,000	*97,242,000	114,864,000	43.02
Chan Yau Wah	7,700,000	–	7,700,000	2.88

* *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 2015, 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

Pursuant to 2012 share option scheme, no share options were granted, outstanding, lapsed, cancelled or exercised during the period ended 30 June 2015.

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

As at 30 June 2015, 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>	–	17,622,000	97,242,000	114,864,000	43.02
Celaya (PTC) Limited <i>(Note b)</i>	–	–	97,242,000	97,242,000	36.42
Trident Corporate Services (B.V.I.) Limited <i>(Note c)</i>	–	–	97,242,000	97,242,000	36.42
Lai Yiu Chun <i>(Note d)</i>	1,198,000	21,450,000	–	22,648,000	8.48
Lam Lin Chu <i>(Note d)</i>	22,434,000	214,000	–	22,648,000	8.48

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 is the wife of Mr. Lai Yiu Chun, who is a brother of Mr. Lai Pei Wor. Both Ms. Lam Lin Chu and Mr. Lai Yiu Chun are declaring interests in the same parcel of shares.

Save as disclosed above, as at 30 June 2015, 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' Remuneration – Executive Directors

	For the six months ended 30 June 2015			
	Salaries	Contributions to retirement benefit scheme	Other allowances	Total remuneration
	HK\$	HK\$	HK\$	HK\$
Lai Pei Wor	1,243,229	9,000	–	1,252,229
Chan Yau Wah	1,017,991	–	–	1,017,991
	2,261,220	9,000	–	2,270,220
	For the six months ended 30 June 2014			
Lai Pei Wor	1,189,695	7,750	–	1,197,445
Chan Yau Wah	974,155	–	–	974,155
	2,163,850	7,750	–	2,171,600

Directors' Fees – Independent Non-Executive Directors

	For the six months ended 30 June	
	2015	2014
	HK\$	HK\$
Kung Fan Cheong	166,968	159,780
Leung Man Kay	166,968	159,780
Li Yuen Kwan, Joseph	166,968	159,780
	500,904	479,340

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 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 2015.

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
Lai Pei Wor
Chairman

Hong Kong, 25 August 2015

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).