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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 2016

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 2016 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 2016

		For the six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
		HK\$	HK\$
	<i>Notes</i>		
REVENUE	3	224,106,273	215,208,824
Cost of sales		(190,934,869)	(180,001,320)
		<hr/>	<hr/>
Gross profit		33,171,404	35,207,504
Other income and gains	3	2,374,214	4,932,159
Selling and distribution costs		(17,615,057)	(18,200,036)
Administrative expenses		(16,425,884)	(16,498,387)
Other expenses	4	(1,871)	-
Finance costs	5	(848,502)	(908,226)
		<hr/>	<hr/>
PROFIT BEFORE TAX	6	654,304	4,533,014
Income tax credit/(expense)	7	938,831	(1,660,870)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD			
ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,593,135	2,872,144
		<hr/>	<hr/>
EARNINGS PER SHARE			
ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic		HK0.60 cent	HK1.08 cents
		<hr/>	<hr/>
Diluted		HK0.60 cent	HK1.08 cents
		<hr/>	<hr/>

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 2016*

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$	HK\$
PROFIT FOR THE PERIOD	1,593,135	2,872,144
OTHER COMPREHENSIVE (LOSS)/ INCOME		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>(4,202,306)</u>	<u>(119,895)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>(2,609,171)</u>	<u>2,752,249</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Notes</i>	30 June 2016 (Unaudited) <i>HK\$</i>	31 December 2015 (Audited) <i>HK\$</i>
NON-CURRENT ASSETS			
Property, plant and equipment		199,713,866	210,287,742
Prepaid land lease payments		11,875,288	12,335,607
Other intangible assets		-	-
Available-for-sale financial investment		680,000	680,000
Deferred tax assets		557,839	-
Prepaid rent		77,775	155,550
		<hr/>	<hr/>
Total non-current assets		212,904,768	223,458,899
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		66,491,682	65,009,896
Prepayments, deposits and other receivables		11,140,712	9,643,532
Trade and bills receivables	10	80,966,220	74,509,281
Cash and cash equivalents		23,604,584	26,303,950
		<hr/>	<hr/>
Total current assets		182,203,198	175,466,659
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	11	50,850,486	45,751,871
Accrued liabilities and other payables		42,552,408	52,220,561
Interest-bearing bank and other borrowings		37,377,993	28,640,910
Tax payable		1,204,385	2,578,712
		<hr/>	<hr/>
Total current liabilities		131,985,272	129,192,054
		<hr/>	<hr/>
NET CURRENT ASSETS		50,217,926	46,274,605
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		263,122,694	269,733,504
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		9,704,383	13,706,022
Deferred tax liabilities		9,877,996	9,877,996
		<hr/>	<hr/>
Total non-current liabilities		19,582,379	23,584,018
		<hr/>	<hr/>
Net assets		243,540,315	246,149,486
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Issued capital		26,700,480	26,700,480
Reserves		216,839,835	219,449,006
		<hr/>	<hr/>
Total equity		243,540,315	246,149,486
		<hr/> <hr/>	<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 2015, 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>Disclosure Initiative</i>
Amendments to HKASs 16 and 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Annual Improvements Project	<i>2012-2014 Cycle</i>

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.

For the six months ended 30 June 2016	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	174,899,557	49,206,716	-	224,106,273
Intersegment sales	4,570,308	240,469	-	4,810,777
Intersegment management fee	-	-	2,880,000	2,880,000
Other income and gains, excluding bank interest income	<u>1,922,594</u>	<u>420,553</u>	<u>16,829</u>	<u>2,359,976</u>
Reportable segment revenue	181,392,459	49,867,738	2,896,829	234,157,026
<i>Reconciliation:</i>				
Elimination of intersegment sales				(4,810,777)
Elimination of intersegment management fee				(2,880,000)
Bank interest income				<u>14,238</u>
Total revenue, other income and gains				<u>226,480,487</u>
Segment results:	3,599,050	(1,158,185)	(952,297)	1,488,568
<i>Reconciliation:</i>				
Bank interest income				14,238
Finance costs				<u>(848,502)</u>
Profit before tax				<u>654,304</u>

2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2016	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Other segment information:				
Depreciation	(5,274,207)	(1,153,757)	(1,562,904)	(7,990,868)
Amortisation of prepaid land lease payments	(148,066)	-	-	(148,066)
Capital expenditure	(2,201,497)	(8,837)	(4,650)	(2,214,984)
<hr/>				
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
Reportable segment revenue	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)
Bank interest income				19,712
Total revenue, other income and gains				220,140,983
<hr/>				
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
<hr/>				
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)

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong	23,998,695	24,604,545
Mainland China	33,305,306	33,210,971
Japan and other Asian countries	47,528,480	34,894,972
North America	20,652,914	19,282,131
South America	3,480,336	6,863,720
Europe	90,954,037	91,146,939
Other countries	4,186,505	5,205,546
	<u>224,106,273</u>	<u>215,208,824</u>

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

(b) Non-current assets

	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong	49,272,659	50,704,901
Mainland China	162,144,228	171,714,129
Other countries	172,267	204,319
	<u>211,589,154</u>	<u>222,623,349</u>

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

Information about a major customer

For the six months ended 30 June 2016 and 2015, no customer contributed over 10% of the total sales of the Group.

3. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$	2015 (Unaudited) HK\$
Revenue		
Sale of goods	<u>224,106,273</u>	<u>215,208,824</u>
Other income and gains		
Bank interest income	14,238	19,712
Tooling charge income	267,928	688,703
Realised gain arising from derivative financial instruments – transactions not qualified for hedge accounting	-	660,693
Foreign exchange gain, net	546,134	2,109,324
Others	1,545,914	1,453,727
	<u>2,374,214</u>	<u>4,932,159</u>
Total revenue, other income and gains	<u>226,480,487</u>	<u>220,140,983</u>

4. OTHER EXPENSES

	For the six months ended 30 June	
	2016 (Unaudited) HK\$	2015 (Unaudited) HK\$
Loss on disposal of items of property, plant and equipment	<u>1,871</u>	<u>-</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$	2015 (Unaudited) HK\$
Interest on bank loans and overdrafts wholly repayable within five years	397,871	413,054
Interest on finance leases	450,631	495,172
	<u>848,502</u>	<u>908,226</u>

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$	HK\$
(Reversal of provision)/provision for slow-moving inventories*	(5,676)	225,531
Depreciation	7,990,868	8,512,994
Amortisation of prepaid land lease payments	148,066	156,204
Realised gain arising from derivative financial instruments		
– transactions not qualified for hedge accounting	-	(660,693)
Foreign exchange gain, net	(546,134)	(2,109,324)
Loss on disposal of items of property, plant and equipment	1,871	-
	<u>1,871</u>	<u>-</u>

* The (reversal of provision)/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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	-	1,141,000
Overprovision in prior periods	(45,587)	-
Current – outside Hong Kong		
Charge for the period	186,500	999,761
Overprovision in prior periods	(521,905)	(479,891)
Deferred	(557,839)	-
	<u>(938,831)</u>	<u>1,660,870</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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\$1,593,135 (six months ended 30 June 2015: HK\$2,872,144) and the weighted average number of 267,004,800 (six months ended 30 June 2015: 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 2016 and 2015.

9. DIVIDENDS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$	2015 (Unaudited) HK\$
Attributable to the previous year, approved during the period:		
Final dividend – Nil (2015: HK2 cents per ordinary share)	-	5,340,096

The directors do not recommend to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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 2016, there is a significant concentration of credit risk as 24.5% (at 31 December 2015: 16.9%) of the balance representing a receivable from two customers (at 31 December 2015: two customers), which was derived from sales by the precision parts and components segment. Trade receivables are non-interest-bearing. The carrying amounts of these balances approximate to their fair values.

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

	30 June 2016 (Unaudited) HK\$	31 December 2015 (Audited) HK\$
Within 90 days	76,349,426	70,317,648
91 to 180 days	4,469,976	3,845,130
Over 180 days	146,818	346,503
	<u>80,966,220</u>	<u>74,509,281</u>

11. TRADE PAYABLES

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

	30 June 2016 (Unaudited) HK\$	31 December 2015 (Audited) HK\$
Within 90 days	45,437,933	44,262,025
91 to 180 days	5,371,232	1,301,367
Over 180 days	41,321	188,479
	<u>50,850,486</u>	<u>45,751,871</u>

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

12. 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 2016 and 2015 and there was no outstanding share option as at 30 June 2016 and 2015.

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$	2015 (Unaudited) HK\$
Short term employee benefits	4,530,839	4,511,937
Contributions to retirement benefits schemes	27,000	27,000
	<u>4,557,839</u>	<u>4,538,937</u>

14. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 23 August 2016.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's turnover for the period ended 30 June 2016 amounted to approximately HK\$224.1 million, representing an 4.1% increase from the previous period. Overall gross profit decreased by 5.8% to approximately HK\$33.2 million. Profit attributable to owners of the Company was approximately HK\$1.6 million (six months ended 30 June 2015: HK\$2.9 million).

Basic earning per share for the period ended 30 June 2016 amounted to HK0.6 cent (six months ended 30 June 2015: HK1.08 cents).

Business Review and Future Plan

As the manufacturing cost increased and the price adjustment effected, the gross profit margin of the Group in the first half of the year had decreased by 1.6% to 14.8% (six months ended 30 June 2015: 16.4%), comparing with the previous period. Manufacturing overhead costs had decreased by 2.5% to approximately HK\$99.4 million, comparing with the previous period. The selling and distribution expenses decreased by approximately HK\$0.6 million and the administrative costs went down by approximately HK\$0.1 million, representing a decrease of 3.2% and 0.4% respectively, comparing with the previous period. The finance cost decreased by 6.6% to approximately HK\$0.8 million.

The precision parts and component segment: orders from the major customers maintained stable, the turnover of this segment in the first half of the year slightly increased to approximately HK\$174.9 million, representing an increase of 1.3%, comparing with the previous period. Due to the keen competition of the market and price reduction from customers, the operating results of this segment decreased by 72.2% to approximately HK\$3.6 million, comparing with the previous period.

The consumer electronic products segment: the turnover increased by 15.7% to approximately HK\$49.2 million, comparing with the previous period. Due to the order increased, the operating loss of this segment was decreased to approximately HK\$1.2 million (the same period last year recorded a loss of HK\$6.9 million).

Due to the weaken demand of the market, our customers postpone the new products launch to the second half of this year. The new products launch will help to improve our sales turnover and profitability. The Group will continue strengthen our sales and marketing, enhance the engineering capability and ability, continually invest in research, develop new technology and establish new customers to improve our profitability.

Liquidity and Financial Resources

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

The total borrowings from banks and other financial institution included all term loans, finance leases, import and export loans, which amounted to approximately HK\$47.1 million as at 30 June 2016.

The Group's financial position remains healthy. As at 30 June 2016, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$23.6 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 2016 was 32.4% (at 31 December 2015: 31.7%).

Charge on the Group's Assets

As at 30 June 2016, the Group's machines and equipment with carrying amount of approximately HK\$32.9 million (at 31 December 2015: HK\$33.5 million) were pledged under finance leases.

Capital Structure

As at 30 June 2016, the Company had 267,004,800 ordinary shares in issue with total shareholders' equity of the Group amounted to approximately HK\$243.5 million.

Fund Raising

Other than obtaining general loan facilities to finance the Group's trading requirements and finance lease to finance the acquisition of machines and equipment, the Group did not have any fund raising activities during the period ended 30 June 2016.

Employees

As at 30 June 2016, the Group had a total workforce of approximately 2,151 of which approximately 56 were based in Hong Kong, approximately 5 were based overseas and approximately 2,090 were based in Mainland China.

The Group remunerates its employees largely based on the prevailing industry practice and labour laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operated a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and Mainland China employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local governments.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE CODE

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company 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 2016.

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, 23 August 2016

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*