



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
2016**

* 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 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) |
| | Notes | HK\$ | HK\$ |
| REVENUE | 3 | 224,106,273 | 215,208,824 |
| Cost of sales | | (190,934,869) | (180,001,320) |
| 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) |
| PROFIT BEFORE TAX | 6 | 654,304 | 4,533,014 |
| Income tax credit/(expense) | 7 | 938,831 | (1,660,870) |
| PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY | | 1,593,135 | 2,872,144 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | 8 | | |
| Basic | | HK0.60 cent | HK1.08 cents |
| Diluted | | HK0.60 cent | HK1.08 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 2016

| | For the six months ended 30 June | |
|---|-------------------------------------|-----------------------------|
| | 2016 (Unaudited) HK\$ | 2015 (Unaudited) 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 | (4,202,306) | (119,895) |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY | (2,609,171) | 2,752,249 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | Notes | 30 June 2016 (Unaudited) HK\$ | 31 December 2015 (Audited) HK\$ |
|--|-------|--|--|
| 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 |
| 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 |
| 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 |
| NET CURRENT ASSETS | | | |
| | | 50,217,926 | 46,274,605 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 263,122,694 | 269,733,504 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2016

| | 30 June 2016 (Unaudited) HK\$ | 31 December 2015 (Audited) HK\$ |
|---|--|--|
| 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/> |
| 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/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| | 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 2016 | 26,700,480 | 50,856,881 | 660,651 | 53,554,060 | 6,288,340 | 108,089,074 | - | 246,149,486 |
| Profit for the period | - | - | - | - | - | 1,593,135 | - | 1,593,135 |
| Other comprehensive income for the period: | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | (4,202,306) | - | - | (4,202,306) |
| Total comprehensive loss for the period | - | - | - | - | (4,202,306) | 1,593,135 | - | (2,609,171) |
| At 30 June 2016 | 26,700,480 | 50,856,881 | 660,651 | 53,554,060 | 2,086,034 | 109,682,209 | - | 243,540,315 |
| 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 | | | | | | | | |
| Contribution and distributions 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 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------------------|
| | 2016 (Unaudited) HK\$ | 2015 (Unaudited) HK\$ |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | (5,302,764) | (932,897) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (2,214,984) | (6,327,778) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 4,735,444 | 4,910,132 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,782,304) | (2,350,543) |
| Cash and cash equivalents at beginning of period | 26,303,950 | 35,305,971 |
| Effect of foreign exchange rate changes, net | 82,938 | (63,536) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 23,604,584 | 32,891,892 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 23,604,584 | 32,891,892 |

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 of 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.

2. OPERATING SEGMENT INFORMATION (continued)

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 | 1,922,594 | 420,553 | 16,829 | 2,359,976 |
| 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 | | | | 14,238 |
| Total revenue, other income and gains | | | | 226,480,487 |
| Segment results: | 3,599,050 | (1,158,185) | (952,297) | 1,488,568 |
| <i>Reconciliation:</i> | | | | |
| Bank interest income | | | | 14,238 |
| Finance costs | | | | (848,502) |
| Profit before tax | | | | 654,304 |
| 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) |

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 |
| 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 |
| 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)

Geographical information

(a) Revenue from external customers

| | For the six months ended 30 June | |
|---------------------------------|-------------------------------------|-----------------------------|
| | 2016 (Unaudited) HK\$ | 2015 (Unaudited) HK\$ |
| 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 |
| | 224,106,273 | 215,208,824 |

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

(b) Non-current assets

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

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 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Revenue | | |
| Sale of goods | 224,106,273 | 215,208,824 |
| 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 |
| | 2,374,214 | 4,932,159 |
| Total revenue, other income and gains | 226,480,487 | 220,140,983 |

4. OTHER EXPENSES

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

5. FINANCE COSTS

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

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 | – |

* *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) | – |
| Tax (credit)/charge for the period | (938,831) | 1,660,870 |

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.

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 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 |
| | 80,966,220 | 74,509,281 |

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 |
| | 50,850,486 | 45,751,871 |

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 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$ | HK\$ |
| Short term employee benefits | 4,530,839 | 4,511,937 |
| Contributions to retirement benefits schemes | 27,000 | 27,000 |
| Total compensation paid to key management personnel | 4,557,839 | 4,538,937 |

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 costs decreased by approximately HK\$0.6 million and the administrative expenses 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 costs 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 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 profit 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 for sharing the fixed overhead costs, 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).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review and Future Plan (continued)

Due to the weakened 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 turnover and profit margin. The Group will continue to 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 institutions in Hong Kong.

The total borrowings from banks and other financial institutions 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, 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 2016, 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 2016.

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

As at 30 June 2016, 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.*

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

Save as disclosed above, as at 30 June 2016, 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.

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 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

Lai Pei Wor

Chairman

Hong Kong, 23 August 2016

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).