



**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  
2018**

\* 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 2018 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 2018

		<b>For the six months ended 30 June</b>	
		<b>2018</b>	2017
		<b>(Unaudited)</b>	(Unaudited)
	Notes	<b>HK\$</b>	HK\$
<b>REVENUE</b>	3	<b>230,899,364</b>	206,701,646
Cost of sales		<b>(194,608,925)</b>	(165,856,872)
Gross profit		<b>36,290,439</b>	40,844,774
Other income and gains	3	<b>2,810,558</b>	2,432,586
Selling and distribution costs		<b>(14,926,789)</b>	(17,752,285)
Administrative expenses		<b>(15,385,018)</b>	(15,368,458)
Other expenses	4	<b>(6,039,971)</b>	(2,322,847)
Finance costs	5	<b>(809,796)</b>	(788,242)
<b>PROFIT BEFORE TAX</b>	6	<b>1,939,423</b>	7,045,528
Income tax expense	7	<b>(565,811)</b>	(643,751)
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>1,373,612</b>	6,401,777
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Basic	8	<b>HK0.51 cent</b>	HK2.40 cents
Diluted		<b>HK0.51 cent</b>	HK2.40 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 2018

	For the six months ended 30 June	
	2018 (Unaudited) HK\$	2017 (Unaudited) HK\$
<b>PROFIT FOR THE PERIOD</b>	<b>1,373,612</b>	6,401,777
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation of foreign operations	<b>(291,934)</b>	783,819
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>1,081,678</b>	7,185,596

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK\$	31 December 2017 (Audited) HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>209,025,229</b>	214,598,441
Prepaid land lease payments		<b>11,430,107</b>	11,579,982
Other intangible assets		–	–
Available-for-sale financial investment		–	680,000
Financial asset at fair value through profit or loss		<b>680,000</b>	–
Total non-current assets		<b>221,135,336</b>	226,858,423
<b>CURRENT ASSETS</b>			
Inventories		<b>54,767,409</b>	73,449,981
Prepayments, deposits and other receivables		<b>12,966,437</b>	12,184,497
Trade and bills receivables	10	<b>98,263,198</b>	73,915,143
Contract assets		<b>27,245,148</b>	–
Tax recoverable		<b>288,429</b>	719,310
Cash and cash equivalents		<b>19,880,862</b>	42,285,169
Total current assets		<b>213,411,483</b>	202,554,100
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>60,808,493</b>	54,679,126
Accrued liabilities and other payables		<b>35,792,535</b>	51,007,552
Interest-bearing bank and other borrowings		<b>46,155,183</b>	35,602,809
Total current liabilities		<b>142,756,211</b>	141,289,487
<b>NET CURRENT ASSETS</b>		<b>70,655,272</b>	61,264,613
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>291,790,608</b>	288,123,036

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(CONTINUED)

*As at 30 June 2018*

	<b>30 June 2018 (Unaudited) HK\$</b>	31 December 2017 (Audited) HK\$
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>2,477,423</b>	3,522,050
Deferred tax liabilities	<b>17,762,111</b>	17,762,111
Total non-current liabilities	<b>20,239,534</b>	21,284,161
Net assets	<b>271,551,074</b>	266,838,875
<b>EQUITY</b>		
Issued capital	<b>26,700,480</b>	26,700,480
Reserves	<b>244,850,594</b>	240,138,395
Total equity	<b>271,551,074</b>	266,838,875

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	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\$	Total equity (Unaudited) HK\$
At 1 January 2018	26,700,480	50,856,881	660,651	76,975,590	3,374,488	108,270,785	266,838,875
Impact on initial application of HKFRS 15	-	-	-	-	-	3,630,521	3,630,521
At 1 January 2018 (adjusted)	26,700,480	50,856,881	660,651	76,975,590	3,374,488	111,901,306	270,469,396
Profit for the period	-	-	-	-	-	1,373,612	1,373,612
Other comprehensive loss for the period: Exchange differences on translation of foreign operations	-	-	-	-	(291,934)	-	(291,934)
Total comprehensive income for the period	-	-	-	-	(291,934)	1,373,612	1,081,678
At 30 June 2018	26,700,480	50,856,881	660,651	76,975,590	3,082,554	113,274,918	271,551,074
At 1 January 2017	26,700,480	50,856,881	660,651	61,303,482	(6,439,427)	99,978,925	233,060,992
Profit for the period	-	-	-	-	-	6,401,777	6,401,777
Other comprehensive income for the period: Exchange differences on translation of foreign operations	-	-	-	-	783,819	-	783,819
Total comprehensive income for the period	-	-	-	-	783,819	6,401,777	7,185,596
At 30 June 2017	26,700,480	50,856,881	660,651	61,303,482	(5,655,608)	106,380,702	240,246,588

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) HK\$	2017 (Unaudited) HK\$
<b>NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(30,044,658)</b>	3,747,451
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(1,849,031)</b>	(12,475)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>9,507,747</b>	(4,853,850)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(22,385,942)</b>	(1,118,874)
Cash and cash equivalents at beginning of period	<b>42,285,169</b>	24,384,156
Effect of foreign exchange rate changes, net	<b>(18,365)</b>	121,181
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>19,880,862</b>	23,386,463
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>19,880,862</b>	23,386,463

# 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 2017, except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that are relevant to the Group and adopted for the first time of the current period’s financial statements:

Annual Improvements to HKFRSs	<i>2014-2016 Cycle: HKFRS 1 and HKAS 28</i>
Amendments to HKAS 40	<i>Transfer of Investment Property</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>

Other than changes in the accounting policies resulting from application of new/ revised to HKFRSs as described below, the adoption of the above other 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.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.



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

### Summary of effects arising from initial application of HKFRS 15

Impact on assets, liabilities and reserve as at 1 January 2018

	<b>Carrying amounts previously reported at 31 December 2017 HK\$</b>	<b>Impact of adopting HKFRS 15 HK\$</b>	<b>Carrying amounts under HKFRS 15 at 1 January 2018 HK\$</b>
Inventories	73,449,981	(21,216,798)	52,233,183
Contract assets*	–	25,569,720	25,569,720
Tax recoverable/(tax payable)	719,310	(722,401)	(3,091)
Retained profits	108,270,785	3,630,521	111,901,306

\* *Contracts assets relating to purchase contracts presents as gross amounts due from customers that represents performance obligation from sales of goods and the Group has an enforceable right to payment for performance completed to date.*

Impact on condensed consolidated income statement and statement of comprehensive income for the six months ended 30 June 2018

	<b>As reported HK\$</b>	<b>Impacts of adopting HKFRS 15 HK\$</b>	<b>Amounts excluding impacts of adopting HKFRS 15 HK\$</b>
Revenue	230,899,364	(1,675,427)	229,223,937
Cost of sales	(194,608,925)	2,339,217	(192,269,708)
Income tax expense	(565,811)	(114,946)	(680,757)
Profit for the period	1,373,612	548,844	1,922,456
Total comprehensive income for the period	1,081,678	548,844	1,630,522

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

At the date of initial application of HKFRS 9, the management has assessed the business model and contractual cash flow characteristics of the financial assets held by the Group and classified its financial instruments into the appropriate HKFRS 9 categories. On 1 January 2018, a club membership of HK\$680,000 was reclassified from available-for-sale financial investment to financial asset at fair value through profit or loss. No fair value adjustment relating to this unquoted equity investment because fair value under HKAS 39 was materially equal to the fair value as at 1 January 2018. Other than the change in the classification of available-for-sale financial investment, the classification of other financial assets and liabilities remains unchanged.

For trade receivables and contract assets, the Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected losses provision for all trade receivables and contract assets. For other receivables, the Group applies the general model for expected credit losses prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition. Assessments are made based on the Group's historical credit experience, adjusted for factors that are specific to the debtors, general economic conditions as well as the forecast of future conditions. There was no material impact of the change in impairment methodology on the Group's impairment allowance and its equity at the date of initial application of HKFRS 9.

## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products 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 operating 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 before tax from continuing operations. The adjusted profit before tax is measured consistently with the Group's profit 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 and are eliminated on consolidation.

## 2. OPERATING SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2018	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
<b>Segment revenue:</b>				
Sales to external customers	215,032,576	15,866,788	–	230,899,364
Intersegment sales	487,800	4,024	–	491,824
Reportable segment revenue	215,520,376	15,870,812	–	231,391,188
<i>Reconciliation:</i>				
Elimination of intersegment sales				(491,824)
Revenue				230,899,364
<b>Segment results:</b>	10,341,481	(6,541,466)	(1,075,650)	2,724,365
<i>Reconciliation:</i>				
Bank interest income				24,854
Finance costs				(809,796)
Profit before tax				1,939,423
<b>Other segment information:</b>				
Depreciation	(5,200,410)	(415)	(1,648,631)	(6,849,456)
Amortisation of prepaid land lease payments	(149,875)	–	–	(149,875)
Capital expenditure	(2,117,901)	–	(8,330)	(2,126,231)

## 2. OPERATING SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 June 2017	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
<b>Segment revenue:</b>				
Sales to external customers	178,171,754	28,529,892	–	206,701,646
Intersegment sales	2,859,145	335,924	–	3,195,069
Reportable segment revenue	181,030,899	28,865,816	–	209,896,715
<i>Reconciliation:</i>				
Elimination of intersegment sales				(3,195,069)
Revenue				206,701,646
<b>Segment results:</b>				
	9,627,569	(1,069,205)	(743,951)	7,814,413
<i>Reconciliation:</i>				
Bank interest income				19,357
Finance costs				(788,242)
Profit before tax				7,045,528
<b>Other segment information:</b>				
Depreciation	(5,310,935)	(125,533)	(1,607,982)	(7,044,450)
Amortisation of prepaid land lease payments	(142,641)	–	–	(142,641)
Reversal of impairment losses on property, plant and equipment	–	973,641	–	973,641
Capital expenditure	(839,561)	–	(27,000)	(866,561)

## 2. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2018 (Unaudited) HK\$	2017 (Unaudited) HK\$
Hong Kong	14,908,091	13,795,206
Mainland China	47,012,158	36,227,026
Japan and other Asian countries	85,082,595	64,390,290
North America	20,377,844	19,867,509
South America	4,620,724	4,355,805
Europe	56,166,843	64,921,544
Other countries	2,731,109	3,144,266
	<b>230,899,364</b>	206,701,646

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

(b) Non-current assets

	30 June 2018 (Unaudited) HK\$	31 December 2017 (Audited) HK\$
Hong Kong	66,590,749	67,972,123
Mainland China	153,688,337	157,941,834
Other countries	176,250	264,466
	<b>220,455,336</b>	226,178,423

The non-current asset information above is based on the geographical location of assets and as at 30 June 2018 and 31 December 2017 excludes financial asset at fair value through profit or loss and available-for-sale financial investment respectively.

### Information about a major customer

For the six months ended 30 June 2018 and 2017, revenue of approximately HK\$53.8 million and HK\$39.3 million was derived from a single customer of the precision parts and components segment that contributing over 10% of the Group's revenue respectively.

### 3. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$	HK\$
<b>Revenue</b>		
Sale of goods	<b>230,899,364</b>	206,701,646
<b>Other income and gains</b>		
Bank interest income	<b>24,854</b>	19,357
Tooling charge income	<b>341,676</b>	84,166
Sale of scrap	<b>1,239,593</b>	–
Reversal of impairment losses on property, plant and equipment	–	973,641
Gain on disposal of items of property, plant and equipment, net	–	77,153
Others	<b>1,204,435</b>	1,278,269
	<b>2,810,558</b>	2,432,586
<b>Total revenue, other income and gains</b>	<b>233,709,922</b>	209,134,232

### 4. OTHER EXPENSES

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Loss on disposal of items of property, plant and equipment, net	<b>485,638</b>	–
Foreign exchange loss, net	<b>5,554,333</b>	2,322,847
	<b>6,039,971</b>	2,322,847

### 5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	<b>627,750</b>	496,706
Interest on finance leases	<b>182,046</b>	291,536
	<b>809,796</b>	788,242

## 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Reversal of provision for slow-moving inventories*	<b>(2,195,946)</b>	(63,151)
Depreciation	<b>6,849,456</b>	7,044,450
Amortisation of prepaid land lease payments	<b>149,875</b>	142,641
Reversal of impairment losses on property, plant and equipment	–	(973,641)
Foreign exchange loss, net	<b>5,554,333</b>	2,322,847
Loss/(gain) on disposal of items of property, plant and equipment, net	<b>485,638</b>	(77,153)

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

## 7. INCOME TAX

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Current – Hong Kong		
Charge for the period	–	361,155
Overprovision in prior periods	<b>(114,946)</b>	–
Current – outside Hong Kong		
Charge for the period	<b>680,757</b>	282,596
Tax expense for the period	<b>565,811</b>	643,751

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 and diluted earnings per share is based on the profit attributable to owners of the Company for the period of HK\$1,373,612 (six months ended 30 June 2017: HK\$6,401,777) and the weighted average number of 267,004,800 (six months ended 30 June 2017: 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 2018 and 2017.

## 9. DIVIDENDS

The directors of the Company do not recommend to declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2018, there is a significant concentration of credit risk as 34.6% (at 31 December 2017: 26.1%) of the balance representing a receivable from a single customer (at 31 December 2017: 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.

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:

	<b>30 June 2018 (Unaudited) HK\$</b>	31 December 2017 (Audited) HK\$
Within 90 days	<b>94,434,155</b>	69,753,624
91 to 180 days	<b>3,348,721</b>	3,866,173
Over 180 days	<b>480,322</b>	295,346
	<b>98,263,198</b>	73,915,143



## 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:

	<b>30 June 2018 (Unaudited) HK\$</b>	31 December 2017 (Audited) HK\$
Within 90 days	<b>55,168,922</b>	53,814,209
91 to 180 days	<b>5,495,530</b>	860,779
Over 180 days	<b>144,041</b>	4,138
	<b>60,808,493</b>	54,679,126

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

## 12. SHARE OPTION SCHEME

Pursuant to 2012 share option scheme, no share options were granted, exercised, cancelled or forfeited since the adoption of the scheme and there was no outstanding share option as at 30 June 2018 and 2017.

## 13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June 2018 (Unaudited) HK\$</b>	2017 (Unaudited) HK\$
Short term employee benefits	<b>4,073,954</b>	3,920,775
Contributions to retirement benefit schemes	<b>18,000</b>	18,000
Total compensation paid to key management personnel	<b>4,091,954</b>	3,938,775

## 14. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 28 August 2018.

## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

The Group's turnover for the period ended 30 June 2018 amounted to approximately HK\$230.9 million, representing an increase of 11.7%, comparing with the same period last year. Overall gross profit was decreased by 11.2% to approximately HK\$36.3 million. Profit attributable to owners of the Company was approximately HK\$1.4 million (six months ended 30 June 2017: HK\$6.4 million).

Basic earnings for the period ended 30 June 2018 amounted to HK0.51 cent (six months ended 30 June 2017: HK2.40 cents) per share.

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

The turnover of the precision parts and components segment increased to approximately HK\$215.0 million, representing an increase of 20.7%, comparing with the same period last year. The operating profit in this segment slightly increased to approximately HK\$10.3 million (six months ended 30 June 2017: HK\$9.6 million). Despite of the increase in sales turnover, the cost of production was impacted by the price increased of raw materials and the appreciation of Renminbi since January to mid of June this year. In addition, due to the labour shortage in Mainland China, the basic wages of workers at Zhongshan plants had been increased to cope with the rise in orders on hand. These resulted in an upward of cost of production in this segment.

The turnover of the consumer electronic products segment decreased by 44.4% to approximately HK\$15.9 million. The continuous weaken demand from the market resulted in under-utilisation of production capacity during the past few years, the manufacturing plant had been closed down in February 2018. Afterward, the manufacturing process had been shifted to a subcontractor. Due to an one-off staff compensation of approximately HK\$2.5 million for the closure of manufacturing plant and the low turnover during the transition period for shifting to subcontracting in both of February and March 2018, the operating loss of this segment during the period increased to approximately HK\$6.5 million from HK\$1.1 million in the same period of 2017.

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

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

The gross profit margin of the Group in the first half of this year had decreased by 4.1% to 15.7% (six months ended 30 June 2017: 19.8%), comparing with the same period last year. Despite the increase in sales turnover, the profit margin decreased was mainly attributable to the price increased of major raw material, appreciation of Renminbi, rise in basic wages of workers at Zhongshan plants and one-off staff compensation as mentioned above. The selling and distribution costs decreased to approximately HK\$14.9 million and the administrative and other expenses went up to approximately HK\$21.4 million, representing a decrease of 15.9% and an increase of 21.1% respectively, comparing with the same period last year. The finance costs slightly increased by 2.7% to approximately HK\$0.8 million.

The increment in sales order from customers in the precision parts and components segment proved the investment direction of the Group during the past few years was on the right track. The Group will continue focus in this segment and will continue to invest in production automation, enhancing production efficiency and solving the problem of labour shortage in Mainland China. In addition, we will continue to explore new customers and sales orders and also streamline the production operations to enhance the profitability.

Looking ahead, from the second half of this year, major customers in the precision parts and components segment agreed the new selling price to compensate the rise of raw material price, together with the depreciation of Renminbi recently and the completion of transition period for shifting to subcontracting in consumer electronic products segment, we are confidence that the Group will continue to achieve steady business growth and improve the profitability. The Group's financial position remains healthy and is strong enough to finance our daily operation.

### **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\$48.6 million as at 30 June 2018.

The Group's financial position remains healthy. As at 30 June 2018, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$19.9 million.

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

### **Liquidity and Financial Resources** (continued)

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 2018 was 31.6% (at 31 December 2017: 27.8%).

### **Charge on the Group's Assets**

As at 30 June 2018, the Group's machines and equipment with carrying amount of approximately HK\$8.8 million (at 31 December 2017: HK\$25.5 million) were pledged under finance leases.

### **Capital Structure**

As at 30 June 2018, the Company had 267,004,800 ordinary shares in issue with total shareholders' equity of the Group amounted to approximately HK\$271.6 million.

### **Fund Raising**

Other than obtaining general loan facilities to finance the Group's trading requirements and finance leases to finance the acquisition of machines and equipment, the Group did not have any fund raising activities during the period ended 30 June 2018.

### **Employees**

As at 30 June 2018, the Group had a total workforce of approximately 1,578 of which approximately 48 were based in Hong Kong, approximately 5 were based in overseas and approximately 1,525 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 2018, 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	22,902,000	*97,242,000	120,144,000	45.00
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 2018, 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 2018.

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

As at 30 June 2018, 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> )	-	22,902,000	97,242,000	120,144,000	45.00
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> )	2,298,000	21,450,000	-	23,748,000	8.89
Lam Lin Chu ( <i>Note d</i> )	22,434,000	1,314,000	-	23,748,000	8.89

### 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 2018, 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 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.

## 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:

### Executive Directors' Remuneration

	For the six months ended 30 June 2018			
	Salaries HK\$	Contributions to retirement benefit scheme HK\$	Other allowances HK\$	Total remuneration HK\$
Lai Pei Wor	1,292,960.50	9,000.00	–	1,301,960.50
Chan Yau Wah	1,066,903.50	–	–	1,066,903.50
	<b>2,359,864.00</b>	<b>9,000.00</b>	<b>–</b>	<b>2,368,864.00</b>
	For the six months ended 30 June 2017			
Lai Pei Wor	1,243,229.00	9,000.00	–	1,252,229.00
Chan Yau Wah	1,017,991.00	–	–	1,017,991.00
	<b>2,261,220.00</b>	<b>9,000.00</b>	<b>–</b>	<b>2,270,220.00</b>

### 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 currently comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Mak Kwai Wing and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2018.



## **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](http://www.hkexnews.hk)) and of the Company ([www.kpihl.com](http://www.kpihl.com)).

On behalf of the Board

**Lai Pei Wor**

*Chairman*

Hong Kong, 28 August 2018

*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, Mak Kwai Wing and Li Yuen Kwan, Joseph (being independent non-executive directors).*