



K & P INTERNATIONAL HOLDINGS LIMITED

堅寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 675)

* For identification purpose only

Interim
Report
2012

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of K & P International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 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 2012

	Notes	For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
		HK\$	HK\$
REVENUE	2	205,348,006	194,719,368
Cost of sales		(164,159,521)	(152,261,605)
Gross profit		41,188,485	42,457,763
Other income and gains	3	1,742,693	1,066,651
Selling and distribution costs		(13,871,088)	(14,110,484)
Administrative expenses		(11,232,637)	(11,089,266)
Other expenses		(32,451)	(83,371)
Finance costs	4	(340,103)	(534,625)
PROFIT BEFORE TAX	5	17,454,899	17,706,668
Income tax expense	6	(1,060,429)	(1,822,164)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		16,394,470	15,884,504
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		HK6.16 cents	HK5.98 cents
Diluted		HK6.15 cents	HK5.96 cents

Details of the interim dividend are disclosed in note 8 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
PROFIT FOR THE PERIOD	16,394,470	15,884,504
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(117,289)	1,198,037
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,277,181	17,082,541

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 (Unaudited) HK\$	31 December 2011 (Audited) HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		140,461,451	145,290,969
Prepaid land lease payments		13,481,780	13,634,367
Other intangible assets		959,996	1,602,496
Available-for-sale financial investment		680,000	680,000
Deferred tax assets		2,546,866	2,521,406
Prepaid rent		95,971	191,943
Total non-current assets		158,226,064	163,921,181
CURRENT ASSETS			
Inventories		42,862,356	33,783,152
Prepayments, deposits and other receivables		11,623,346	9,540,849
Trade and bills receivables	9	75,612,272	72,262,824
Derivative financial instrument	11	154,246	–
Cash and cash equivalents		46,300,164	27,604,333
Total current assets		176,552,384	143,191,158
CURRENT LIABILITIES			
Trade payables	10	45,470,580	42,549,842
Accrued liabilities and other payables		42,426,210	32,861,926
Derivative financial instrument	11	–	319,369
Interest-bearing bank and other borrowings		18,341,273	12,663,868
Tax payable		13,372,274	13,232,767
Total current liabilities		119,610,337	101,627,772
NET CURRENT ASSETS		56,942,047	41,563,386
TOTAL ASSETS LESS CURRENT LIABILITIES		215,168,111	205,484,567

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2012

	30 June 2012 (Unaudited) HK\$	31 December 2011 (Audited) HK\$
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	3,696,555	–
Deferred tax liabilities	2,613,049	2,613,049
Total non-current liabilities	6,309,604	2,613,049
Net assets	208,858,507	202,871,518
EQUITY		
Issued capital	26,700,480	26,550,480
Reserves	176,817,931	165,700,846
Proposed dividend	5,340,096	10,620,192
Total equity	208,858,507	202,871,518

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Issued capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Share option reserve (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 2012	26,550,480	50,541,281	96,000	660,651	17,140,764	9,362,465	87,899,685	10,620,192	202,871,518
Profit for the period	-	-	-	-	-	-	16,394,470	-	16,394,470
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(117,289)	-	-	(117,289)
Total comprehensive income for the period	-	-	-	-	-	(117,289)	16,394,470	-	16,277,181
Issued of shares	150,000	240,000	-	-	-	-	-	-	390,000
2011 final dividend paid	-	-	-	-	-	-	(60,000)	(10,620,192)	(10,680,192)
2012 interim dividend declared	-	-	-	-	-	-	(5,340,096)	5,340,096	-
At 30 June 2012	26,700,480	50,781,281	96,000	660,651	17,140,764	9,245,176	98,894,059	5,340,096	208,858,507
At 1 January 2011	26,550,480	50,541,281	96,000	660,651	11,289,052	5,597,338	78,072,083	13,275,240	186,082,125
Profit for the period	-	-	-	-	-	-	15,884,504	-	15,884,504
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	1,198,037	-	-	1,198,037
Total comprehensive income for the period	-	-	-	-	-	1,198,037	15,884,504	-	17,082,541
2010 final and special dividend paid	-	-	-	-	-	-	-	(13,275,240)	(13,275,240)
2011 interim dividend declared	-	-	-	-	-	-	(5,310,096)	5,310,096	-
At 30 June 2011	26,550,480	50,541,281	96,000	660,651	11,289,052	6,795,375	88,646,491	5,310,096	189,889,426

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
NET CASH FLOWS FROM OPERATING ACTIVITIES	20,736,182	5,899,483
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,165,080)	(4,389,599)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(916,232)	(15,559,514)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18,654,870	(14,049,630)
Cash and cash equivalents at beginning of period	27,604,333	42,759,628
Effect of foreign exchange rate changes, net	40,961	61,461
CASH AND CASH EQUIVALENTS AT END OF PERIOD	46,300,164	28,771,459
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	36,290,906	28,771,459
Non-pledged time deposits with original maturity within three months when acquired	10,009,258	–
	46,300,164	28,771,459

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 2011, 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 HKFRS 7	<i>Disclosures – Transfer of Financial Assets</i>
Amendments to HKAS 12	<i>Deferred Tax: Recovery of Underlying Assets</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, and liquid crystal displays;
- (b) the consumer electronic products segment comprises the design, manufacture and sale of consumer electronic products comprising time, weather forecasting and other products; and
- (c) the corporate and others segment comprises the Group’s long term investments, together with corporate income and expense items.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (continued)

Management 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 profit/loss, 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, finance costs, as well as head office and corporate expenses and income are excluded from such measurement.

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2011	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Segment revenue:				
Sales to external customers	137,920,138	56,799,230	–	194,719,368
Intersegment sales	1,016,046	432,987	–	1,449,033
Other income and gains	621,773	351,350	356	973,479
	139,557,957	57,583,567	356	197,141,880
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,449,033)
Total segment revenue				195,692,847
Segment results:				
	18,326,348	2,039,800	(2,218,027)	18,148,121
<i>Reconciliation:</i>				
Bank interest income				93,172
Finance costs				(534,625)
Profit before tax				17,706,668
Other segment information:				
Depreciation and amortisation of other intangible assets	3,783,513	3,979,741	527,802	8,291,056
Amortisation of prepaid land lease payments	108,505	–	41,370	149,875
Capital expenditure	4,256,083	86,547	57,100	4,399,730

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Revenue from external customers

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Hong Kong	28,834,575	25,954,890
Mainland China	15,301,626	16,911,499
Japan and other Asian countries	34,795,737	33,404,951
North America	19,210,962	10,647,603
Europe	101,982,698	102,808,922
Other countries	5,222,408	4,991,503
	205,348,006	194,719,368

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

Information about a major customer

For the six months ended 30 June 2012, revenue of approximately HK\$33.7 million (six months ended 30 June 2011: HK\$46.0 million), contributing over 10% of the total sales of the Group, was derived from sales by the precision parts and components segment to a single customer.

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Bank interest income	49,489	93,172
Tooling charge income	81,141	213,205
Gain on disposal of items of property, plant and equipment	4,305	10,125
Fair value gain on a derivative financial instrument		
– transaction not qualified as hedge accounting	473,615	–
Others	1,134,143	750,149
	1,742,693	1,066,651

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. FINANCE COSTS

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Interest on bank loans and overdrafts wholly repayable within five years	219,202	518,483
Interest on finance leases	120,901	16,142
	340,103	534,625

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Depreciation	5,999,322	7,048,556
Amortisation of other intangible assets*	642,500	1,242,500
Amortisation of prepaid land lease payments	152,587	149,875
Provision for slow-moving inventories*	30,458	706,538
Foreign exchange differences, net	32,451	161,433
Fair value gain on a derivative financial instrument		
– transaction not qualified as hedge accounting	(473,615)	–
Written back of impairment of trade receivables	–	(78,062)
Gain on disposal of items of property, plant and equipment	(4,305)	(10,125)

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	550,000	1,220,000
Current – Elsewhere		
Charge for the period	510,429	602,164
Total tax charge for the period	1,060,429	1,822,164

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$16,394,470 (six months ended 30 June 2011: HK\$15,884,504), and on the weighted average number of 265,941,613 (six months ended 30 June 2011: 265,504,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$16,394,470 (six months ended 30 June 2011: HK\$15,884,504). The weighted average number of ordinary shares used in the calculation is 265,941,613 (six months ended 30 June 2011: 265,504,800) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 499,732 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

In May 2012, the exercise in full of those share options granted was resulted in the issue of 1,500,000 additional shares. At the end of the reporting period, the 2002 share option scheme (“2002 Share Option Scheme”) of the Company had been terminated and there were no share options outstanding.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. DIVIDENDS

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Attributable to the period:		
Interim dividend – HK2 cents (2011: HK2 cents) per ordinary share	5,340,096	5,310,096
Attributable to the previous year, approved and paid during the period:		
Final dividend		
– HK4 cents (2011: HK3 cents) per ordinary share	10,680,192	7,965,144
Special dividend		
– Nil (2011: HK2 cents) per ordinary share	–	5,310,096
	10,680,192	13,275,240

9. 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 2012, there is a significant concentration of credit risk as 25.4% (at 31 December 2011: 38.3%) of the balance represented a receivable from a single customer (at 31 December 2011: single customer), which was derived from sales by the precision parts and components segment. Trade receivables are non-interest-bearing. Bills receivable discounted with recourse are interest-bearing. The carrying amounts of these balances approximate to their fair values.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. 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 2012 (Unaudited) HK\$	31 December 2011 (Audited) HK\$
Within 90 days	71,523,420	66,480,396
Between 91 to 180 days	3,912,224	5,557,351
Over 180 days	176,628	225,077
	75,612,272	72,262,824

10. TRADE PAYABLES

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

	30 June 2012 (Unaudited) HK\$	31 December 2011 (Audited) HK\$
Within 90 days	42,105,216	34,252,872
Between 91 to 180 days	3,095,481	7,762,216
Over 180 days	269,883	534,754
	45,470,580	42,549,842

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. DERIVATIVE FINANCIAL INSTRUMENT

	Assets 30 June 2012 (Unaudited) HK\$	Liabilities 31 December 2011 (Audited) HK\$
Forward currency contract	154,246	319,369

The carrying amount of forward currency contract is the same as its fair value. The Group entered into a forward currency contract to sell US\$15,710,000. The maturity date of this forward currency contract is on 27 September 2012. The forward rate of this forward currency contract is United States Dollars 1 to China Renminbi 6.365.

As at 30 June 2012, the forward currency contract did not meet the criteria for hedge accounting. The change in the fair value of this non-hedging currency derivative amounting to a gain of HK\$473,615 was charged to the income statement for the period ended 30 June 2012 (six months ended 30 June 2011: Nil).

12. SHARE OPTION SCHEME

In May 2012, the exercise in full of those share options granted was resulted in the issue of 1,500,000 additional ordinary shares of the Company with additional share capital of HK\$150,000 and share premium of HK\$240,000 (before issue expenses).

On 23 May 2012, the 2002 Share Option Scheme which was adopted by the Company on 27 May 2002 was terminated and a new share option scheme ("2012 Share Option Scheme") was adopted for the primary purpose of providing incentives to directors and eligible employees of the Company.

As at 30 June 2012, no share options under the 2002 Share Option Scheme and 2012 Share Option Scheme were granted, outstanding, lapsed, cancelled or exercised at any time during the six months ended 30 June 2012.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$	2011 (Unaudited) HK\$
Short term employee benefits	4,300,824	4,320,315
Post-employment benefits	22,820	16,820
Total compensation paid to key management personnel	4,323,644	4,337,135

14. CONTINGENT LIABILITIES

As at 30 June 2012, contingent liabilities not provided for in the financial statements include guarantees to banks to secure banking facilities granted to certain subsidiaries to the extent of approximately HK\$38.1 million (at 31 December 2011: HK\$99.1 million) and also unlimited guarantees to a bank to secure banking facilities granted to the subsidiaries (at 31 December 2011: Nil).

15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 23 August 2012.

INTERIM DIVIDEND

The directors recommend the payment of an interim dividend of HK2 cents per ordinary share (2011: HK2 cents) on Thursday, 18 October 2012 to the shareholders whose names appear on the Register of Members of the Company on Friday, 21 September 2012.

CLOSURE OF REGISTERS

The Register of Members of the Company will be closed from Wednesday, 19 September 2012 to Friday, 21 September 2012, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the above dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 September 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 June 2012, the Group's turnover amounted to approximately HK\$205.3 million, representing an 5.5% increase from the previous period. However, the overall gross profit decreased from approximately HK\$42.5 million in the previous period to approximately HK\$41.2 million this period, representing a 3.0% decrease from the previous period. Profit attributable to owners of the Company was approximately HK\$16.4 million (six months ended 30 June 2011: HK\$15.9 million), representing an 3.2% increase from the previous period.

Basic earning per share for the period ended 30 June 2012 amounted to HK6.16 cents (six months ended 30 June 2011: HK5.98 cents).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review and Future Plan

Despite of the instability in global economy and the decline in China export for the first half of the year, the Group still recorded an 5.5% increase in sales. This was resulted from the change in product mix, price adjustment of the products and sales increase from North America. However, as the wages of the Mainland China's workers continue to rise, but offset partly by the slowdown in the appreciation of Renminbi and also helped by the fact that the price of raw material became more stable, our gross profit margin just decreased slightly by 1.7% to 20.1%. (six months ended 30 June 2011: 21.8%).

The growth in sales turnover led to the increase in manufacturing overhead cost by 11.7% to approximately HK\$78.9 million. Selling and distribution expenses decreased by approximately HK\$0.2 million, and the administrative costs went up by approximately HK\$0.1 million, representing a decrease of 1.7% and an increase of 1.3% respectively comparing with the previous period. The finance cost had been decreased to approximately HK\$0.2 million, representing a decrease of 36.4% comparing with the previous period.

The sales turnover of the precision parts and components segment had decreased by 0.5% to approximately HK\$137.2 million, comparing with the previous period. This mainly resulted from the decline in sales from the single largest customer, even though the sales from most of other customers had recorded in growth. The decrease in sales turnover and the rise in production costs led to the decrease in operating results by 21.9% to approximately HK\$14.3 million.

The sales turnover of consumer electronic products segment had increased by 19.9% to approximately HK\$68.1 million from the previous period, because of the change of product mix and the growth in sales from North America. The operating results had been increased by 161.1% to approximately HK\$5.3 million, comparing with the previous period.

The slow recovery of the United States economy, combining with the continuous threat on European financial crisis, weakens the consumer confidence and affects the consumer spending. In addition, the depreciation of Euro currency with the United States dollar further undercut the buying power of the Euro-bound countries. As the global economy is still filled with uncertainties, we will continue to cautiously control and manage our costs and operating expenses. We will also actively develop new potential customers. With the strong and solid financial support, we will continue to seek for investment opportunities to further grow our business.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and Financial Resources

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

The total borrowings from banks and financial institutions include all term loans, finance leases, import and export loans, which amounted to approximately HK\$22.0 million as at 30 June 2012.

The Group's financial position remains healthy. As at 30 June 2012, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$46.3 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 total debts to total assets as at 30 June 2012 is 37.6% (at 31 December 2011: 33.9%).

Charge on the Group Assets

As at 30 June 2012, none of the bank borrowings were secured by charges over the Group's assets.

Contingent Liabilities

Except for corporate guarantees given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liability as at 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure

As at 30 June 2012, the Company had 267,004,800 shares in issue with total shareholders' funds of the Group amounting to approximately HK\$208.9 million.

Pursuant to the 2002 Share Option Scheme, the Board granted share options to certain senior executives and employees of the Group. In May 2012, the exercise in full of those share options granted was result in the issue of 1,500,000 additional shares and proceeds of HK\$0.39 million before issue expenses.

Fund Raising

Other than obtaining additional general banking facilities to finance the Group's trading requirements, the Group did not have any special fund raising activities during the period ended 30 June 2012.

Employees

As at 30 June 2012, the Group had a total workforce of approximately 2,056 of which approximately 52 were based in Hong Kong, approximately 5 were based overseas and approximately 1,999 were based in Mainland China.

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, 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	11,442,000	97,242,000*	108,684,000	40.70
Chan Yau Wah	7,700,000	–	7,700,000	2.88
	19,142,000	97,242,000	116,384,000	43.58

* *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.*

The percentage represents the number of ordinary shares held/interested divided by the number of the Company's issued shares as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, 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

The following share options were exercised under the 2002 Share Option Scheme of the Company during the period:

Category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of the Company's shares at grant date of options*** HK\$
	At 1 January 2012	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited/ expired during the period	At 30 June 2012				
Employees other than the directors	1,500,000	-	(1,500,000)	-	-	-	26.1.2005 to 31.12.2012	0.260	0.260	

Notes to the reconciliation of share options outstanding during the period:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

On 23 May 2012, the share option scheme which was adopted by the Company on 27 May 2002 was terminated and a new share option scheme was adopted for the primary purpose of providing incentives to directors and eligible employees of the Company.

Save as disclosed above, as at 30 June 2012, no share options under the 2002 Share Option Scheme and 2012 Share Option Scheme were granted, outstanding, lapsed, cancelled or exercised at any time during the six months ended 30 June 2012.

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

As at 30 June 2012, 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 (Note a)	-	11,442,000	97,242,000	108,684,000	40.70
Celaya (PTC) Limited (Note b)	-	-	97,242,000	97,242,000	36.42
Trident Corporate Services (B.V.I.) Limited (Note c)	-	-	97,242,000	97,242,000	36.42
Lai Yiu Chun (Note d)	1,880,000	21,450,000	-	23,330,000	8.74
Lam Lin Chu, Winnie (Note d)	23,116,000	214,000	-	23,330,000	8.74

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, Winnie is the wife of Mr. Lai Yiu Chun, who is a brother of Mr. Lai Pei Wor. Both Ms. Lam Lin Chu, Winnie and Mr. Lai Yiu Chun are declaring interests in the same parcel of shares.
- # The percentage represents the number of ordinary shares held/interested divided by the number of the Company's issued shares as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rules 13.51B (1) and 13.51 (2)(g) of the Listing Rules, the changes in information on Directors of the Company are as follows:

Directors' Remuneration – Executive Directors

	For the six months ended 30 June 2012			
	Salaries HK\$	Pension Scheme Contributions HK\$	Other allowances HK\$	Total Remuneration HK\$
Lai Pei Wor	1,189,695	6,250	–	1,195,945
Chan Yau Wah	974,155	–	21,962	996,117
	2,163,850	6,250	21,962	2,192,062

	For the six months ended 30 June 2011			
	Salaries HK\$	Pension Scheme Contributions HK\$	Other allowances HK\$	Total Remuneration HK\$
Lai Pei Wor	1,189,695	6,000	50,000	1,245,695
Chan Yau Wah	974,155	–	–	974,155
	2,163,850	6,000	50,000	2,219,850

Directors' Fees – Independent Non-Executive Directors

	For the six months ended 30 June	
	2012 HK\$	2011 HK\$
Kung Fan Cheong	144,900	138,000
Leung Man Kay	144,900	138,000
Li Yuen Kwan, Joseph	144,900	138,000
	434,700	414,000

Executive Committee

The Executive Committee was established on 19 March 2012 which comprises of two executive directors, namely, Mr. Lai Pei Wor (Chairman of the Executive Committee) and Mr. Chan Yau Wah.

DISCLOSURE OF INFORMATION ON DIRECTORS (continued)

Nomination Committee

The Nomination Committee was established on 19 March 2012 which comprises of one executive director, namely, Mr. Lai Pei Wor (Chairman of the Nomination Committee), and three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Leung Man Kay and Mr. Li Yuen Kwan, Joseph.

The terms of reference of the Nomination Committee has been posted on the websites of the Hong Kong Exchanges and Clearing Limited ("HKEx") and the Company.

The duties of the Nomination Committee include the following:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of independent non-executive directors;
- (d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and
- (e) to review the terms of reference and its own effectiveness and recommend to the Board from time to time any necessary changes.

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 Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012), 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.

CORPORATE GOVERNANCE FUNCTION

The Board has not set up a Corporate Governance Committee in relation to the corporate governance duties. The Board is responsible for performing the corporate governance duties and it may delegate the responsibility to its committee.

REMUNERATION COMMITTEE

The Board has revised the terms of reference, which described the authority and duties of the remuneration committee, on 19 March 2012. The revised terms of reference of the remuneration committee has been posted on the websites of the HKEx and the Company.

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 board has revised the terms of reference, which described the authority and duties of the audit committee, on 19 March 2012. The revised terms of reference of the audit committee has been posted on the websites of the HKEx and the Company. 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 2012.

On behalf of the Board

Lai Pei Wor
Chairman

Hong Kong, 23 August 2012

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).