



K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 675)

Interim
Report
2009

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 2009 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 2009

	Notes	For the six months ended 30 June	
		2009 (Unaudited) HK\$	2008 (Unaudited) HK\$
REVENUE	2	146,218,246	184,619,595
Cost of sales		(114,798,125)	(152,942,393)
Gross profit		31,420,121	31,677,202
Other income and gains	3	2,156,807	3,017,811
Selling and distribution costs		(15,920,968)	(21,080,644)
Administrative expenses		(13,972,214)	(18,695,902)
Other expenses		(625,598)	(1,118,772)
Finance costs	4	(1,898,215)	(2,557,098)
PROFIT/(LOSS) BEFORE TAX	5	1,159,933	(8,757,403)
Tax	6	(800,000)	(850,000)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		359,933	(9,607,403)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		0.14 cent	(3.62) cents
Diluted		N/A	(3.62) cents
DIVIDEND PER SHARE	8	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
PROFIT/(LOSS) FOR THE PERIOD	359,933	(9,607,403)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	254,034	6,374,045
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	613,967	(3,233,358)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	30 June 2009 (Unaudited) HK\$	31 December 2008 (Audited) HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		145,815,613	154,274,311
Prepaid land lease payments		21,074,014	21,335,443
Other intangible assets		9,092,080	10,038,329
Available-for-sale investment		680,000	680,000
Prepaid rent		585,000	702,000
Total non-current assets		177,246,707	187,030,083
CURRENT ASSETS			
Inventories		42,399,569	45,476,715
Prepayments, deposits and other receivables		20,533,478	17,620,388
Trade and bills receivables	9	47,387,662	64,630,967
Cash and cash equivalents		20,495,773	51,510,355
Total current assets		130,816,482	179,238,425
CURRENT LIABILITIES			
Trade payables	10	48,685,768	61,748,249
Accrued liabilities and other payables		30,933,441	34,158,844
Derivative financial instrument	11	–	106,627
Interest-bearing bank and other borrowings		39,483,510	70,967,824
Tax payable		3,141,733	2,636,232
Provision for product warranties		9,429	355,774
Total current liabilities		122,253,881	169,973,550
NET CURRENT ASSETS		8,562,601	9,264,875
TOTAL ASSETS LESS CURRENT LIABILITIES		185,809,308	196,294,958
NON-CURRENT LIABILITIES			
Other long term payables		–	4,108,231
Interest-bearing bank and other borrowings		17,511,286	24,504,712
Deferred tax liability		1,509,031	1,509,031
Loan from a director		12,000,000	12,000,000
Total non-current liabilities		31,020,317	42,121,974
Net assets		154,788,991	154,172,984
EQUITY			
Issued capital		26,550,480	26,550,480
Reserves		128,238,511	127,622,504
Total equity		154,788,991	154,172,984

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	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\$	Total equity (Unaudited) HK\$
At 1 January 2009	26,550,480	50,541,281	93,960	660,651	8,205,596	4,222,879	63,898,137	154,172,984
Profit for the period	-	-	-	-	-	-	359,933	359,933
Other comprehensive income	-	-	-	-	-	254,034	-	254,034
Total comprehensive income for the period	-	-	-	-	-	254,034	359,933	613,967
Equity-settled share option arrangement	-	-	2,040	-	-	-	-	2,040
At 30 June 2009	26,550,480	50,541,281	96,000	660,651	8,205,596	4,476,913	64,258,070	154,788,991
At 1 January 2008	26,550,480	50,541,281	117,118	660,651	6,466,509	(2,716,749)	63,464,893	145,084,183
Loss for the period	-	-	-	-	-	-	(9,607,403)	(9,607,403)
Other comprehensive income	-	-	-	-	-	6,374,045	-	6,374,045
Total comprehensive loss for the period	-	-	-	-	-	6,374,045	(9,607,403)	(3,233,358)
Equity-settled share option arrangement	-	-	8,221	-	-	-	-	8,221
At 30 June 2008	26,550,480	50,541,281	125,339	660,651	6,466,509	3,657,296	53,857,490	141,859,046

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	10,404,146	1,098,452
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(2,923,010)	(27,658,939)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(38,477,741)	10,444,863
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,996,605)	(16,115,624)
Cash and cash equivalents at beginning of period	51,510,355	30,209,559
Effect of foreign exchange rate changes, net	(17,977)	377,580
CASH AND CASH EQUIVALENTS AT END OF PERIOD	20,495,773	14,471,515
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	20,495,773	14,471,515

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 2008, 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:

HKFRS 1 and HKAS 27 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	<i>Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION (Continued)

HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</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. SEGMENT INFORMATION

For management purposes, the Group is organized into business units accounting to the nature of their operations and the products and services they provided 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 ("LCDs");
- (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 property holding activities, together with corporate income and expense items.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, which is measured the same with operating profit or loss in the condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (Continued)

The following table presents revenue, profit/(loss) and certain expenditure information for the Group's operating segments for the six months ended 30 June 2009 and 2008.

	Precision parts and components		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:										
Sales to external customers	95,548,085	117,484,789	50,670,161	67,134,806	-	-	-	-	146,218,246	184,619,595
Intersegment sales	1,180,675	1,238,366	146,880	546	-	-	(1,327,555)	(1,238,912)	-	-
Other income and gains	1,670,309	2,774,180	438,338	140,305	21,883	1,279	-	-	2,130,530	2,915,764
Total	98,399,069	121,497,335	51,255,379	67,275,657	21,883	1,279	(1,327,555)	(1,238,912)	148,348,776	187,535,359
Segment results	9,946,115	8,992,205	(7,804,976)	(14,089,506)	890,732	(1,205,051)			3,031,871	(6,302,352)
Bank interest income									26,277	102,047
Finance costs									(1,898,215)	(2,557,098)
Profit/(Loss) before tax									1,159,933	(8,757,403)
Tax									(800,000)	(850,000)
Profit/(Loss) for the period									359,933	(9,607,403)
Other segment information:										
Depreciation and amortisation	5,407,091	5,443,931	6,707,225	7,276,118	461,136	510,057	-	-	12,575,452	13,230,106
Capital expenditure	585,633	28,978,125	2,324,577	21,994,930	12,800	78,640	-	-	2,923,010	51,051,695

For the six months ended 30 June 2009, revenue of approximately HK\$25,600,000 (six months ended 30 June 2008: approximately HK\$24,200,000) was derived from a single external customer of precision parts and components segment.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. SEGMENT INFORMATION (Continued)

The following table presents revenue and certain expenditure information for the Group by geographical area for the six months ended 30 June 2009 and 2008.

	Segment revenue		Other segment information	
	Sales to external customers		Capital expenditure	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$
Hong Kong	31,733,380	44,376,098	1,482,800	5,788,920
Mainland China	8,762,779	11,810,396	1,433,925	45,252,944
Total in the People's Republic of China (the "PRC")	40,496,159	56,186,494	2,916,725	51,041,864
Japan	7,966,515	6,065,518	–	–
Other Asian countries*	16,515,706	15,983,751	–	9,831
Total in Asia	64,978,380	78,235,763	2,916,725	51,051,695
Austria	24,707,085	24,247,510	–	–
Germany	22,881,805	23,479,194	–	–
Other European countries**	17,043,158	30,146,797	–	–
Total in Europe	64,632,048	77,873,501	–	–
North America	11,253,079	20,734,989	6,285	–
Others***	5,354,739	7,775,342	–	–
Consolidated	146,218,246	184,619,595	2,923,010	51,051,695

* Other Asian countries mainly comprise Taiwan, Singapore, Malaysia, Thailand, Korea, Israel and India.

** Other European countries mainly comprise Italy, the United Kingdom, France, the Netherlands, Switzerland, Denmark, Sweden, Spain, Russia, Belgium, Hungary and Poland.

*** Others mainly comprise South America, Africa, Australia and New Zealand.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	26,277	102,047
Tooling charge income	1,240,873	1,405,149
Sale of scrap	–	234,515
Fair value gain on a derivative financial instrument		
– transaction not qualifying as a hedge	106,627	–
Gain on disposal of items of property, plant and equipment	–	517,928
Others	783,030	758,172
	2,156,807	3,017,811

4. FINANCE COSTS

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	1,776,137	2,487,783
Interest on finance leases	122,078	69,315
	1,898,215	2,557,098

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	9,914,952	10,832,282
Amortisation of other intangible assets*	2,416,250	2,170,000
Recognition of prepaid land lease payments	244,250	227,824
Provision/(reversal of provision) for slow-moving inventories*	775,529	(1,374,656)
Foreign exchange differences, net	380,605	35,735
Product warranties provision	81,705	149,347
Impairment of trade receivables	625,598	818,349
Fair value loss/(gain) on a derivative financial instrument – transaction not qualifying as a hedge	(106,627)	300,423
Loss/(gain) on disposal of items of property, plant and equipment	5	(517,928)

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

6. TAX

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	800,000	850,000

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$359,933 (six months ended 30 June 2008: loss of HK\$9,607,403), and on the weighted average of 265,504,800 (six months ended 30 June 2008: 265,504,800) ordinary shares in issue during the period.

Diluted earnings per share for the period has not been shown as the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for the period.

The calculation of diluted loss per share for the period ended 30 June 2008 is based on the net loss attributable to shareholders for last period of HK\$9,607,403. The weighted average number of ordinary shares used in the calculation is the 265,504,800 ordinary shares in issue during last period, as used in the basic loss per share calculation; and the weighted average of 46,296 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during last period.

8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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 minimize credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. 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.

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

	30 June 2009 (Unaudited) HK\$	31 December 2008 (Audited) HK\$
Within 90 days	43,264,081	59,369,997
Between 91 to 180 days	2,042,775	4,656,136
Over 180 days	2,080,806	604,834
	47,387,662	64,630,967

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. TRADE PAYABLES

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

	30 June 2009 (Unaudited) HK\$	31 December 2008 (Audited) HK\$
Within 90 days	30,003,906	39,654,629
Between 91 to 180 days	14,099,648	17,480,459
Over 180 days	4,582,214	4,613,161
	48,685,768	61,748,249

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

11. DERIVATIVE FINANCIAL INSTRUMENT

The derivative financial instrument was a forward currency contract with carrying amount stated at its fair value, and had been expired during the period.

The forward currency contract did not meet the criteria for hedge accounting. The change in the fair value of this non-hedging currency derivative of profit of HK\$106,627 was charged to the income statement during the period (six months ended 30 June 2008: loss of HK\$300,423).

12. SHARE OPTION SCHEME

The maximum number of unexercised share options currently permitted to be granted under the existing share option scheme of the Company ("the Scheme") must not in aggregate exceed 30% of the shares of the Company in issue at any time.

As at 30 June 2009, the Company had 1,900,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,900,000 additional ordinary shares of the Company and additional share capital of HK\$190,000 and share premium of HK\$296,800 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 1,900,000 share options outstanding under the Scheme, which represented approximately 0.72% of the Company's shares in issue as at that date.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

- (a) Certain of the Group's banking facilities, of which HK\$28,000,000 (at 31 December 2008: HK\$76,000,000) had been utilised as at the end of the reporting period, were secured by personal guarantees amounting to HK\$112,900,000 (at 31 December 2008: HK\$118,400,000) given by a director of the Company. The director received no consideration for providing these guarantees.
- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Short term employee benefits	6,080,403	6,674,941
Post-employment benefits	–	14,040
Termination benefits	103,161	126,011
Share-based payments	–	8,221
Total compensation paid to key management personnel	6,183,564	6,823,213

- (c) A loan of HK\$12,000,000 (at 31 December 2008: HK\$12,000,000) was granted by a director of the Company and the director received no interest for providing this loan.

14. CONTINGENT LIABILITIES

- (a) As at 30 June 2009, contingent liabilities not provided for in the financial statements were as follows:–

	30 June 2009	31 December 2008
	(Unaudited)	(Audited)
	HK\$	HK\$
Guarantees of banking facilities granted to subsidiaries	181,050,000	194,060,000

- (b) A subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary had breached a sales and purchase contract to deliver certain goods. The directors, based on the advice from the Group's external legal counsel, believe that the subsidiary has a reasonably good defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal cost.

15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 8 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 June 2009, the Group's turnover amounted to HK\$146.2 million, representing a 20.8% decrease from the previous period. And, overall gross profit slightly decreased from approximately HK\$31.7 million in the previous period to approximately HK\$31.4 million this period. Profit attributable to shareholders was approximately HK\$0.4 million (six months ended 30 June 2008: loss of HK\$9.6 million).

Basic earnings per share for the period ended 30 June 2009 amounted to HK0.14 cent (six months ended 30 June 2008: loss per share HK3.62 cents).

Business Review and Future Plan

During this financial period, the Group was impacted by the global economy recession as the purchase orders from the customers were reduced. That led to the decrease on the sales turnover. At the same time, we had also been beneficial from the reduction of raw materials costs, slowdown of the appreciation of Renminbi and labor costs, combining with the initial result seen from our effort of streamlining our operation, reducing on daily expenses and enhancing production efficiency, our gross profit margin increased 4.3% to 21.5% compared with the previous period (six months ended 30 June 2008: 17.2%).

The successful implementation of the above-mentioned strategies decreased the manufacturing overhead cost approximately HK\$13.5 million which is 21.3% lower than the previous period. In addition, to monitor daily expenditure closely and restructure human resources, the Group has been further benefited in costs saving of approximately HK\$5.2 million in selling and distribution expenses and of approximately HK\$4.7 million in administrative expenses, representing a decrease of 24.5% and 25.3% respectively compare with the previous period. Also, during the period, our aim to minimize the financial burden resulted in a 25.8% decrease in the finance costs.

The sales turnover of the precision parts and components segment decreased from approximately HK\$117.5 million to approximately HK\$95.5 million this period, representing a decrease of 18.7%. The drop in sales turnover of this segment is mainly attributed to the reduction on purchase order from the American customers and less demand in telecommunication products. Nevertheless, the operating result of this segment increased HK\$0.95 million due to the stringent control of the production cost.

The sales turnover of the consumer products segment decreased from approximately HK\$67.1 million to approximately HK\$50.7 million this period. This was mainly due to the reduction of purchase orders from both Europe and U.S. regions. However, after the implementation of cost measures on daily expenses and restructure of the Europe and U.S. operation, the loss in operation result had been reduced to approximately HK\$7.8 million.

As there is no strong sign on the fast recovery of global economy, the Group will maintain its solid financial approach, continue to strengthen and work on improving our operations, focusing on cost control measures to prepare for the unstable business environment ahead of us.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and the Mainland China.

The total borrowings from banks and financial institutions include long term loans, finance leases, import and export loans, amounted to approximately HK\$57.0 million as at 30 June 2009, of which HK\$39.5 million is repayable within one year.

The Group's financial position remains healthy. As at 30 June 2009, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$20.5 million.

The Group's borrowings are on a floating rate basis and are mainly denominated in Hong Kong dollars, Renminbi or United States dollars. These match with the principal currencies in which the Group conducts its business. Currently, the Group has Renminbi-denominated loan amounting to approximately RMB20 million that are used by the Group's plants in Zhongshan, the PRC for working capital purpose.

The gearing ratio on the basis of total debts to total assets as at 30 June 2009 is 49.8% (at 31 December 2008: 57.9%).

Charge on the Group Assets

As at 30 June 2009, certain of the Group's buildings with a net carrying value of approximately HK\$49,656,000 (at 31 December 2008: HK\$50,000,000) and one of the Group's land with a net book value of approximately HK\$10,445,000 (at 31 December 2008: HK\$10,548,000) were pledged to secure a bank loan to the Group.

Contingent Liabilities

Except for corporate guarantees given to banks and other financial institutions in relation to facilities granted to the subsidiaries, a subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary had breached a sales and purchase contract to deliver certain goods. The directors, based on the advice from the Group's external legal counsel, believe that the subsidiary has a reasonably good defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal cost.

Capital Structure

As at 30 June 2009, the Company had approximately 265.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$154.8 million.

Pursuant to the Scheme, the Board granted share options to certain supplier of services, senior executives, and employees, of the Group. The exercise in full of those share options granted but remaining not exercised would result in the issue of 1.9 million additional shares and proceeds of approximately HK\$0.49 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Fund Raising

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have any special fund raising exercise during the period ended 30 June 2009.

Employees

As at 30 June 2009, the Group had a total workforce of approximately 2,150 of which approximately 65 were based in Hong Kong, approximately 15 were based overseas and approximately 2,070 were based in the 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 2009, 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	7,130,000	97,242,000*	104,372,000	39.31
Chan Yau Wah	7,700,000	–	7,700,000	2.90
	14,830,000	97,242,000	112,072,000	42.21

* 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Long positions in ordinary shares of the Company: (Continued)

Save as disclosed above, as at 30 June 2009, 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 outstanding under the Scheme of the Company during the period:

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Price of the	
	At 1 January 2009	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 30 June 2009			Exercise price of share options**	Company's shares at grant date of options***
									HK\$	HK\$
Employees other than the directors	1,500,000	-	-	-	-	1,500,000	26.1.2005	1.1.2006 to 31.12.2012	0.260	0.260
Supplier of goods and services	400,000	-	-	-	-	400,000	9.10.2006	1.4.2009 to 31.12.2012	0.242	0.242
In aggregate	1,900,000	-	-	-	-	1,900,000				

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.

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

As at 30 June 2009, 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	Directly beneficially owned	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Through spouse or minor children	Beneficiary of a trust		
Chan Yuk Lin (Note a)	–	7,130,000	97,242,000	104,372,000	39.31
Celaya (PTC) Limited (Note b)	–	–	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited (Note c)	–	–	97,242,000	97,242,000	36.63
Lai Yiu Chun (Note d)	1,866,000	21,450,000	–	23,316,000	8.78
Lam Lin Chu, Winnie (Note d)	23,116,000	200,000	–	23,316,000	8.78

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.*

Save as disclosed above, as at 30 June 2009, 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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, 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 2009.

On behalf of the Board

Lai Pei Wor
Chairman

Hong Kong, 8 September 2009

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).