



K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Directors”) 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 2003 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | <i>Notes</i> | For the six months ended 30 June | |
|--|--------------|---|--------------------------------------|
| | | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Turnover | | 116,182,871 | 94,987,243 |
| Cost of sales | | (90,315,209) | (78,530,816) |
| Gross profit | | 25,867,662 | 16,456,427 |
| Other revenue | | 810,106 | 1,016,743 |
| Selling and distribution costs | | (11,612,773) | (10,441,287) |
| Administrative expenses | | (9,486,343) | (9,362,713) |
| Other operating income/ (expenses), net | 3 | (654,462) | 5,071,159 |
| Profit from operating activities | 4 | 4,924,190 | 2,740,329 |
| Finance costs | 5 | (2,086,370) | (1,319,910) |
| Share of loss of an associate | | (104,713) | – |

| | | | |
|--|---|-------------------|------------|
| Profit before tax | | 2,733,107 | 1,420,419 |
| Tax | 6 | (366,733) | (229,018) |
| Net profit from ordinary activities attributable to shareholders | | 2,366,374 | 1,191,401 |
| Dividends | 7 | Nil | Nil |
| Basic earnings per share | 8 | 0.95 cents | 0.48 cents |

Notes:

1. Accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”). The accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31 December 2002.

In addition, the Group has adopted SSAP 12 (Revised) “Income Taxes”. SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior periods, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will be crystallised in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and, accordingly no prior period adjustment has been made.

2. Segment information

(a) Business segments

The following tables present revenue, profit/(loss) and certain expenditure information for the Group's business segments:

| Group | For the six months ended 30 June 2003 | | | | |
|--|---|---|--|-----------------------------|-----------------------------|
| | Electronic and related components and parts (Unaudited) | Consumer electronic products (Unaudited) | Corporate and others (Unaudited) | Eliminations (Unaudited) | Consolidated (Unaudited) |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| Segment revenue: | | | | | |
| Sales to external customers | 64,769,861 | 51,413,010 | - | - | 116,182,871 |
| Intersegment sales | 2,155,378 | - | - | (2,155,378) | - |
| Other revenue | 665,714 | 70,801 | 3,076 | - | 739,591 |
| Total | <u>67,590,953</u> | <u>51,483,811</u> | <u>3,076</u> | <u>(2,155,378)</u> | <u>116,922,462</u> |
| Segment results | <u>282,713</u> | <u>5,865,676</u> | <u>(1,294,714)</u> | | 4,853,675 |
| Interest income | | | | | 70,515 |
| Gain on sale of long term investments, net | | | | | - |
| Profit from operating activities | | | | | 4,924,190 |
| Finance costs | | | | | (2,086,370) |
| Share of loss of an associate | | | | | (104,713) |
| Profit before tax | | | | | 2,733,107 |
| Tax | | | | | (366,733) |
| Net profit from ordinary activities attributable to shareholders | | | | | <u>2,366,374</u> |
| Other segment information: | | | | | |
| Depreciation and amortisation | 8,458,546 | 2,969,849 | 514,514 | - | 11,942,909 |
| Capital expenditure | <u>3,260,430</u> | <u>2,423,285</u> | <u>4,644</u> | - | <u>5,688,359</u> |

| For the six months ended 30 June 2002 | | | | | |
|--|---|---|--|-------------------------------------|-------------------------------------|
| Group | Electronic and related components and parts (Unaudited) HK\$ | Consumer electronic products (Unaudited) HK\$ | Corporate and others (Unaudited) HK\$ | Eliminations (Unaudited) HK\$ | Consolidated (Unaudited) HK\$ |
| Segment revenue: | | | | | |
| Sales to external customers | 54,624,619 | 40,362,624 | - | - | 94,987,243 |
| Intersegment sales | 2,276,056 | - | - | (2,276,056) | - |
| Other revenue | 816,895 | 85,964 | 730 | - | 903,589 |
| Total | 57,717,570 | 40,448,588 | 730 | (2,276,056) | 95,890,832 |
| Segment results | (2,700,721) | 81,502 | (550,976) | | (3,170,195) |
| Interest income | | | | | 113,154 |
| Gain on sale of long term investments, net | | | | | 5,797,370 |
| Profit from operating activities | | | | | 2,740,329 |
| Finance costs | | | | | (1,319,910) |
| Share of loss of an associate | | | | | - |
| Profit before tax | | | | | 1,420,419 |
| Tax | | | | | (229,018) |
| Net profit from ordinary activities attributable to shareholders | | | | | 1,191,401 |
| Other segment information: | | | | | |
| Depreciation and amortisation | 9,095,048 | 2,331,292 | 639,205 | - | 12,065,545 |
| Capital expenditure | 5,534,381 | 554,267 | 24,707 | - | 6,113,355 |

(b) *Geographical segments*

The following table presents revenue, and certain expenditure information for the Group's geographical segments:

| Group | Segment revenue | | Other segment information | |
|-----------------------------|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Sales to external customers | | Capital expenditure | |
| | For the six months ended 30 June | | | |
| | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Hong Kong | 41,083,220 | 36,693,137 | 333,238 | 239,074 |
| Mainland China | 5,750,893 | 2,291,303 | 5,347,551 | 5,664,635 |
| Total in the PRC | 46,834,113 | 38,984,440 | 5,680,789 | 5,903,709 |
| Japan | 14,017,114 | 10,411,983 | – | – |
| Other Asian countries* | 6,792,886 | 5,035,795 | 7,570 | 209,646 |
| Total in Asia | 67,644,113 | 54,432,218 | 5,688,359 | 6,113,355 |
| Germany | 21,910,061 | 15,750,071 | – | – |
| Other European countries ** | 22,909,268 | 18,977,818 | – | – |
| Total in Europe | 44,819,329 | 34,727,889 | – | – |
| North America | 1,928,009 | 3,099,027 | – | – |
| Others*** | 1,791,420 | 2,728,109 | – | – |
| Consolidated | 116,182,871 | 94,987,243 | 5,688,359 | 6,113,355 |

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

** *Other European countries mainly comprise Italy, United Kingdom, France, Netherlands, Austria, Sweden and Spain.*

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

3. Other operating income/(expenses), net

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------------------|
| | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Gain on sale of long term investments, net | – | 5,797,370 |
| Others | (654,462) | (726,211) |
| | <u>(654,462)</u> | <u>5,071,159</u> |

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

| | For the six months ended 30 June | |
|-----------------------------------|-------------------------------------|-----------------------------|
| | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Depreciation: | | |
| Owned fixed assets | 9,437,456 | 10,239,466 |
| Leased fixed assets | 2,268,988 | 1,702,114 |
| | <u>11,706,444</u> | <u>11,941,580</u> |
| Amortisation of intangible assets | 236,465 | 123,965 |
| Foreign exchange losses, net | 249,324 | 336,470 |
| and after crediting: | | |
| Interest income | <u>70,515</u> | <u>113,154</u> |

5. Finance costs

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------------------|
| | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Interest expenses on bank loans and overdrafts wholly repayable within five years | 1,109,275 | 826,567 |
| Interest on finance leases | 541,326 | 493,343 |
| Interest on convertible loan notes and fixed rate loan notes | 435,769 | – |
| | <u>2,086,370</u> | <u>1,319,910</u> |

6. Tax

| | For the six months ended 30 June | |
|-----------------------------|-------------------------------------|-----------------------------|
| | 2003 (Unaudited) HK\$ | 2002 (Unaudited) HK\$ |
| Group: | | |
| People's Republic of China: | | |
| Hong Kong | 366,733 | 229,018 |
| Elsewhere | — | — |
| | <hr/> | <hr/> |
| | 366,733 | 229,018 |

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. Dividends

At a meeting of the board of directors held on 26 September 2003, the directors resolved not to pay an interim dividend to shareholders (2002: Nil).

8. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$2,366,374 (2002: HK\$1,191,401) and the weighted average of 250,004,800 ordinary shares in issue throughout the two periods.

Diluted earnings per share for the periods ended 30 June 2003 and 2002 have not been shown as the share options and warrants outstanding during these periods had an anti-dilutive effect on the basic earnings per share for these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group recorded a total turnover of approximately HK\$116.2 million for the six months ended 30 June 2003, representing an increase of 22.3% from the last corresponding period. Overall gross profit improved from approximately HK\$16.5 million in the previous period to HK\$25.9 million this period.

The Group has a net profit attributable to shareholders of approximately HK\$2.4 million (2002: HK\$1.2 million). Earnings per share for the period ended 30 June 2003 amounted to HK0.95 cents (2002: HK0.48 cents)

Business review and prospect

Electronic and related components and parts segment

The Group's electronic and related components and parts segment comprises manufacture and sale of keypads, synthetic rubber and plastic components and parts, and liquid crystal displays.

In the period under review, sales turnover of this segment increased by approximately 18.6% as compared with the previous financial period. The increase in sales turnover is mainly attributable to the increased sales of keypads. This has brought additional revenue of approximately HK\$10 million and improvement in the segmental operating results by approximately HK\$3 million to the segment as compared with the corresponding period.

The Group has faced with pressures from both customers and competitors in the market that lead to reduction in the gross profit margin. Therefore, the Group has been proactively in developing new production technology and keypad products with value added features so as to enhance this segment's gross profit margin. These new products, since launched into the market during the second quarter of this year, have been well accepted by our customers. The increasing sales of these new products would certainly enhance both the sales turnover and operating results of this segment.

Moreover, we have been continuing our strategy to become a global supplier of critical precision components and parts and are pleased to report that the Group has secured increased purchase orders from some multinational corporations. We anticipate that the overseas marketing offices could make contribution to the segment's profit in the near future.

Consumer electronic products segment

We are pleased to report that the consumer electronic products segment has achieved approximately 27% increase in sales turnover from the previous period. Besides the increased sales turnover, the operating results of this segment have also increased by approximately HK\$5.8 million.

The improvements in both sales turnover and operating results of this segment are due to the continuous efforts of the management in cost reduction and development of new products with value added features for customers' selection.

At the present moment, European market is still the major market of our consumer electronic products segment. The strengthening of Euro has brought more demand in our products from the European customers. On the other

hand, we have also increased our sales to Asian region in particular Japan successfully. During the period under review, the value of consumer electronic products sold to each of European and Asian markets increased by more than 30% as compared with the previous period. In order to expand our revenue sources, we are currently exploring opportunities for expanding our sales of consumer electronic products to other markets.

Due to the demand from our customers, we are strengthening our product development capability further so as to increase the number of new products for the market in the near future. We are confident that the performance of the consumer electronic products segment would be better in the coming year.

Investment in an associate

As at 30 June 2003, we have made capital injection of approximately HK\$19 million into the associate YOUEAL TTI Limited. Subsequent to the period under review, the associated company has completed the set up of a manufacturing plant in Tianjin, the PRC. The manufacturing facility is for the manufacture and sale of mobile phone keypads and is scheduled to commence commercial production in the second half of 2003. This investment would bring return to the Group in the near future.

Liquidity and Financial Resources

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

The Group currently has aggregate composite banking facilities of approximately HK\$83.8 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdrafts, import and export loans, amounted to approximately HK\$56.3 million as at 30 June 2003, of which HK\$46.1 million is repayable in the next twelve months.

The Group's borrowings are mainly on a floating rate basis and are denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to total assets as at 30 June 2003 is 56.2% (31 December 2002: 46.0%).

Charge on the Group Assets

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with a net book value of HK\$23.0 million and bank deposits amounting to approximately HK\$8.2 million.

Contingent Liabilities

Except for corporate guarantee given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

Capital Structure

As at 30 June 2003, the Company had approximately 250 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$103.6 million.

The 30 million warrants, which were issued by the Company on 16 March 2001 to several independent investors, had not been exercised. During the period under review, all of these warrants were lapsed and cancelled on the expiry date on 15 March 2003.

Pursuant to the share option scheme of the Company, the Board of Directors granted share options to certain senior executives and employees of the Group. The exercise in full of these share options would result in the issue of 15.5 million additional shares and proceeds of approximately HK\$2.48 million.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2003.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period for the six months ended 30 June 2003, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The members of the audit committee of the Company comprise of Mr. Tsao Kwang Yung, Peter and Mr. Kung Fan Cheong, both being Independent Non-Executive Directors of the Company.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the Group's unaudited interim results for the six months ended 30 June 2003.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

All the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

Lai Pei Wor
Chairman

Hong Kong, 26 September 2003

“Please also refer to the published version of this announcement in The Standard”.