



K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 675)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 2004 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
		2004	2003
		(Unaudited)	(Unaudited)
		HK\$	HK\$
	<i>Notes</i>		
Turnover		153,500,997	116,182,871
Cost of sales		(115,833,033)	(90,315,209)
Gross profit		37,667,964	25,867,662
Other revenue		2,682,383	810,106
Selling and distribution costs		(14,877,042)	(11,612,773)
Administrative expenses		(10,281,572)	(9,486,343)
Other operating income/ (expenses), net	3	1,612,185	(654,462)
Profit from operating activities	4	16,803,918	4,924,190
Finance costs	5	(3,047,513)	(2,086,370)
Share of loss of an associate		(2,348,713)	(104,713)
Profit before tax		11,407,692	2,733,107
Tax	6	(1,216,192)	(366,733)
Net profit from ordinary activities attributable to shareholders		10,191,500	2,366,374
Dividends	7	Nil	Nil
Earnings per share	8		
– Basic		4.04 cents	0.95 cents
– Diluted		3.97 cents	N/A

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 Institute of Certified Public Accountants (“HKICPA”) (formerly known as Hong Kong Society of Accountants (“HKSA”)) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2003.

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 2004				
	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	85,405,065	68,095,932	–	–	153,500,997
Intersegment sales	2,538,311	–	–	(2,538,311)	–
Other revenue	2,557,231	92,509	1,400	–	2,651,140
Total	90,500,607	68,188,441	1,400	(2,538,311)	156,152,137
Segment results	7,931,805	4,126,471	(399,437)		11,658,839
Interest income					31,243
Gain on sale of long term investments, net					5,113,836
Profit from operating activities					16,803,918
Finance costs					(3,047,513)
Share of loss of an associate					(2,348,713)
Profit before tax					11,407,692
Tax					(1,216,192)
Net profit from ordinary activities attributable to shareholders					10,191,500
Other segment information:					
Depreciation and amortisation	7,908,783	3,302,984	290,759	–	11,502,526
Capital expenditure	6,186,847	6,694,026	97,485	–	12,978,358

For the six months ended 30 June 2003

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	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
	<u>67,590,953</u>	<u>51,483,811</u>	<u>3,076</u>	<u>(2,155,378)</u>	<u>116,922,462</u>
Total					
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)
					<u>2,733,107</u>
Profit before tax					2,733,107
Tax					(366,733)
					<u>2,366,374</u>
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	3,260,430	2,423,285	4,644	–	5,688,359
	<u>8,458,546</u>	<u>2,969,849</u>	<u>514,514</u>	<u>–</u>	<u>11,942,909</u>
	<u>3,260,430</u>	<u>2,423,285</u>	<u>4,644</u>	<u>–</u>	<u>5,688,359</u>

(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			
	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Hong Kong	53,774,733	41,083,220	3,019,638	333,238
Mainland China	7,461,727	5,750,893	8,372,217	5,347,551
Total in the PRC	61,236,460	46,834,113	11,391,855	5,680,789
Japan	16,375,004	14,017,114	–	–
Other Asian countries*	8,926,876	6,792,886	26,503	7,570
Total in Asia	86,538,340	67,644,113	11,418,358	5,688,359
Germany	30,844,219	21,910,061	–	–
Other European countries **	25,771,308	22,909,268	–	–
Total in Europe	56,615,527	44,819,329	–	–
North America	6,570,070	1,928,009	1,560,000	–
Others***	3,777,060	1,791,420	–	–
Consolidated	153,500,997	116,182,871	12,978,358	5,688,359

* *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**

	2004 (Unaudited) HK\$	2003 (Unaudited) HK\$
Gain on sale of long term investments, net	5,113,836	–
Provision for doubtful debts, net	(975,681)	–
Loss on disposal of fixed assets	(1,867,195)	–
Others	(658,775)	(654,462)
	1,612,185	(654,462)

4. Profit from operating activities

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

	2004 (Unaudited) <i>HK\$</i>	2003 (Unaudited) <i>HK\$</i>
Depreciation:		
Owned fixed assets	8,665,079	9,437,456
Leased fixed assets	2,275,638	2,268,988
	10,940,717	11,706,444
Amortisation of intangible assets	561,809	236,465
Foreign exchange losses, net	–	249,324
and after crediting:		
Interest income	31,243	70,515
Foreign exchange gains, net	91,560	–

5. Finance costs

	2004 (Unaudited) <i>HK\$</i>	2003 (Unaudited) <i>HK\$</i>
Interest expenses on bank loans and overdrafts wholly repayable within five years	1,294,970	1,109,275
Interest on finance leases	568,298	541,326
Interest on convertible loan notes and fixed rate loan notes	1,184,245	435,769
	3,047,513	2,086,370

6. Tax

	2004 (Unaudited) <i>HK\$</i>	2003 (Unaudited) <i>HK\$</i>
Group:		
Current – Hong Kong		
Charge for the period	826,986	366,733
Overprovision in prior periods	–	–
Current – elsewhere	–	–
Deferred	389,206	–
Total tax charge for the period	1,216,192	366,733

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere have been calculated at the 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 27 September 2004, the directors resolved not to pay an interim dividend to shareholders (2003: 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\$10,191,500 (2003: HK\$2,366,374), and on the weighted average of 252,504,800 (2003: 250,004,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$10,191,500. The weighted average number of ordinary shares used in the calculation is the 252,504,800 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 3,952,588 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

In the calculation of the diluted earnings per share, the effect of the convertible loan notes outstanding during the period was not taken into account as they had an anti-dilutive effect on the basic earnings per share for the period.

A diluted earnings per share amount for the period ended 30 June 2003 had not shown as the share options, warrants and convertible loan notes outstanding during last period had an anti-dilutive effect on the basic earnings per share for last period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 June 2004, the Group's turnover reached HK\$153.5 million, representing a 32.1% increase over the previous period. Overall gross profit margin was also improved and increased from approximately HK\$25.9 million in the previous period to approximately HK\$37.7 million this period. Net profit attributable to shareholders was approximately HK\$10.2 million (2003: HK\$2.4 million).

Basic earnings per share for the period ended 30 June 2004 amounted to HK4.04 cents (2003: HK0.95 cents) per share.

Business Review and Future Plan

The economic climate during the period under review has been favorable to most businesses. Orders from customers for our products have remained strong since last financial year. As a result, the Group achieved a remarkable growth in turnover and earnings in the period under review.

The products of the electronic and related components and parts segment are major critical components and parts for high value consumer products. The new products have been well accepted by our customers and have brought us fruitful results. We are pleased to report that segmental result of the electronic and related components and parts segment has improved by approximately HK\$7.6 million from last corresponding financial period.

In the latter half of the period under review, we set up a new manufacturing plant in Zhongshan, PRC for the manufacturing of keypads for high value consumer electronics products. We expect the manufacturing plant could start commercial production in the last quarter of the current financial year and hence to cope with the increased demand of our keypad products from the customers

The consumer electronic products segment had developed a number of new models for its product lines and have been accepted by our customers favorably. We have expanded our marketing team for handling its broadened customer base. Sales turnover of this segment has been growing since previous years and has increased by 32.4% as compared with the last corresponding financial period.

The purchase prices of certain raw materials such as plastic have increased. In order to lessen the effect of rising product production costs, we have continued our strategy of implementing cost control and reduction measures and improving our production efficiency. As a result, the overall impact of raw material cost increases on our gross profit margin is not significant.

We are pleased to report that the orders from customers for each segment grows healthily. The global economy has been improving since last year and the growth trend is anticipated to continue in the foreseeable future. Therefore, we expect that the Group's overall sales turnover for the financial year 2004 would achieve a healthy growth from last financial year.

In 2002, we entered into an agreement with a third party to acquire a piece of land in Zhongshan, the PRC. The purchase transaction would be completed in the latter part of 2004. In order to cope with the increasing customers' demand, we are planning to set up new manufacturing facility on this land in the future.

Investments

Investment in an associate

The manufacturing plant of the associate company YOUEAL TTI Limited in Tianjin, the PRC is set up for the manufacturing and sale of mobile phone keypads and has started its commercial production in late 2003. The plant is currently producing keypads for several renowned mobile phones manufacturers. However, due to low sales turnover and unexpected production yield loss, the associate has reported a loss in the period under review. Our share of the associate's net loss for the current period amounted to approximately HK\$2.3 million. We anticipate that with increased orders from customers and improvement in production efficiency, the operating results of the associate will improve.

During the period in February 2004, we made a further capital injection of approximately HK\$3.2 million into the associate, after which our capital contribution commitment of US\$4.1 million has been fulfilled.

Other investments

On 1 February 2004, one of our unlisted equity investments with a carrying value of approximately HK\$0.3 million was converted into shares of an overseas listed company. We disposed of these converted shares during 31 March to 6 April 2004 for an aggregated cash consideration of approximately HK\$5.4 million, giving rise to a net gain of approximately HK\$5.1 million. This unlisted equity investment was acquired in March 2002, when we were invited by an overseas customer to subscribe for their new shares that were issued for raising working capital to finance their operations. We decided to dispose of this investment as it is no longer a direct investment in our customer.

Operations Review

The following highlights the Group's results for the period ended 30 June 2004.

- Turnover increased by 32.1% from the prior period to HK\$153.5 million for the period
- Gross profit margin has been improved from 22.3% for 2003 to 24.5% for the period
- Profit from operating activities before the finance costs and the share of the results of an associate was HK\$16.8 million, improving by HK\$11.9 million from last financial period
- Gain on disposal of an unlisted investment was approximately HK\$5.1 million
- Finance costs increased by approximately HK\$1.0 million from last period to HK\$3.05 million
- Share of loss of an associate was HK\$2.3 million
- Net profit for the period was HK\$10.2 million, improved by 3.3 times as compared to last period

The Group's electronic and related components and parts segment comprises manufacture and sale of keypads, rubber parts and plastic parts, and liquid crystal displays. In the period under review, sales turnover of this segment has increased by approximately 31.9% as compared with the previous financial period. On the other hand, the consumer electronic product segment has achieved approximately 32.4% increase in sales turnover from the previous financial period.

The improvement in the gross profit margin for the period under review is due to better cost control.

With the increases in both turnover and gross profit margin, the group's operating profit before the finance costs and the share of an associate improved remarkably by HK\$11.9 million.

The Group's total finance costs for the period is HK\$3.05 million, of which approximately HK\$1.29 million interest is related to the fixed rate loan notes and convertible loan notes issued in the prior year for raising funds to finance our investment in the associate.

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\$90.5 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$72.4 million as at 30 June 2004, of which HK\$61.6 million is repayable within one year.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged deposits of the Group amounted to approximately HK\$26.5 million.

The Group's borrowings are mainly on a floating rate basis and are mainly 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 2004 is 58.0% (31 December 2003: 57.3%)

Charge on the Group Assets

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$22.18 million and bank deposit 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 2004, the Company had approximately 252.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$114.8 million.

Subsequent to the balance sheet date on 10 July 2004, the share options that were granted under the Group's share option scheme to certain senior executives and employees of the Group were exercised. The exercise of these share options resulted in the issue of 13.0 million additional shares and proceeds of approximately HK\$2.1 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 2004.

COMPLIANCE WITH THE 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 and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of the Stock Exchange throughout the accounting period for the six months ended 30 June 2004, 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 2004.

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, 27 September 2004

As at the date of this announcement, the board of directors comprises Mr. Lai Pei Wor, Mr. Chan Yau Wah and Mr. Chung Yik Cheung, Raymond as executive directors, and Mr. Tsao Kwang Yung, Peter and Mr. Kung Fan Cheong as independent non-executive directors.

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