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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in K & P International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **K & P INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 675)**

### **MAJOR TRANSACTION**

### **DISPOSAL OF MINORITY INTEREST**

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A letter from the board of directors of the Company is set out on pages 4 to 11 of this circular.

A notice convening a special general meeting of the Company to be held at Raphael, 2nd Floor, Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 14th September, 2005 at 10:00 a.m. is set out on pages 59 and 60 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at such meeting or at any adjourned meeting should you so wish.

29th August, 2005

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:-*

“Agreement”	the agreement dated 14th July, 2005 between, the Vendor, the Purchaser, the Other Shareholder and the Company relating to the sale by the Vendor of the Sale Shares, and the Shareholder’s Loan, to the Purchaser;
“associate”	has the meaning ascribed to it in the Listing Rules;
“Board”	the board of Directors;
“Company”	K & P International Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange;
“Completion”	Completion of the Disposal pursuant to the Agreement;
“Conditions”	being the conditions referred to in the section headed “4. Conditions of the Agreement” in this circular;
“connected person”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules;
“Deposit”	a deposit of US\$943,000 that has been paid in cash by the Purchaser to the Vendor;
“Directors”	the directors of the Company;
“Disposal”	the sale of the Sale Shares and the assignment and sale of the Shareholder’s Loan pursuant to the Agreement;
“Group”	the Company and its subsidiaries;
“HK\$” or “HK Dollar”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“KOSDAQ”	the KOSDAQ Stock Market operated by The KOSDAQ Stock Market, Inc. in the Republic of Korea;
“Kunshan WFOE”	Kunshan YOUEAL Electronic Components Limited, a WFOE owned by YTTI;

## DEFINITIONS

“Latest Practicable Date”	26th August, 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
“Listing Rules” and “Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	24th October, 2005, or such other date as the parties to the Agreement may agree in writing;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules;
“Other Shareholder”	You Eal (China) Ltd., being the holder of 8% of the entire issued share capital of YTTI;
“Purchaser”	Youeal Electronics Co. Ltd., a company incorporated in the Republic of Korea;
“SFO”	Securities and Futures Ordinance (Chapter 571 of Hong Kong Laws);
“SGM”	the special general meeting of the Company to be held at Raphael, 2nd Floor, Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 14th September, 2005 at 10:00 a.m.;
“Sale Shares”	the 4,100,000 shares of US\$1.00 each in the capital of YTTI, representing 41% of the entire issued share capital of YTTI;
“Shareholder’s Loan”	the unsecured, interest-free shareholder’s loan in the amount of US\$615,000 made by the Vendor to YTTI;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tianjin WFOE”	YOUEAL TTI Tianjin Electronics Co. Ltd., a WFOE owned by YTTI;
“US\$” or “US Dollar”	the lawful currency of the United States;
“Vendor”	Technology Trends International Limited, a wholly-owned subsidiary of the Company;
“WFOE”	wholly foreign owned enterprise established in the PRC with limited liability;

## DEFINITIONS

- “YTTI” Youeal TTI Limited, a company incorporated in Hong Kong, the entire issued share capital of which is held by the Vendor as to 41%, the Purchaser as to 51% and the Other Shareholder as to 8%; and
- “YTTI Group” YTTI and its subsidiaries.

*This circular contains translations of US Dollar into HK Dollar at the rate of US\$1.00 for HK\$7.8 solely for reference. No representation or assurance is made or given that the US Dollar amounts set out in this circular have been, could have been, could be, may be or will be converted into HK Dollar as such rate or any other rates.*

## LETTER FROM THE BOARD



# K & P INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 675)**

*Executive Directors:*

Lai Pei Wor (*Chairman*)

Chan Yau Wah

Chung Yik Cheung, Raymond

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Independent Non-executive Directors:*

Kung Fan Cheong

Leung Man Kay

Li Yuen Kwan, Joseph

*Principal Place of Business:*

Units 2304-06, 23rd Floor

Riley House, 88 Lei Muk Road

Kwai Chung

New Territories

Hong Kong

29th August, 2005

*To the Shareholders of the Company*

Dear Sir or Madam,

## **MAJOR TRANSACTION DISPOSAL OF MINORITY INTEREST**

### **INTRODUCTION**

On 18th July, 2005, the Company announced that the Vendor (being a wholly-owned subsidiary of the Company) had entered into a conditional sale and purchase agreement on 14th July, 2005 in relation to the sale by the Vendor of the Sale Shares and the assignment and sale of the Shareholder's Loan to the Purchaser. The Sale Shares represent the Company's entire indirect minority investment in YTTI, which is a subsidiary of the Purchaser.

The Disposal constitutes a major transaction (disposal) for the Company under the Listing Rules and is subject to the approval of the shareholders of the Company. Accordingly, under the Agreement, Completion of the Disposal is conditional upon, inter alia, the passing of the necessary resolution by the shareholders of the Company at a special general meeting of the Company to be convened for the purpose of approving the Agreement.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information in relation to the Disposal and to give you notice of the SGM at which your approval of the Disposal will be sought.

### THE AGREEMENT

#### 1. Date

The Agreement was entered into on 14th July, 2005.

#### 2. Parties

Vendor : Technology Trends International Limited, a wholly-owned subsidiary of the Company.

Purchaser : Youeal Electronics Co. Ltd., the shares of which are listed on KOSDAQ, and, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, the controlling shareholder of Youeal Electronics Co. Ltd. is independent of the Company and its connected persons.

#### 3. Assets to be disposed of

The assets to be disposed of by the Vendor comprise the Sale Shares and the Shareholder's Loan.

The Sale Shares are owned by the Vendor and comprise 4,100,000 shares of US\$1.00 each in the capital of YTTI, representing 41% of the entire issued share capital of YTTI. The balance of the issued shares of YTTI are held by the Purchaser and the Other Shareholder as to 51% and 8%, respectively.

YTTI was established by the Purchaser, the Vendor and the Other Shareholder as a joint venture holding company in Hong Kong. The initial subscription of shares in YTTI took place in December 2002. The Purchaser, the Vendor and the Other Shareholder subscribed for shares in YTTI in proportion to their respective funding commitments being 51%, 41% and 8% respectively to YTTI. The respective rights and obligations of the Purchaser, the Vendor and the Other Shareholder were detailed in the Company's circular to its shareholders dated 14th March, 2003. Being an investment holding joint venture company, the sole assets of YTTI are the entire equity interest of each of (i) the Tianjin WFOE, and (ii) the Kunshan WFOE. The principal business of the Tianjin WFOE is the manufacture and sale of mobile phone keypads. Insofar as the Directors are aware based on its management of YTTI, the Kunshan WFOE is anticipated to be the second phase of the development and expansion plan of YTTI. The Kunshan WFOE obtained its business registration in June 2002. The Kunshan WFOE holds a factory premises in Kunshan, Jiangsu Province, the PRC, but no production line has been installed therein and it has not commenced business. The Kunshan WFOE's planned principal business is also the manufacture and sale of mobile phone keypads.

## LETTER FROM THE BOARD

The Shareholder's Loan is among one of the three shareholder's loans due from YTTI to its three respective shareholders, and it was extended by the Vendor to YTTI in proportion to the Vendor's shareholding in YTTI. The Shareholder's Loan, aggregating US\$615,000, is unsecured, interest-free and owing by YTTI to the Vendor.

#### 4. Conditions of the Agreement

Completion of the Disposal is conditional upon:-

- (i) no indication being received at or before Completion from the securities regulators in Hong Kong to the effect that the listing of the shares of the Company on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) in connection with the Agreement; and
- (ii) the passing of the necessary resolution by the shareholders of the Company at a special general meeting of the Company to be convened for the purpose of approving the Agreement.

If the Agreement fails to become unconditional on or before the Long Stop Date, the Agreement will terminate and the Vendor will return the Deposit to the Purchaser without interest. In the event that the Agreement is terminated or postponed or there are other material changes, the Company will make a further announcement in this regard.

#### 5. Consideration

The aggregate consideration for the Disposal is US\$4,715,000 (approximately HK\$36,777,000), comprising US\$4,100,000 (approximately HK\$31,980,000, and being the Vendor's aggregate committed equity funding which were paid to YTTI pursuant to various share capital subscriptions during the period from 17th December, 2002 to 16th February, 2004) for the sale of the Sale Shares and US\$615,000 (approximately HK\$4,797,000, and being the face value of the Shareholder's Loan) for the sale and assignment of the Shareholder's Loan.

The Deposit has been paid, in cash, by the Purchaser to the Vendor upon execution of the Agreement, with the balance of US\$3,772,000 to be paid upon Completion.

The Deposit shall be forfeited by the Vendor if after the Conditions shall have been satisfied, the Purchaser fails to complete the Agreement, but such Deposit shall be refunded to the Purchaser, if after the Conditions shall have been satisfied, the Vendor fails to complete, or the Conditions are not fulfilled or waived on or before the Long Stop Date.

#### 6. Completion

Completion shall take place on the third business day after the Conditions have been satisfied or waived.



## LETTER FROM THE BOARD

### FINANCIAL MATTERS RELEVANT TO THE DISPOSAL

The consolidated net loss before and after taxation and extraordinary items of the YTTI Group attributable to the percentage of the Sale Shares relative to the entire issued share capital of YTTI for the financial year ended 31st December, 2004, was approximately HK\$6,128,000. Over the same period, YTTI recorded a gross loss of approximately HK\$5,500,000.

The consolidated net loss before and after taxation and extraordinary items of the YTTI Group attributable to the percentage of the Sale Shares relative to the entire issued share capital of YTTI for the financial year ended 31st December, 2003, was approximately HK\$4,335,000. Over the same period, YTTI recorded a gross loss of approximately HK\$3,700,000.

The carrying value of the Sale Shares and the Shareholder's Loan as recorded in the audited consolidated balance sheet as at 31st December, 2004 of the Company was HK\$21,506,422 and the HK Dollar equivalent of its face value of US\$615,000 (being HK\$4,797,000), respectively.

Since the results of YTTI are equity accounted for in the consolidated financial statements of the Company and YTTI has been making losses since its inception as referred to above, the carrying value of the Sale Shares in the Company's consolidated financial statements (being the sum of approximately HK\$17,108,000 as at 30th June, 2005) is less than the accumulated total investment costs (before share of loss of associated company) of approximately HK\$31,980,000 as recorded in its books of accounts. Accordingly, since the Sale Shares are to be sold at the Group's initial investment cost and assuming the Completion will take place, taking into account the aggregate consideration of US\$4,715,000 (approximately HK\$36,777,000) and the unaudited loss of YTTI for the six months ended 30th June, 2005, it is expected, on an unaudited basis, that there will be a gain on disposal of the Sale Shares and the Shareholder's Loan (before incidental expenses) of approximately HK\$14,872,000 accrued to the Company's consolidated accounts for the financial year ending 31st December, 2005. However, as the Sale Shares will continue to be equity accounted for by the Company until Completion, depending on the performance of YTTI up to Completion, the aforesaid expected gain on the Disposal is subject to change.

As stated in the audited consolidated balance sheet as at 31st December, 2004 of the Company, the Group had approximately HK\$19,117,426 cash in hand. On the basis that Completion will take place, the Group will receive US\$4,715,000 (approximately HK\$36,777,000) (before incidental expenses), and disregarding any other changes in cash position in the Group between 31st December, 2004 and the Latest Practicable Date, the cash in hand of the Group will increase by approximately 192%.

Based on the carrying value of the Company's investment in YTTI of approximately HK\$21,905,000 as of 30th June, 2005, the total assets of the Group immediately after completion of the Disposal are expected to increase by HK\$14,872,000 (being the difference of the amount of net proceeds of HK\$36,777,000 (before incidental expenses) and the carrying value of the Company's investment in YTTI of approximately HK\$21,905,000 as

## LETTER FROM THE BOARD

of 30th June, 2005) and the total liabilities of the Group immediately after completion of the Disposal will not be affected by reason of the Agreement.

Save as to the 51% interest in YTTI, the Purchaser and its controlling shareholder are not otherwise connected to the Company and its connected persons. After Completion of the Disposal, YTTI will no longer be an associated company of the Company.

### REASONS FOR THE DISPOSAL

YTTI has thus far incurred substantial net losses of HK\$10,482,454 and HK\$14,946,193 for the two financial years ended 31st December, 2004, and the Company and the Purchaser also hold different views regarding the future plan for the operation and expansion of YTTI. Accordingly, after arm's length negotiation with the Purchaser, in particular in view of the fact that YTTI has suffered losses and the Group can recuperate its accumulated total investments (except for funding costs), the Company (acting through the Vendor) and Purchaser agree to enter into the Agreement for the Disposal.

The Directors believe that the terms and conditions of, including the consideration for, the Disposal are fair and reasonable given the current financial conditions of YTTI, and in the interests of the shareholders of the Company as a whole, as the Sale Shares represent only a minority interest and the consideration receivable by the Group under the Agreement (before incidental expenses) is equal to the aggregate value of the Company's total investment cost (except for funding costs) of HK\$31,980,000 in, and the value of the Shareholder's Loan of HK\$4,797,000 to, YTTI, and at a premium of approximately 68% to the aggregate value of the carrying value of the Sale Shares and the value of the Shareholder's Loan.

### USE OF PROCEEDS

The proceeds (before incidental expenses) of the Disposal of US\$4,715,000 (approximately HK\$36,777,000) will be used for general working capital purposes.

The consideration for the Disposal of US\$4,715,000 (approximately HK\$36,777,000) represents an excess of approximately HK\$10,473,578 over the net book value of YTTI of HK\$26,303,422 as recorded in the audited consolidated balance sheet as at 31st December, 2004 of the Company.

### LISTING RULES IMPLICATIONS

The Disposal constitutes a major transaction (disposal) for the Company under the Listing Rules, as based on the "consideration test", the consideration receivable by the Group from the Disposal exceeds 25% of the average market capitalisation of the Company for the five business days immediately preceding the date of the Agreement, and it is therefore subject to the approval of the shareholders of the Company.

## LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors, the interests of all shareholders of the Company in relation to the Disposal are the same in all material respects. To the best of the Directors' knowledge, information and belief and having made reasonable enquiry, the Purchaser and its controlling shareholder do not have any shareholding interest in the Company as at the Latest Practicable Date and are independent of the Company and its connected persons. No shareholders of the Company are required to abstain from voting at the SGM.

### **BACKGROUND INFORMATION ON THE COMPANY AND THE PURCHASER**

The principal business of the Group at the time of its listing on the Stock Exchange was the manufacture and sale of electronic calculators, alarm clocks and silicone rubber products. Over the years, the Group continues to rationalise and expand its business in tandem with market changes, and its principal business leveraging off its traditional core competencies currently comprises the following two business divisions: (i) precision parts and components (including keypads, synthetic rubber and plastic components and parts, and liquid crystal displays ("LCDs")), and (ii) consumer electronic products (comprising time, weather forecasting and other products). Notwithstanding that YTTI and its subsidiaries also engage in the manufacture and sale of mobile phone keypads, since the technology applied by YTTI and its subsidiaries as well as the target customers for such keypads are different from those of the Group, the Disposal does not have any material impact on the Group's core operations.

The principal activity of the Purchaser is, to the best of the knowledge, information and belief of the Directors, the design and manufacture of mobile phone keypads and inter-connectors for the transmission of electric signals to LCDs. As the Purchaser is a listed company on KOSDAQ, the controlling shareholder of the Purchaser is, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, independent of the Company and its connected persons.

### **SALE OF SHARES AND SHAREHOLDER'S LOAN BY THE OTHER SHAREHOLDER**

On the same day as the Agreement, the Other Shareholder has also entered into a sale and purchase agreement for the sale of its 8% interest in the share capital of YTTI and the assignment of its shareholder's loan, to the Purchaser. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Other Shareholder and its ultimate controlling shareholder(s) are third parties independent of the Company and connected persons of the Company. Completion of the Agreement is not conditional on the completion of the Other Shareholder's Disposal. The consideration for the sale of the 8% interest in the share capital of YTTI receivable per share by the Other Shareholder under the aforesaid agreement is the same as that receivable by the Vendor under the Agreement, and that the Other Shareholder is also assigning its shareholder's loan to the Purchaser at its face value.

## LETTER FROM THE BOARD

### SPECIAL GENERAL MEETING

A notice of the SGM to be held at Raphael, 2nd Floor, Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 14th September, 2005 at 10:00 a.m. is set out on pages 59 and 60 of this circular. An ordinary resolution will be proposed at the SGM to approve the Disposal. To the best of the knowledge, information and belief of the Directors, the interests of the shareholders of the Company in relation to the Disposal are the same in all material respects. Accordingly, none of the shareholders of the Company is required to abstain from voting at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrars, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM should you so wish.

Under the Bye-law 66 of the Company, at any general meeting of shareholders of the Company, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or
- (iv) a shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### RECOMMENDATION

In the opinion of the Directors (including the independent non-executive Directors), the Disposal is fair and reasonable and in the interests of the shareholders of the Company as a whole. The Directors recommend, therefore, that shareholders should vote in favour of the ordinary resolution to be proposed at the SGM.

**LETTER FROM THE BOARD**

**ADDITIONAL INFORMATION**

Your attention is also drawn to the information set out in Appendices I and II to this circular.

Yours faithfully,  
For and on behalf of the Board  
**K & P International Holdings Limited**  
**Lai Pei Wor**  
*Chairman*

## 1. SUMMARY OF AUDITED FINANCIAL RESULTS OF THE GROUP

The following is a summary of the published audited consolidated results of the Group for each of the three years ended 31 December 2004 and the audited assets and liabilities of the Group as at 31 December 2002, 2003 and 2004 respectively:

	Year ended 31 December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER	<u>349,259</u>	<u>271,845</u>	<u>200,758</u>
PROFIT BEFORE TAX	20,503	5,641	632
Tax	<u>(2,846)</u>	<u>(2,101)</u>	<u>414</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>17,657</u>	<u>3,540</u>	<u>1,046</u>
<b>ASSETS AND LIABILITIES</b>			
	31 December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total assets	294,463	245,360	187,529
Total liabilities	<u>(167,472)</u>	<u>(140,687)</u>	<u>(86,220)</u>
	<u>126,991</u>	<u>104,673</u>	<u>101,309</u>

## 2. AUDITED FINANCIAL STATEMENTS OF THE GROUP

The audited consolidated financial statements of the Group for each of the two years ended 31 December 2004 and the audited consolidated balance sheet of the Group as at 31 December 2003 and 2004 (both of which are unqualified opinion) together with the relevant notes, as extracted from the Company's annual report for the year ended 31 December 2004, are set out below.

**Consolidated Profit and Loss Account**

*Year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
TURNOVER	5	349,258,527	271,845,495
Cost of sales		<u>(270,602,455)</u>	<u>(214,045,957)</u>
Gross profit		78,656,072	57,799,538
Other revenue and gains	5	13,802,167	5,533,131
Selling and distribution costs		(32,129,907)	(25,218,916)
Administrative expenses		(25,374,578)	(22,424,155)
Other operating income/(expenses), net	6	<u>(2,801,392)</u>	<u>94,086</u>
PROFIT FROM OPERATING ACTIVITIES	7	32,152,362	15,783,684
Finance costs	8	(5,521,263)	(5,808,182)
Share of loss of an associate		<u>(6,127,939)</u>	<u>(4,335,105)</u>
PROFIT BEFORE TAX		20,503,160	5,640,397
Tax	11	<u>(2,846,004)</u>	<u>(2,100,475)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u><u>17,657,156</u></u>	<u><u>3,539,922</u></u>
DIVIDEND	13	<u><u>2,655,048</u></u>	<u><u>–</u></u>
EARNINGS PER SHARE	14		
Basic		<u><u>6.82 cents</u></u>	<u><u>1.42 cents</u></u>
Diluted		<u><u>6.77 cents</u></u>	<u><u>1.41 cents</u></u>

**Consolidated Balance Sheet**

31 December 2004

	Notes	2004 HK\$	2003 HK\$
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	93,932,982	80,452,936
Intangible assets	16	8,052,500	4,186,809
Deposit paid for purchase of leasehold land		–	4,720,000
Interest in an associate	18	26,303,422	24,401,113
Long term investments	19	3,180,000	3,408,450
		<u>131,468,904</u>	<u>117,169,308</u>
<b>CURRENT ASSETS</b>			
Inventories	20	40,701,912	36,169,926
Prepayments, deposits and other receivables	21	15,970,398	13,785,522
Trade and bills receivables	22	79,020,008	49,055,953
Tax recoverable		–	226,543
Pledged bank deposits		8,183,896	8,238,270
Cash and cash equivalents	23	19,117,426	20,714,066
		<u>162,993,640</u>	<u>128,190,280</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	24	59,778,516	45,583,450
Trade payables	26	62,207,706	38,681,433
Accrued liabilities and other payables	28	28,608,304	25,199,598
Fixed rate loan notes	30	–	10,639,339
Convertible loan notes	30	6,437,523	–
Tax payable		1,697,979	337,218
		<u>158,730,028</u>	<u>120,441,038</u>
<b>NET CURRENT ASSETS</b>		<u>4,263,612</u>	<u>7,749,242</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		135,732,516	124,918,550
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	25	729,887	1,227,680
Long term portion of finance lease payables	27	4,400,628	5,404,522
Deferred tax liabilities	29	3,611,481	2,424,662
Convertible loan notes	30	–	11,189,262
		<u>8,741,996</u>	<u>20,246,126</u>
		<u>126,990,520</u>	<u>104,672,424</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	26,550,480	25,250,480
Reserves	33(a)	97,784,992	79,421,944
Proposed final dividend	13	2,655,048	–
		<u>126,990,520</u>	<u>104,672,424</u>



**Consolidated Statement of Changes in Equity**  
Year ended 31 December 2004

	Notes	Issued share capital HK\$	Share premium account HK\$	Warrant subscription reserve HK\$	Contributed surplus HK\$	Fixed asset revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Retained profits HK\$	Proposed final dividend HK\$	Total HK\$
At 1 January 2003		25,000,480	49,611,281	1,389,475	660,651	4,973,872	(528,991)	20,201,927	-	101,308,695
Issue of shares	31	250,000	150,000	-	-	-	-	-	-	400,000
Exchange realignment		-	-	-	-	-	(391,420)	-	-	(391,420)
Surplus on revaluation		-	-	-	-	1,204,702	-	-	-	1,204,702
Net gains and (losses) not recognised in the consolidated profit and loss account		-	-	-	-	1,204,702	(391,420)	-	-	813,282
Net profit for the year		-	-	-	-	-	-	3,539,922	-	3,539,922
Warrant subscription reserve recognised as income upon expiry of warrants		-	-	(1,389,475)	-	-	-	-	-	(1,389,475)
At 31 December 2003 and 1 January 2004		25,250,480	49,761,281	-	660,651	6,178,574	(920,411)	23,741,849	-	104,672,424
Issue of shares	31	1,300,000	780,000	-	-	-	-	-	-	2,080,000
Exchange realignment		-	-	-	-	-	(808,992)	-	-	(808,992)
Surplus on revaluation		-	-	-	-	3,389,932	-	-	-	3,389,932
Net gains and (losses) not recognised in the consolidated profit and loss account		-	-	-	-	3,389,932	(808,992)	-	-	2,580,940
Revaluation reserve released on disposal		-	-	-	-	(362,760)	-	362,760	-	-
Net profit for the year		-	-	-	-	-	-	17,657,156	-	17,657,156
Proposed final dividend	13	-	-	-	-	-	-	(2,655,048)	2,655,048	-
At 31 December 2004		<u>26,550,480</u>	<u>50,541,281</u>	<u>-</u>	<u>660,651</u>	<u>9,205,746</u>	<u>(1,729,403)</u>	<u>39,106,717</u>	<u>2,655,048</u>	<u>126,990,520</u>
Reserves retained by:										
Company and subsidiaries		26,550,480	50,541,281	-	660,651	9,205,746	(1,729,403)	49,615,543	2,655,048	137,499,346
An associate		-	-	-	-	-	-	(10,508,826)	-	(10,508,826)
31 December 2004		<u>26,550,480</u>	<u>50,541,281*</u>	<u>-</u>	<u>660,651*</u>	<u>9,205,746*</u>	<u>(1,729,403)*</u>	<u>39,106,717*</u>	<u>2,655,048</u>	<u>126,990,520</u>
Company and subsidiaries		25,250,480	49,761,281	-	660,651	6,178,574	(920,411)	28,122,736	-	109,053,311
An associate		-	-	-	-	-	-	(4,380,887)	-	(4,380,887)
31 December 2003		<u>25,250,480</u>	<u>49,761,281*</u>	<u>-</u>	<u>660,651*</u>	<u>6,178,574*</u>	<u>(920,411)*</u>	<u>23,741,849*</u>	<u>-</u>	<u>104,672,424</u>

\* These reserve accounts comprise the consolidated reserves of HK\$97,784,992 (2003: HK\$79,421,944) in the consolidated balance sheet.

**Consolidated Cash Flow Statement***Year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		20,503,160	5,640,397
Adjustments for:			
Finance costs	8	5,521,263	5,808,182
Share of loss of an associate		6,127,939	4,335,105
Interest income	5	(170,204)	(116,570)
Depreciation	7	21,830,405	23,673,634
Amortisation of intangible assets	7	2,824,309	1,143,763
Loss on disposal and write off of fixed assets	6	2,118,490	60,836
Gain on disposal of a long term investment	5	(5,113,837)	–
Surplus on revaluation of leasehold land and buildings credited to the consolidated profit and loss account	6	(238,444)	(248,192)
Provision for doubtful debts, net	6	921,346	93,270
Warrant subscription reserve recognised as income upon expiry of warrants	5	–	(1,389,475)
Provision for slow-moving inventories	7	370,000	–
Operating profit before working capital changes		54,694,427	39,000,950
Increase in inventories		(4,882,013)	(10,367,531)
Increase in prepayments, deposits and other receivables		(1,969,965)	(4,979,869)
Increase in trade and bills receivables		(30,503,391)	(18,296,789)
Increase in trade payables		23,079,170	16,473,725
Increase in accrued liabilities and other payables		3,194,238	7,979,215
Cash generated from operations		43,612,466	29,809,701
Interest received		170,204	116,570
Interest paid		(3,438,447)	(2,868,066)
Interest element on finance lease rental payments		(667,531)	(1,118,515)
Hong Kong profits tax paid		(71,881)	(168,012)
Net cash inflow from operating activities		39,604,811	25,771,678

**APPENDIX I**
**FINANCIAL INFORMATION**

	<i>Notes</i>	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
Net cash inflow from operating activities		<u>39,604,811</u>	<u>25,771,678</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(21,871,450)	(6,371,365)
Proceeds from disposal of fixed assets		921,128	–
Investment in an associate		(3,233,248)	(25,584,000)
Decrease/(increase) in amount due from an associate		(4,797,000)	315,859
Additions to intangible assets	16	(6,690,000)	(3,250,000)
Decrease/(Increase) in pledged bank deposits		54,374	(60,983)
Purchases of long term investments		(80,000)	(2,500,000)
Proceeds from disposal of a long term investment		<u>5,422,287</u>	<u>–</u>
Net cash outflow from investing activities		<u>(30,273,909)</u>	<u>(37,450,489)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in bank and instalment loans		13,710,625	5,508,618
Decrease in mortgage loans		(365,557)	(347,934)
Capital element of finance lease rental payments		(8,712,386)	(7,735,576)
Proceeds from issue of shares	31	2,080,000	400,000
Proceeds from issue of convertible loan notes and fixed rate loan notes	30	–	20,007,000
Redemption of convertible loan notes and fixed rate loan notes		<u>(16,806,363)</u>	<u>–</u>
Net cash inflow/(outflow) from financing activities		<u>(10,093,681)</u>	<u>17,832,108</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(762,779)	6,153,297
Cash and cash equivalents at beginning of year		20,714,066	14,554,390
Effect of foreign exchange rate changes, net		<u>(833,861)</u>	<u>6,379</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>19,117,426</u></u>	<u><u>20,714,066</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	15,046,982	12,618,842
Time deposits	23	<u>4,070,444</u>	<u>8,095,224</u>
		<u><u>19,117,426</u></u>	<u><u>20,714,066</u></u>

**Balance Sheet**

31 December 2004

	<i>Notes</i>	<b>2004</b> HK\$	<b>2003</b> HK\$
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	139,385,697	147,972,529
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	21	222,391	88,185
Cash and cash equivalents	23	88,926	414,241
		<u>311,317</u>	<u>502,426</u>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables	28	135,388	130,627
Fixed rate loan notes	30	–	10,639,339
Convertible loan notes	30	6,437,523	–
		<u>6,572,911</u>	<u>10,769,966</u>
<b>NET CURRENT LIABILITIES</b>		(6,261,594)	(10,267,540)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		133,124,103	137,704,989
<b>NON-CURRENT LIABILITIES</b>			
Convertible loan notes	30	–	11,189,262
		<u>133,124,103</u>	<u>126,515,727</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	26,550,480	25,250,480
Reserves	33(b)	103,918,575	101,265,247
Proposed final dividend	13	2,655,048	–
		<u>133,124,103</u>	<u>126,515,727</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. CORPORATE INFORMATION**

The principal office of K & P International Holdings Limited is located at Units 2304-06, 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of precision parts and components (comprising keypads, synthetic rubber and plastic components and parts, and liquid crystal displays (“LCDs”)); and
- design, manufacture and sale of consumer electronic products (comprising time, weather forecasting and other products).

**2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

**Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held under medium term leases	Over the lease terms
Buildings	2.5%
Leasehold improvements	25% to 30%
Plant and machinery	12.5% to 25%
Furniture, fixtures and office equipment	20% to 30%
Motor vehicles	20% to 25%
Moulds	20% to 33.33%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.



**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**Intangible assets***Licences*

Licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of six years.

*Technical know-how*

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

*Research and development costs*

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

**Long term investments***Non-trading investments*

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

*Club memberships*

Long term investments in club memberships, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods and scrap, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) income from the sale of listed investment, on the trade date; and
- (d) tooling charge and sales commissions, when the services are rendered.

### Employee benefits

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

#### *Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**4. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the precision parts and components segment comprise 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 comprise 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 activity, together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

## (a) Business segments

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

## Group

	Precision parts and components		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue										
Sales to external customers	191,089,906	148,037,018	158,168,621	123,808,477	-	-	-	-	349,258,527	271,845,495
Intersegment sales	6,567,143	4,931,152	-	-	-	-	(6,567,143)	(4,931,152)	-	-
Other revenue and gains	8,395,552	3,618,008	112,156	166,080	10,418	1,632,473	-	-	8,518,126	5,416,561
Total	206,052,601	156,586,178	158,280,777	123,974,557	10,418	1,632,473	(6,567,143)	(4,931,152)	357,776,653	277,262,056
Segment results	19,999,729	2,382,214	5,358,715	13,392,100	1,509,877	(107,200)			26,868,321	15,667,114
Interest income									170,204	116,570
Gain on disposal of a long term investment									5,113,837	-
Profit from operating activities									32,152,362	15,783,684
Finance costs									(5,521,263)	(5,808,182)
Share of loss of an associate	(6,127,939)	(4,335,105)	-	-	-	-	-	-	(6,127,939)	(4,335,105)
Profit before tax									20,503,160	5,640,397
Tax									(2,846,004)	(2,100,475)
Net profit from ordinary activities attributable to shareholders									17,657,156	3,539,922

Group	Precision parts and		Consumer		Corporate and others		Eliminations		Consolidated	
	components		electronic products							
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	<u>168,256,145</u>	<u>126,769,705</u>	<u>61,450,384</u>	<u>52,616,792</u>	<u>11,128,034</u>	<u>12,407,762</u>	<u>23,237</u>	<u>(14,663)</u>	240,857,800	191,779,596
Interest in an associate	26,303,422	24,401,113	-	-	-	-	-	-	26,303,422	24,401,113
Unallocated assets									<u>27,301,322</u>	<u>29,178,879</u>
Total assets									<u>294,462,544</u>	<u>245,359,588</u>
Segment liabilities	<u>60,633,082</u>	<u>39,443,469</u>	<u>28,714,866</u>	<u>22,803,736</u>	<u>1,468,048</u>	<u>1,633,810</u>	<u>16</u>	<u>16</u>	90,816,012	63,881,031
Unallocated liabilities									<u>76,656,012</u>	<u>76,806,133</u>
Total liabilities									<u>167,472,024</u>	<u>140,687,164</u>
Other segment information:										
Depreciation and amortisation	18,705,362	17,510,209	5,395,895	6,382,520	553,457	924,668	-	-	24,654,174	24,817,397
Write back of provision for doubtful debts	-	(830)	-	-	-	-	-	-	-	(830)
Provision for doubtful debts	921,346	85,547	-	8,553	-	-	-	-	921,346	94,100
Provision for slow moving inventories	370,000	-	-	-	-	-	-	-	370,000	-
Surplus on revaluation of leasehold land and buildings credited to:										
Fixed assets revaluation reserve	-	-	-	-	(3,389,932)	(1,204,702)	-	-	(3,389,932)	(1,204,702)
Profit and loss account	-	-	-	-	(238,444)	(248,192)	-	-	(238,444)	(248,192)
Capital expenditure	<u>26,516,361</u>	<u>11,256,050</u>	<u>14,681,985</u>	<u>8,280,166</u>	<u>143,801</u>	<u>115,567</u>	<u>-</u>	<u>-</u>	<u>41,342,147</u>	<u>19,651,783</u>

## (b) Geographical segments

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

## Group

	Segment revenue		Other segment information			
	Sales to external		Segment assets		Capital expenditure	
	customers					
	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Hong Kong	135,268,737	97,694,871	114,568,131	89,527,768	5,568,887	1,426,123
Mainland China	4,458,866	8,489,685	140,808,051	126,994,851	32,953,690	18,160,632
Total in the People's Republic of China ("PRC")	139,727,603	106,184,556	255,376,182	216,522,619	38,522,577	19,586,755
Japan	29,024,655	34,626,252	5,325,386	6,592,414	-	-
Other Asian countries*	20,081,491	16,692,168	20,684,692	10,821,447	137,232	65,028
Total in Asia	188,833,749	157,502,976	281,386,260	233,936,480	38,659,809	19,651,783
Germany	64,347,082	50,141,106	3,544,219	2,611,562	-	-
Other European countries**	73,383,458	52,342,184	6,889,611	7,438,543	-	-
Total in Europe	137,730,540	102,483,290	10,433,830	10,050,105	-	-
North America	14,986,554	7,031,381	1,698,446	555,244	2,682,338	-
Others***	7,707,684	4,827,848	944,008	817,759	-	-
Consolidated	<u>349,258,527</u>	<u>271,845,495</u>	<u>294,462,544</u>	<u>245,359,588</u>	<u>41,342,147</u>	<u>19,651,783</u>

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

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

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

## 5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2004 HK\$	2003 HK\$
<b>Turnover</b>		
Sale of goods	<u>349,258,527</u>	<u>271,845,495</u>
<b>Other revenue and gains</b>		
Interest income	170,204	116,570
Tooling charge income	1,015,363	1,411,604
Sale of scrap	114,148	267,104
Warrant subscription reserve recognised as income upon expiry of warrants	–	1,389,475
Sales commissions	5,878,203	1,300,020
Gain on disposal of a long term investment	5,113,837	–
Sub-contracting fee income	997,932	–
Others	<u>512,480</u>	<u>1,048,358</u>
	<u>13,802,167</u>	<u>5,533,131</u>

## 6. OTHER OPERATING INCOME/(EXPENSES), NET

	Group	
	2004 HK\$	2003 HK\$
Surplus on revaluation of leasehold land and buildings	238,444	248,192
Provision for doubtful debts, net	(921,346)	(93,270)
Loss on disposal and write off of fixed assets	<u>(2,118,490)</u>	<u>(60,836)</u>
	<u>(2,801,392)</u>	<u>94,086</u>



## 7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2004 HK\$	2003 HK\$
Cost of inventories sold	267,408,146	212,902,194
Auditors' remuneration	934,350	877,317
Depreciation	21,830,405	23,673,634
Minimum lease payments under operating leases on land and buildings	3,006,280	3,165,840
Amortisation of intangible assets*	2,824,309	1,143,763
Provision for slow-moving inventories	370,000	–
Staff costs (including directors' other emoluments – note 9):		
Wages and salaries	79,589,544	64,207,254
Pension scheme contributions	968,237	1,026,189
	<u>80,557,781</u>	<u>65,233,443</u>
Less: Amount capitalised in deferred development costs	<u>(4,350,000)</u>	<u>(1,114,400)</u>
	<u>76,207,781</u>	<u>64,119,043</u>
Foreign exchange losses/(gains)	<u>(616,020)</u>	<u>147,146</u>

\* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

## 8. FINANCE COSTS

	Group	
	2004 HK\$	2003 HK\$
Interest expenses on bank loans and overdrafts wholly repayable within five years	3,184,111	2,311,708
Interest on finance leases	667,531	1,118,515
Interest on convertible loan notes and fixed rate loan notes	254,336	556,358
Accrued premium on redemption of convertible loan notes and fixed rate loan notes	1,415,285	1,821,601
	<u>5,521,263</u>	<u>5,808,182</u>

## 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK\$	2003 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	352,300	312,000
	<u>352,300</u>	<u>312,000</u>
Other emoluments paid to executive directors:		
Salaries	5,748,990	5,748,990
Pension scheme contributions	24,000	24,000
Housing benefits	–	–
Performance related bonus	1,868,920	–
Other allowances	150,000	150,000
	<u>7,791,910</u>	<u>5,922,990</u>
	<u>8,144,210</u>	<u>6,234,990</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$500,000	3	2
HK\$1,500,001 – HK\$2,000,000	–	2
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	2	–
	<u>6</u>	<u>5</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 10. SEVEN HIGHEST PAID EMPLOYEES

The seven highest paid employees during the year included three (2003: three) executive directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as set out below:

	Group	
	2004 HK\$	2003 HK\$
Basic salaries, allowances, bonus and benefits in kind	4,516,632	3,716,200
Pension scheme contributions	77,661	120,145
	<u>4,594,293</u>	<u>3,836,345</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follow:

	Number of employees	
	2004	2003
HK\$500,001 – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>4</u>	<u>4</u>

## 11. TAX

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 year.

	2004 HK\$	2003 HK\$
Group:		
Current – Hong Kong		
Charge for the year	1,839,047	575,813
Overprovision in prior years	(179,862)	–
Deferred ( <i>note 29</i> )	1,186,819	1,524,662
Total tax charge for the year	<u>2,846,004</u>	<u>2,100,475</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax charge at the effective tax rate is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>
Profit before tax	<u>20,503,160</u>	<u>5,640,397</u>
Tax at the statutory tax rate of 17.5% (2003: 17.5%)	3,588,053	987,069
Overprovision of tax in prior years	(179,862)	–
Effect on opening deferred tax of increase in rates	–	84,375
Income not subject to tax	(2,889,430)	(1,830,265)
Expenses not deductible for tax	1,945,895	2,482,502
Tax losses utilised from previous periods	(248,406)	(1,689,080)
Unrecognised tax losses	550,381	608,222
Others	<u>79,373</u>	<u>1,457,652</u>
Tax charge at the Group's effective rate	<u>2,846,004</u>	<u>2,100,475</u>

#### 12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$4,528,376 (2003: HK\$1,116,335) (Note 33(b)).

#### 13. DIVIDEND

	<b>2004</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>
Proposed final – HK1 cent (2003: nil) per ordinary share	<u>2,655,048</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

#### 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$17,657,156 (2003: HK\$3,539,922), and on the weighted average of 259,004,800 (2003: 250,004,800) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$17,657,156 (2003: HK\$3,539,922). The weighted average number of ordinary shares used in the calculation is the 259,004,800 (2003: 250,004,800) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,975,842 (2003: 1,368,946) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

In the calculations of the diluted earnings per share, the effect of the convertible loan notes outstanding during the years ended 31 December 2004 and 2003 was not taken into account as they had an anti-dilutive effect on the basic earnings per share for these years.

## 15. FIXED ASSETS

## Group

	Leasehold land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Moulds HK\$	Total HK\$
Cost or valuation:							
At beginning of year	27,950,000	21,085,446	92,151,083	14,354,354	2,858,217	34,518,789	192,917,889
Additions	9,470,000	2,105,334	4,436,662	4,391,390	313,346	13,935,415	34,652,147
Disposals and write off	(1,100,056)	(4,365,939)	(983,350)	(38,262)	(15,624)	(4,487,393)	(10,990,624)
Surplus on revaluation	2,980,056	-	-	-	-	-	2,980,056
Exchange realignment	-	33,191	51,303	38,762	-	31,066	154,322
At 31 December 2004	<u>39,300,000</u>	<u>18,858,032</u>	<u>95,655,698</u>	<u>18,746,244</u>	<u>3,155,939</u>	<u>43,997,877</u>	<u>219,713,790</u>
Analysis of cost or valuation:							
At cost	-	18,858,032	95,655,698	18,746,244	3,155,939	43,997,877	180,413,790
At 31 December 2004 valuation	<u>39,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,300,000</u>
	<u>39,300,000</u>	<u>18,858,032</u>	<u>95,655,698</u>	<u>18,746,244</u>	<u>3,155,939</u>	<u>43,997,877</u>	<u>219,713,790</u>
Accumulated depreciation:							
At beginning of year	-	13,567,954	64,706,667	9,971,369	2,557,294	21,661,669	112,464,953
Provided during the year	648,320	3,136,915	7,357,530	2,487,406	172,409	8,027,825	21,830,405
Disposals and write off	-	(3,057,898)	(371,396)	(21,353)	(12,966)	(4,487,393)	(7,951,006)
Written back on revaluation	(648,320)	-	-	-	-	-	(648,320)
Exchange realignment	-	21,682	16,100	26,317	-	20,677	84,776
At 31 December 2004	<u>-</u>	<u>13,668,653</u>	<u>71,708,901</u>	<u>12,463,739</u>	<u>2,716,737</u>	<u>25,222,778</u>	<u>125,780,808</u>
Net book value:							
At 31 December 2004	<u>39,300,000</u>	<u>5,189,379</u>	<u>23,946,797</u>	<u>6,282,505</u>	<u>439,202</u>	<u>18,775,099</u>	<u>93,932,982</u>
At 31 December 2003	<u>27,950,000</u>	<u>7,517,492</u>	<u>27,444,416</u>	<u>4,382,985</u>	<u>300,923</u>	<u>12,857,120</u>	<u>80,452,936</u>
Net book value held under finance leases:							
At 31 December 2004	<u>-</u>	<u>-</u>	<u>15,789,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,789,636</u>
At 31 December 2003	<u>-</u>	<u>-</u>	<u>18,061,752</u>	<u>140,889</u>	<u>-</u>	<u>-</u>	<u>18,202,641</u>

The Group's leasehold land and buildings are held under the following lease terms, with geographical locations as follows:

	PRC		Total HK\$
	Hong Kong HK\$	Mainland China HK\$	
Medium term leases, at valuation	<u>9,500,000</u>	<u>29,800,000</u>	<u>39,300,000</u>

At 31 December 2004, the Group's leasehold land and buildings situated in Hong Kong and certain of the Group's leasehold land situated in Mainland China with a carrying value of \$12,500,000 were revalued on an open market, existing use basis by Chung, Chan & Associates, a firm of independent professionally qualified property valuers. The Group's leasehold land and buildings situated in Mainland China, except for the leasehold land with a carrying value of HK\$12,500,000 as mentioned above, were revalued using the depreciated replacement cost method by the same firm of property valuers as at 31 December 2004.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been included in the financial statements at approximately HK\$36,659,434 (2003: HK\$28,693,600).

Certain of the Group's leasehold land and buildings with a net book value of HK\$21,500,000 (2003: HK\$22,450,000) were pledged to secure general banking facilities granted to the Group (note 25 to the financial statements).

## 16. INTANGIBLE ASSETS

### Group

	Technical know-how HK\$	Deferred development costs HK\$	Licences HK\$	Total HK\$
Cost:				
At beginning of year	1,239,647	5,000,000	–	6,239,647
Additions	–	4,350,000	2,340,000	6,690,000
At 31 December 2004	<u>1,239,647</u>	<u>9,350,000</u>	<u>2,340,000</u>	<u>12,929,647</u>
Accumulated amortisation:				
At beginning of year	1,157,005	895,833	–	2,052,838
Provided during the year	82,642	2,741,667	–	2,824,309
At 31 December 2004	<u>1,239,647</u>	<u>3,637,500</u>	<u>–</u>	<u>4,877,147</u>
Net book value:				
At 31 December 2004	<u>–</u>	<u>5,712,500</u>	<u>2,340,000</u>	<u>8,052,500</u>
At 31 December 2003	<u>82,642</u>	<u>4,104,167</u>	<u>–</u>	<u>4,186,809</u>

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$	2003 HK\$
Unlisted shares, at cost	58,999,981	58,999,981
Due from subsidiaries	91,404,495	99,991,327
	<u>150,404,476</u>	<u>158,991,308</u>
Provisions against amounts due from subsidiaries	(11,018,779)	(11,018,779)
	<u>139,385,697</u>	<u>147,972,529</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Bistec Corporation Limited	Hong Kong	HK\$2,000,000	100	Investment holding
Cokeen Development Limited	Hong Kong	HK\$10,000	100	Property holding and provision of management services
E-Dotcom Limited	Hong Kong	HK\$2	100	Investment holding
Gaiki Silicone Products Limited	Hong Kong	HK\$10,000	100	Manufacturing of silicone rubber products
Hideki Precision (BVI) Limited	British Virgin Islands	US\$1	100	Intellectual property holding
Hideki Electronics Limited	Hong Kong	HK\$2,000,000	100	Sale of consumer electronic products
Hideki Electronics, Inc.	United States of America (the "USA")	US\$100,000	100	Distribution of consumer electronic products
Hi-Tech (China) Investment Limited	Hong Kong	HK\$2,000,000	100	Investment holding
Hi-Tech Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	Investment holding
Hi-Tech Polymer (China) Inc.	Western Samoa/PRC	US\$1	100	Manufacturing of synthetic rubber products
Hi-Tech Polymer Limited	Hong Kong	HK\$10,000	100	Sale of synthetic rubber products
Hi-Tech Precision Plastic Limited	Hong Kong	HK\$3,000,000	100	Sale of plastic products
Hi-Tech Property Holdings Limited	British Virgin Islands/ PRC	US\$1	100	Property holding
Hi-Tech Silicone Rubber Manufactory Limited	Hong Kong	HK\$1,500,000	100	Sale of silicone rubber products
K & P Group (Holdings) Limited	British Virgin Islands/ Hong Kong	US\$1,238,545	100	Investment holding
K. S. (China) Electronics Manufactory Limited	Hong Kong	HK\$2	100	Investment holding

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Mars Field Limited	British Virgin Islands/ PRC	US\$1	100	Manufacturing of consumer electronic products and precision parts and components
Shenzhen Jiancheng Electronic Co., Ltd. ("Shenzhen Jiancheng")	PRC	HK\$12,000,000	*	Dormant
Technology Trends International Limited	British Virgin Islands/ Hong Kong/Republic of Singapore	US\$50,000	100	Sale of precision parts and components
TQL Technology Limited	Hong Kong	HK\$7,000,000	100	Manufacturing and sale of liquid crystal displays
Webborton Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
中穎 (中山) 電子有限公司	PRC	US\$1,800,000	100	Manufacturing of precision parts and components

Except for K & P Group (Holdings) Limited, all of the above subsidiaries are indirectly held by the Company.

\* *Shenzhen Jiancheng is registered as a co-operative joint venture company under the laws of the People's Republic of China (the "PRC"). Pursuant to the co-operative joint venture contract with the PRC joint venture partner, the Group contributed all of the registered capital of Shenzhen Jiancheng. The PRC joint venture partner is entitled to certain monthly and annual fees regardless of the amount of profit or loss made by Shenzhen Jiancheng, and the Group is entitled to all of the profits, and is liable for all of the losses, of Shenzhen Jiancheng after payment of such fees to the PRC joint venture partner. The initial term of the joint venture expires on 25 January 2009 and can be extended with the consent of the joint venture partners and the approval of the relevant PRC government authority. On expiry of the initial term of the joint venture, the joint venture agreement provides that ownership of all of the immovable assets of the joint venture will revert to the PRC joint venture partner while other assets will initially be used to settle the wages of all employees and all the liabilities of Shenzhen Jiancheng. Any remaining balance will be distributed to the Group.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.



## 18. INTEREST IN AN ASSOCIATE

	Group	
	2004 HK\$	2003 HK\$
Share of net assets	21,506,422	24,401,113
Loan to an associate	4,797,000	–
	<u>26,303,422</u>	<u>24,401,113</u>

The loan to the associate is unsecured, interest-free and repayable within five years.

Particulars of the associate are as follows:

Company name	Business structure	Place of incorporation and operations	Nominal value of issued and paid-up share	Percentage of equity interest attributable to the Company	Principal activities
YOUEAL TTI Limited	Corporate	Hong Kong	US\$10,000,000	41	Investment holding

The shareholding in the associate is held through a wholly-owned subsidiary.

Financial information as extracted from the most recent financial statements of the Group's associate is set out below:

**Consolidated profit and loss account**

*Year ended 31 December 2004*

	2004 HK\$	2003 HK\$
Turnover	101,785,035	7,505,424
Net loss attributable to shareholders	<u>14,946,193</u>	<u>10,573,426</u>

**Consolidated balance sheet**

*31 December 2004*

	2004 HK\$	2003 HK\$
Non-current assets	51,950,746	45,883,564
Current assets	63,764,917	26,813,654
Current liabilities	(51,560,974)	(13,182,308)
Non-current liabilities	<u>(11,700,000)</u>	–
Net assets	<u>52,454,689</u>	<u>59,514,910</u>

## 19. LONG TERM INVESTMENTS

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>
At cost:		
Unlisted equity investments	2,500,000	2,808,450
Club membership	680,000	600,000
	<u>3,180,000</u>	<u>3,408,450</u>

## 20. INVENTORIES

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>
Raw materials	25,103,295	24,193,468
Work in progress	12,714,224	10,126,372
Finished goods	3,373,142	1,968,835
	41,190,661	36,288,675
Less: Provisions for slow-moving inventories	<u>(488,749)</u>	<u>(118,749)</u>
	<u>40,701,912</u>	<u>36,169,926</u>

There were no inventories carried at net realisable value at the balance sheet date (2003: Nil).

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Prepayments	1,515,546	431,455	222,391	88,185
Deposits and other receivables	14,454,852	13,354,067	–	–
	<u>15,970,398</u>	<u>13,785,522</u>	<u>222,391</u>	<u>88,185</u>

## 22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are largely on credit. 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.

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

	<b>Group</b>	
	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
Within 90 days	64,691,297	40,749,619
Between 91 to 180 days	10,980,902	5,861,830
Over 180 days	3,347,809	2,444,504
	<u>79,020,008</u>	<u>49,055,953</u>

### 23. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>	<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
Cash and bank balances	15,046,982	12,618,842	88,926	414,241
Time deposits	4,070,444	8,095,224	–	–
	<u>19,117,426</u>	<u>20,714,066</u>	<u>88,926</u>	<u>414,241</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$2,497,832 (2003: HK\$3,119,230). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

### 24. INTEREST-BEARING BANK AND OTHER LOANS

	<i>Notes</i>	<b>Group</b>	
		<b>2004</b> <i>HK\$</i>	<b>2003</b> <i>HK\$</i>
Current portion of bank loans	25	53,433,484	39,590,623
Current portion of finance lease payables	27	6,345,032	5,992,827
		<u>59,778,516</u>	<u>45,583,450</u>

## 25. INTEREST-BEARING BANK LOANS

	Group	
	2004	2003
	HK\$	HK\$
Unsecured:		
Bank loans	30,085,824	21,917,261
Secured:		
Money market loan	4,000,000	4,000,000
Mortgage loans	651,605	1,017,162
Instalment loans	8,573,218	3,908,995
Other bank loans	10,852,724	9,974,885
Total interest-bearing bank loans	54,163,371	40,818,303
Portion due within one year, classified as current liabilities ( <i>note 24</i> )	(53,433,484)	(39,590,623)
Long term portion	<u>729,887</u>	<u>1,227,680</u>
The bank borrowings are repayable:		
Within one year or on demand	53,433,484	39,590,623
In the second year	729,887	960,558
In the third to fifth years, inclusive	–	267,122
	<u>54,163,371</u>	<u>40,818,303</u>

The secured bank borrowings were secured by fixed charges over the Group's medium term leasehold land and buildings with a net book value of HK\$21,500,000 (2003: HK\$22,450,000) and over bank deposits amounting to HK\$8,183,896 (2003: HK\$8,238,270).

## 26. TRADE PAYABLES

An aged analysis of the trade payables as at balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK\$	HK\$
Within 90 days	45,726,426	35,958,662
Between 91 to 180 days	14,964,564	2,717,528
Over 180 days	1,516,716	5,243
	<u>62,207,706</u>	<u>38,681,433</u>

## 27. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and equipment for its businesses. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2004, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2004 HK\$	Minimum lease payments 2003 HK\$	Present value of minimum lease payments 2004 HK\$	Present value of minimum lease payments 2003 HK\$
Amounts payable:				
Within one year	6,795,691	6,511,235	6,345,032	5,992,827
In the second year	4,007,553	4,553,523	3,874,911	4,357,465
In the third to fifth years, inclusive	532,491	1,062,577	525,717	1,047,057
Total minimum finance lease payments	11,335,735	12,127,335	<u>10,745,660</u>	<u>11,397,349</u>
Future finance charges	(590,075)	(729,986)		
Total net finance lease payables	10,745,660	11,397,349		
Portion classified as current liabilities (note 24)	(6,345,032)	(5,992,827)		
Long term portion	<u>4,400,628</u>	<u>5,404,522</u>		

#### 28. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Accrued liabilities	10,052,447	11,072,923	113,111	124,777
Other payables	18,555,857	14,126,675	22,277	5,850
	<u>28,608,304</u>	<u>25,199,598</u>	<u>135,388</u>	<u>130,627</u>

#### 29. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities, which comprised accelerated tax depreciation, during the year is as follows:

	Group	
	2004 HK\$	2003 HK\$
At 1 January 2004	2,424,662	900,000
Deferred tax charged to the profit and loss account during the year (note 11)	1,186,819	1,524,662
At 31 December 2004	<u>3,611,481</u>	<u>2,424,662</u>

The Group has tax losses arising in Hong Kong of HK\$9,975,000 (2003: HK\$9,673,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

### 30. CONVERTIBLE LOAN NOTES AND FIXED RATE LOAN NOTES

	Group and Company	
	2004 HK\$	2003 HK\$
Convertible loan notes	6,437,523	11,189,262
Fixed rate loan notes	–	10,639,339
	6,437,523	21,828,601
Portion classified as current liabilities	(6,437,523)	(10,639,339)
	–	11,189,262

Pursuant to the subscription agreements between the Company and several independent investors (the "Subscription Agreements") dated 3 March 2003, the Company issued to the investors convertible loan notes with an aggregate principal amount of US\$1,282,500 (equivalent to approximately HK\$10,003,500). The convertible loan notes bear interest at the rate of 2% per annum, which is payable quarterly in arrears on 17 June, 17 September, 17 December, 17 March in each year. The notes are convertible into ordinary shares of the Company, at the option of the investors at any time during the period commencing from the date falling 24 months after the issue of the notes on 17 March 2003, up to and including the day immediately prior to the maturity date of the convertible notes, at an initial conversion price of HK\$0.40 per share (subject to adjustment). The maturity date of the convertible loan notes will be on 16 June 2005. The shares to be issued on any exercise of the conversion rank pari passu in all respects with the Company's shares already in issue. Any outstanding convertible loan notes will be redeemed at maturity by the Company at 132.25% of the principal value. Alternatively, they could be redeemed at the option of the investors at any time on or after 17 March 2004 to redeem part or all of the outstanding principal amount in accordance with the following formula:

$$\text{Redemption amount} = \text{HK\$}10,003,500 \times 1.15 \times (1 + 0.15 \times A / 365)$$

where

A is the number of days elapsed from (and including) 17 March 2004 up to (but excluding) the relevant redemption date

Upon the request of the convertible loan notes investors, the Company has redeemed part of the convertible loan notes with an aggregate principal amount of US\$641,250 on 30 June 2004 at HK\$6,002,583. The Group has accrued premium on redemption of the above convertible loan notes amounting to HK\$1,250,844 (2003: HK\$1,185,762), which was charged to the profit and loss account. At the balance sheet date, the aggregate of convertible loan notes and accrued premium on redemption amounting to HK\$6,437,523 (2003: HK\$11,189,262) was recorded as a current liability (2003: non-current liability) in the balance sheet.

Pursuant to the Subscription Agreements, the Company also issued fixed rate loan notes with an aggregate principal amount of US\$1,282,500 (equivalent to approximately HK\$10,003,500). The fixed rate loan notes bore interest at the rate of 5% per annum, which is payable quarterly in arrears on 17 June, 17 September, 17 December, 17 March in each year. The notes were not convertible into ordinary shares in the Company. The fixed rate loan notes were redeemable at maturity by the Company at 115% of the principal value. Alternatively, they could be early redeemed at the option of the Company, at 108% of the principal value, on 17 March 2004.

During the year, on 17 March 2004, the Company exercised the option for early redemption of all issued fixed rate loan notes with an aggregate principal amount of US\$1,282,500 at 108% at US\$1,385,100 (equivalent to approximately HK\$10,803,780).

The Group has accrued premium on redemption of the above fixed rate loan notes amounting to HK\$164,441 prior to the notes being redeemed (2003: HK\$635,839), which was charged to the profit and loss account.

### 31. SHARE CAPITAL

	Group and Company	
	2004	2003
	HK\$	HK\$
<b>Shares</b>		
<i>Authorised:</i>		
900,000,000 (2003: 900,000,000) shares of HK\$0.10 each	<u>90,000,000</u>	<u>90,000,000</u>
<i>Issued and fully paid:</i>		
265,504,800 (2003: 252,504,800) shares of HK\$0.10 each	<u>26,550,480</u>	<u>25,250,480</u>

During the year, on 10 July 2004, the subscription rights attaching to 13,000,000 share options were exercised at the subscription price of HK\$0.16 per share (note 32), resulting in the issue of 13,000,000 shares of HK\$0.10 each for a total cash consideration of HK\$2,080,000.

A summary of the transaction during the year with reference to the above movement in the issued share capital of the Company is as follows:

	Number of shares	Issued share capital HK\$	Share premium account HK\$	Total HK\$
At 1 January 2003	250,004,800	25,000,480	49,611,281	74,611,761
Share options exercised	<u>2,500,000</u>	<u>250,000</u>	<u>150,000</u>	<u>400,000</u>
At 31 December 2003 and 1 January 2004	252,504,800	25,250,480	49,761,281	75,011,761
Share options exercised	<u>13,000,000</u>	<u>1,300,000</u>	<u>780,000</u>	<u>2,080,000</u>
At 31 December 2004	<u>265,504,800</u>	<u>26,550,480</u>	<u>50,541,281</u>	<u>77,091,761</u>

#### Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

## 32. SHARE OPTION SCHEME

On 4 December 1996, the Company adopted a share option scheme (the “Old Scheme”), which was the first share option scheme of the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Old Scheme was terminated and replaced by a new share option scheme at the annual general meeting of the Company held on 27 May 2002 (the “New Scheme”). Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme shall remain in force and any options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The maximum number of unexercised share options currently permitted to be granted under the Old Scheme and the New Scheme must not in aggregate exceed 30% of the shares of the Company in issue at any time.

A summary of the share option schemes of the Company is as follows:

	Old Scheme	New Scheme
Purpose	To provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations.	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (“Invested Entity”).
Participants	Full-time employees (including executive directors) of the Company or any of its subsidiaries.	<ul style="list-style-type: none"> <li>(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity;</li> <li>(ii) any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and</li> </ul>



	Old Scheme	New Scheme
		(iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	Not applicable	22,500,480 ordinary shares and 8.47% of the issued share capital.
Maximum entitlement of each participant	Shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme.	Shall not exceed 1% of the issued share capital of the Company in any 12-month period.
Period within which the securities must be taken up under an option	An option may be exercised at any time during the 3-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the 3-year period or the tenth anniversary of the date on which the scheme is adopted by resolution of the Company in a general meeting, whichever is earlier.	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of the grant of options subject to the provisions for early termination thereof.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised.	There is no minimum period for which an option granted must be held before it can be exercised.
Amount payable on acceptance	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.
Period within which payments/calls/loans must be made/repaid	Not applicable.	Not applicable.

	Old Scheme	New Scheme
Basis of determining the exercise price	Determined by the directors based on the higher of (i) 80% of the average closing price of the ordinary shares on the Stock Exchange of the five trading days immediately preceding the date of the grant of options; and (ii) the nominal value of shares.	Determined by the directors but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of options; and (iii) the nominal value of shares.
The remaining life of the scheme	The scheme was terminated on 27 May 2002, but the provision of the scheme shall remain in force until 3 December 2006.	The scheme remains in force until 26 May 2012.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The particulars in relation to each share option scheme of the Company that are required under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34 are disclosed as follows:

(a) Old Scheme

Name or 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 Company's shares ***	
	At 1 January 2004	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2004				At grant date of options HK\$	At exercise date of options HK\$
<b>Directors</b>										
Chan Yau Wah	2,500,000	(2,500,000)	-	-	-	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	0.228
Chung Yik Cheung, Raymond	2,500,000	(2,500,000)	-	-	-	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	0.228
	<u>5,000,000</u>	<u>(5,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>					
<b>Other employees</b>										
In aggregate	8,000,000	(8,000,000)	-	-	-	12-1-2001	12-7-2001 to 11-7-2004	0.16	0.20	0.228
	<u>13,000,000</u>	<u>(13,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>					

- \* *The vesting period of the share options is from the date of the 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 the 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. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.*

**(b) New Scheme**

There have been no options to subscribe for ordinary shares in the Company being granted to any eligible participants, including the directors or their respective employees of the Company or any of its subsidiaries under the New Scheme.

The 13,000,000 share options exercised during the year resulted in the issue of 13,000,000 ordinary shares of the Company and new share capital of HK\$1,300,000 and share premium HK\$780,000, as detailed in note 31 to the financial statements.

Subsequent to the balance sheet date, on 26 January 2005, a total of 2,500,000 share options were granted to certain of employees of the Company in respect of their services to the Group in the forthcoming year with a consideration of HK\$1.00 payable by each grantee. These share options vest on 26 January 2005 and have an exercise price of HK\$0.26 per share and an exercise period from 1 April 2006 to 31 December 2012. The price of the Company's shares at the date of offer to grant was HK\$0.26 per share.

**33. RESERVES**

**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The contributed surplus of the Group arose as a result of the Group's reorganisation and represents the difference between the nominal value of the share capital of the former holding company of the Group, K & P Group (Holdings) Limited, prior to the Group's reorganisation in preparation for the listing of the Company's shares in 1996, over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves or credited to the capital reserve.

Goodwill amounting to HK\$11,924,221 arising on the acquisition of subsidiaries in prior years, which is stated at its cost, remains eliminated against consolidated retained profits as explained in note 3 to the financial statements.

## (b) Company

	Share premium account HK\$	Warrant subscription reserve HK\$	Contributed surplus HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1 January 2003	49,611,281	1,389,475	49,999,981	387,650	101,388,387
Issue of shares	150,000	-	-	-	150,000
Warrant subscription reserve recognised as income upon expiry of warrants	-	(1,389,475)	-	-	(1,389,475)
Net profit for the year	-	-	-	1,116,335	1,116,335
At 31 December 2003 and at 1 January 2004	49,761,281	-	49,999,981	1,503,985	101,265,247
Issue of shares	780,000	-	-	-	780,000
Net profit for the year	-	-	-	4,528,376	4,528,376
Proposed final dividend	-	-	-	(2,655,048)	(2,655,048)
At 31 December 2004	<u>50,541,281</u>	<u>-</u>	<u>49,999,981</u>	<u>3,377,313</u>	<u>103,918,575</u>

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of K & P Group (Holdings) Limited and its subsidiaries at the date on which the Group's reorganisation became effective, referred to in note 33(a), over the nominal value of the share capital of the Company issued in exchange therefor, less the amount capitalised to pay up the nil-paid shares issued on the incorporation of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

## 34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

## Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$8,060,697 (2003: HK\$10,030,418).

## 35. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Bills discounted with recourse	3,915,244	5,721,820	-	-
Guarantee of loan facilities granted to subsidiaries	-	-	113,927,956	88,379,823
	<u>3,915,244</u>	<u>5,721,820</u>	<u>113,927,956</u>	<u>88,379,823</u>

As at 31 December 2004, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$52 million (2003: HK\$41 million).

**36. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its office properties and factories under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$	2003 HK\$
Within one year	488,813	362,618
In the second to fifth years, inclusive	608,643	–
	<u>1,097,456</u>	<u>362,618</u>

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

**37. COMMITMENTS**

In addition to the operating lease commitments detailed in note 36 above, the Group had the following commitments at the balance sheet date:

	Group	
	2004 HK\$	2003 HK\$
Capital commitments contracted, but not provided for:		
Land and buildings	–	4,650,000
Plant and machinery	–	109,275
Investment in an associate	–	3,198,000
	<u>–</u>	<u>7,957,275</u>

At the balance sheet date, the Company did not have any significant capital commitments.

**38. RELATED PARTY TRANSACTIONS**

- (a) Details of the Group's loans to an associate are included in note 18 to the financial statements.
- (b) Certain of the Group's banking facilities amounting to HK\$69,791,000 (2003: HK\$47,000,000), of which HK\$30 million (2003: HK\$22 million) had been utilised as at the balance sheet date, were secured by personal guarantees given by a director of the Company. The director received no consideration for providing these guarantees.

**39. POST BALANCE SHEET EVENT**

Subsequent to the balance sheet date, a party filed a patent infringement claim and complaint with certain authorities in the USA against the Company and certain of its subsidiaries. The directors, based on the advice from the Group's legal counsel, believe that the Group has a strong likelihood of success in defending all claims asserted against the Group by such party and, accordingly, have not provided for the claim in the financial statements.

### 3. INDEBTEDNESS

As at 30th June, 2005 (being the latest practicable date for the purpose of this statement), the Group had outstanding secured bank loans of approximately HK\$39,242,000, which were secured by certain assets of the Group of aggregate value of approximately HK\$29,493,000 (including fixed charges over certain of the Group's medium term leasehold land and buildings with a net book value of approximately HK\$21,236,000 and bank deposits of approximately HK\$8,257,000), unsecured bank loans of approximately HK\$47,126,000 and finance lease payables of approximately HK\$11,765,000. The secured bank loans, unsecured bank loans and finance lease payables are guaranteed by the Company and certain of its subsidiaries. Moreover, the unsecured bank loans of approximately HK\$47,126,000 and the finance lease payables of approximately HK\$11,765,000 are guaranteed by a director of the Company with no security over the assets of the Group being granted in favour of that director.

As at 30th June, 2005, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$44,000.

Save as disclosed above and apart from intra-group liabilities and normal trade payable and bills payable, the Group did not, as at 30th June, 2005, have any outstanding debt securities, whether issued and outstanding, authorised or otherwise created but unissued, term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Company or by third parties) or unsecured, other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured borrowings or debt, mortgages, charges guarantees or other material contingent liabilities.

There has been no material change in the indebtedness or contingent liabilities of the Group since 30 June 2005.

### 4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash, bank balance, credit facilities and internal resources available to the Group, the net estimated proceeds of the Disposal and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

### 5. FINANCIAL AND TRADING PROSPECTS

The Group has two core businesses, namely consumer electronic products (including time, weather forecasting and other products) and precision parts and components (including keypads, synthetic rubber and plastics components and parts and liquid crystal displays). These core businesses have been performing in accordance with

the Group's business plan to expand. The Group will continue to focus on developing these core businesses so that it will remain competitive in the market and hence being able to secure a larger market share for these businesses in the future. As the principal line of business of YTTI is not the same as that of the Group, the Disposal will not have any material effect on the focus of the Group's said core businesses.

As disclosed in the Company's annual report for the year ended 31st December, 2004, the Group's turnover increased by 28.5%, as compared to the previous year. As the global economy has been improving, it is anticipated that demand for the Group's products will continue to grow.

## 6. MATERIAL CHANGES

Up to the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31st December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

### Long position 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	Through controlled corporation	Total	
Lai Pei Wor	2,500,000	97,242,000*	99,742,000	37.57
Chan Yau Wah	7,700,000	–	7,700,000	2.90
Chung Yik Cheung, Raymond	2,652,000	–	2,652,000	1.00
Total:	<u>12,852,000</u>	<u>97,242,000</u>	<u>110,094,000</u>	<u>41.47</u>

\* Details of Lai Pei Wor's other interests are set out in the section headed "Substantial shareholders' and other persons' interests and short positions in shares and underlying shares" below.

Save as disclosed above, as at Latest Practicable Date, to the knowledge of the Company:

- (1) none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of



the SFO (including interests or short positions which the Directors and the chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (b) which were required to be entered in the register kept by the Company under Section 352 of the SFO; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code; and

- (2) none of the Directors or the chief executive of the Company nor their spouses or minor children (natural or adopted) were granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors held any directorship or employment in a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

So far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, the persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group are as follows:

#### Long position in the ordinary shares of the Company:

Name	Number of shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Beneficiary of a trust	Total	
Chan Yuk Lin ( <i>Note a</i> )	-	2,500,000	97,242,000	99,742,000	37.57
Celeya Limited ( <i>Note b</i> )	-	-	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") ( <i>Note c</i> )	-	-	97,242,000	97,242,000	36.63
Lai Yiu Chun ( <i>Note d</i> )	1,866,000	21,450,000	-	23,316,000	8.78
Lam Lin Chu, Winnie ( <i>Note d</i> )	23,116,000	200,000	-	23,316,000	8.78

*Notes:*

- (a) Chan Yuk Lin, spouse of Lai Pei Wor, was deemed to be interested in the shares of the Company held by Lai Pei Wor.
- (b) Celaya Limited held 97,242,000 ordinary shares of the Company in its capacity as trustee of The Lai Family Unit Trust, of which all units were held by Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") in its capacity as trustee of The Lai Family Trust, a discretionary trust of which Lai Pak Hung (son of Lai Pei Wor) and Lai Yee Man (daughter of Lai Pei Wor and under the age of 18) and Chan Yuk Lin (wife of 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) Lam Lin Chu, Winnie is the wife of Lai Yiu Chun, who is a brother of Lai Pei Wor. Both Lam Lin Chu, Winnie, and Lai Yiu Chun are declaring their interest in respect of the same parcel of shares.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

#### **4. DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 1st January, 2003, and thereafter until terminated by either party giving to the other not less than six month's notice in writing.

Apart from the foregoing, none of the Directors had entered into or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Company since 31st December, 2004, being the date up to which the latest published audited consolidated accounts of the Group were made up.

None of the Director is materially interested, either directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

**6. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES**

As at the Latest Practicable Date, none of the Directors or their respective associates was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with businesses of the Group or has any other conflicts of interest with the Group pursuant to the Listing Rules.

**7. MATERIAL CONTRACTS**

Save for the Agreement, the Company or its subsidiaries has not entered into any contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this circular which are or may be material.

**8. LITIGATION**

A United States company (the "Complainant") filed a patent infringement complaint with the United States District Court (the "USDC") against the Company and two of the Company's subsidiaries on 18th February, 2005 and then filed the same patent infringement complaint with the United States International Trade Commission (the "ITC") against the Company and the same subsidiaries on 15th March, 2005. The Complainant claimed that certain features of the Group's weather forecasting products imported into the United States infringed certain of the Complainant's patents. On 9th August, 2005, the Complainant has motioned to withdraw its complaint, without prejudice, filed with the ITC. Moreover, on 11th August, 2005, the Complainant voluntarily dismissed its complaint, without prejudice, filed with the USDC. Since the said complaints were withdrawn on a "without prejudice" basis, the Company has received legal advice that it is possible that the Complainant may take action again in the future. The Group has sought legal and licensed patent counsel's opinions on the patent infringement as claimed by the Complainant and has been advised that the features of the Group's weather forecasting products do not infringe the patent rights held by the Complainant.

As at the Latest Practicable Date, save as disclosed above and so far as was known to the Directors, there was no litigation or claim of material importance pending or threatened against any member of the Group.

**9. GENERAL**

- (a) The secretary of the Company and the qualified accountant of the Company is Chung Yik Cheung, Raymond, a fellow member of The Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Canadian Chartered Accountants.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The principal place of business of the Company in Hong Kong is situated at Units 2304-06, 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

- (d) The Company's Hong Kong branch share registrar and transfer office is situated at the office of its Hong Kong Branch Share Registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

#### 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Units 2304-06, 23rd Floor, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong during normal business hours for a period of 14 days from the date of this circular:-

- (a) the memorandum and bye-laws of the Company;
- (b) the services contracts entered into between the Company and each of the executive Directors of the Company;
- (c) the audited consolidated accounts of the Company for each of the two financial years ended 31st December, 2004; and
- (d) the Agreement.

## NOTICE OF SPECIAL GENERAL MEETING



### K & P INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 675)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of K & P International Holdings Limited (the “**Company**”) will be held at Raphael, 2nd Floor, Langham Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 14th September, 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an Ordinary Resolution:–

“**THAT:–**

- (a) the disposal by Technology Trends International Limited, a wholly-owned subsidiary of the Company (the “**Vendor**”), in respect of the 4,100,000 shares of US\$1.00 each in the capital of the Youeal TTI Limited (“**YTTI**”) at the consideration of US\$4,100,000 and the unsecured, interest-free shareholder’s loan due from YTTI to the Vendor aggregating US\$615,000 at its face value (the “**Disposal**”) to Youeal Electronics Co. Ltd. (the “**Purchaser**”) pursuant to the agreement dated 14th July, 2005, among the Vendor, the Purchaser, You Eal (China) Ltd. and the Company, and the transactions contemplated thereunder as described in the circular dated 29th August, 2005 and despatched to shareholders of the Company, a copy of which is produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification, be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to execute (under hand or under seal), perfect and deliver all such documents and do all such acts and things as may be necessary or desirable to implement or give effect to the Disposal and the transactions contemplated thereunder (including, without limitation, exercising or enforcing any right thereunder) and to make and agree such variations of the terms of the Disposal as they may consider to be desirable and in the interests of the Company.”

By Order of the Board  
**Chung Yik Cheung, Raymond**  
*Company Secretary*

Hong Kong, 29th August, 2005

## NOTICE OF SPECIAL GENERAL MEETING

*Registered Office:–*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Notes:–*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any ordinary share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such ordinary share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such ordinary share shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting should they so wish.