



# K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 675)

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

### RESULTS

The Board of Directors (the “directors”) of K & P International Holdings Limited (the “Company”) herein announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2003 together with the comparative figures for the previous year as follows:

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER	2	<b>271,845</b>	200,758
Cost of sales		<b>(214,046)</b>	(167,799)
Gross profit		<b>57,799</b>	32,959
Other revenue and gains	4	<b>5,533</b>	3,762
Selling and distribution costs		<b>(25,218)</b>	(22,261)
Administrative expenses		<b>(22,424)</b>	(20,157)
Other operating income, net	5	<b>94</b>	9,280
PROFIT FROM OPERATING ACTIVITIES	6	<b>15,784</b>	3,583
Finance costs	7	<b>(5,808)</b>	(2,905)
Share of loss of an associate		<b>(4,335)</b>	(46)
PROFIT BEFORE TAX		<b>5,641</b>	632
Tax	8	<b>(2,101)</b>	414
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>3,540</b>	1,046
EARNINGS PER SHARE	9		
BASIC		<b>1.42 cents</b>	0.42 cents
DILUTED		<b>1.41 cents</b>	N/A

Notes:

## 1. Impact of a Revised Hong Kong Statement of Standard Accounting Practice (“SSAP”)

SSAP 12 (Revised): “Income taxes” is effective for the first time for the current year’s financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes.

## 2. Turnover

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

## 3. Segment information

### (a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group’s business segments.

Group	Electronic and related components and parts		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue:										
Sales to external customers	148,037	112,054	123,808	88,704	-	-	-	-	271,845	200,758
Intersegment sales	4,931	5,103	-	-	-	-	(4,931)	(5,103)	-	-
Other revenue and gains	3,618	3,039	166	473	1,632	2	-	-	5,416	3,514
Total	<b>156,586</b>	120,196	<b>123,974</b>	89,177	<b>1,632</b>	2	<b>(4,931)</b>	<b>(5,103)</b>	<b>277,261</b>	204,272
Segment results	<b>2,382</b>	(7,742)	<b>13,392</b>	2,985	<b>(107)</b>	(1,233)			<b>15,667</b>	(5,990)
Interest income									117	248
Gain on sale of long term investments, net									-	9,325
Profit from operating activities									<b>15,784</b>	3,583
Finance costs									<b>(5,808)</b>	(2,905)
Share of loss of an associate									<b>(4,335)</b>	(46)
Profit before tax									<b>5,641</b>	632
Tax									<b>(2,101)</b>	414

Net profit from ordinary  
activities attributable  
to shareholders

**3,540**      **1,046**

(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		Segment assets		Capital expenditure	
	external customers					
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	<b>97,695</b>	77,753	<b>89,528</b>	59,361	<b>1,426</b>	794
Mainland China	<b>8,490</b>	4,858	<b>126,995</b>	108,122	<b>18,160</b>	21,396
Total in the People's Republic of China ("PRC")	<b>106,185</b>	82,611	<b>216,523</b>	167,483	<b>19,586</b>	22,190
Japan	<b>34,626</b>	25,806	<b>6,592</b>	4,928	–	–
Other Asian countries*	<b>16,692</b>	9,086	<b>10,821</b>	6,963	<b>65</b>	418
Total in Asia	<b>157,503</b>	117,503	<b>233,936</b>	179,374	<b>19,651</b>	22,608
Germany	<b>50,141</b>	30,944	<b>2,612</b>	2,465	–	–
Other European countries**	<b>52,342</b>	41,569	<b>7,439</b>	4,417	–	–
Total in Europe	<b>102,483</b>	72,513	<b>10,051</b>	6,882	–	–
North America	<b>7,031</b>	5,223	<b>555</b>	365	–	–
Others***	<b>4,828</b>	5,519	<b>818</b>	907	–	–
Consolidated	<b>271,845</b>	200,758	<b>245,360</b>	187,528	<b>19,651</b>	22,608

\* *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.*

#### 4. Other revenue and gains

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest income	117	248
Tooling charge income	1,411	1,197
Sale of scrap	267	1,975
Warrant subscription reserve recognised as income upon expiry of warrants	1,390	–
Sales commissions	1,300	–
Others	1,048	342
	<u>5,533</u>	<u>3,762</u>

#### 5. Other operating income, net

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Gain on sale of long term investments, net	–	9,325
Surplus on revaluation of leasehold land and buildings	248	180
Write back of provision/(provision) for doubtful debts, net	(93)	79
Loss on disposal of fixed assets	(61)	(4)
Others	–	(300)
	<u>94</u>	<u>9,280</u>

#### 6. Profit from operating activities

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cost of inventories sold	212,902	167,390
Auditors' remuneration	877	870
Depreciation	23,674	23,367
Minimum lease payments under operating leases on land and buildings	3,166	3,026
Amortisation of intangible assets	1,144	248
Staff costs (including directors' other emoluments):		
Wages and salaries	64,207	52,086
Pension scheme contributions	1,026	518
	<u>65,233</u>	<u>52,604</u>
<i>Less:</i> Amount capitalised in deferred development costs	<u>(1,114)</u>	<u>(999)</u>
	<u>64,119</u>	<u>51,605</u>
Foreign exchange losses, net	<u>147</u>	<u>441</u>

## 7. Finance costs

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest expenses on bank loans and overdrafts wholly repayable within five years	2,312	2,236
Interest on finance leases	1,118	669
Interest on convertible loan notes and fixed rate loan notes	556	–
Accrued premium on redemption of convertible loan notes and fixed rate loan notes	1,822	–
	<u>5,808</u>	<u>2,905</u>

## 8. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current - Hong Kong		
Charge for the year	576	146
Overprovision in prior years	–	(179)
Current - elsewhere	–	76
Deferred	1,525	(457)
	<u>2,101</u>	<u>(414)</u>
Total tax charge/(credit) for the year		

## 9. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$3,539,922 (2002: HK\$1,046,264), and on the weighted average of 250,004,800 (2002: 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\$3,539,922. The weighted average number of ordinary shares used in the calculation is the 250,004,800 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,368,946 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 and warrants outstanding during the year was not taken into account as they had an anti-dilutive effect on the basic earnings per share for the year.

A diluted earnings per share amount for the year ended 31 December 2002 had not shown as the share options and warrants outstanding during last year had an anti-dilutive effect on the basic earnings per share for last year.

## **DIVIDEND**

The directors have resolved not to recommend the payment of any dividend for the year ended 31 December 2003.

## **CLOSURE OF REGISTERS**

The Register of Members of the Company will be closed from Tuesday, 8 June 2004 to Friday, 11 June 2004, both days inclusive, during which period no transfer of shares can be registered.

In order to qualify for attending the annual general meeting of members of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 7 June 2004.

## **FINANCIAL RESULTS**

For the year ended 31 December 2003, the Group's turnover reached HK\$271.8 million, representing a 35.4% increase over the previous year. Overall gross profit margin was also improved and increased from approximately HK\$33.0 million in the previous year to approximately HK\$57.8 million this year. Net profit attributable to shareholders was approximately HK\$3.6 million (2002: HK\$1.1 million).

Basic earnings per share for the year ended 31 December 2003 amounted to HK1.42 cents (2002: HK0.42 cents) per share.

## **BUSINESS REVIEW**

I have pleasure to report that the Group's operations collectively have a successful year and the Group achieved significant growth in turnover and earnings in the period under review. In spite of the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in early 2003, our business was not seriously affected. The turnover for the year is a record level of the Group since the Company's shares are listed on the Stock Exchange in 1997. The growth in turnover resulted from the introduction of new products with value added features to the market in response to customer demand, the broadened customer base and the investment in new machines and facilities for production in last year.

In order to cope with the increased demand for our products from the customers, we continued the expansion of our production capacity, refurbishing the set up at our production facilities as well as strengthening our research and development team during the year under review. As a result, we were able to expedite the process of new product development and launching the same into the market.

The products of the electronic and related components and parts segment are major critical components and parts for high value consumer products. Due to keen market competition, the Group has always faced with pressures from both customers and competitors in the market. This leads to reduction in the gross profit margin of the existing products of this segment from time to time. We have counteracted these pressures, by developing new products with value added features for the customers continuously, which has brought us fruitful results.

The segment results of the electronic and related components and parts segment improved from a loss of approximately HK\$7.7 million in the last year to a profit of approximately HK\$2.4 million this year. The current year's segment results include the operating loss of approximately HK\$5.0 million of our overseas

marketing office in Singapore. With broadened overseas customer base including some prestige customers, the Singapore marketing office is expected to contribute profit to the Group and thereby improve the overall results of this segment in the coming year.

The new products developed by the consumer electronic products segment in the prior year have been well accepted by our customers since they were launched into the market. As anticipated in last year, the performance of this segment in the year under review is outstanding. The current year's segment results have improved by 4.5 times from last year and reached the level of HK\$13.4 million this year.

At present, sales to customers located in Asia and Europe account for approximate 95.6% of the Group's total turnover. Our customer base has been broadened and diversified to include more prestige overseas customers with the efforts of our strong sales team. With the strengthening of Euro dollars and Japanese Yen, we are optimistic that the demand from both the European and Japanese markets and hence the growth of our sales turnover to these territories would increase.

## **Investments**

### *Investment in an associate*

During the year, on 21 February 2003, the Group's wholly-owned subsidiary Technology Trends International Limited ("TTI") finalized and entered into a shareholders' agreement with YOUEAL Electronics Limited and You Eal (China) Ltd. ("YEC") to, among other matters, regulate the respective rights and obligations of the shareholders and the arrangements between them with respect to the ownership, management and operations of the joint venture company YOUEAL TTI Limited (the "Associate"). The Group is interested in 41% of the equity of the Associate, with capital contribution commitment amounting to US\$4.1 million.

The Associate completed the set up of a manufacturing plant in Tianjin, the PRC in the latter half of 2003. The manufacturing facility is for the manufacture and sale of mobile phone keypads and has started its commercial production in late 2003. Net loss of the Associate for the year ended 31 December 2003 was approximately HK\$10.6 million, of which the Group shared HK\$4.3 million.

Up to 31 December 2003, we have made capital injection into the Associate of approximately HK\$28.8 million. Subsequent to the balance sheet date in February 2004, we made a further capital injection of approximately HK\$3.2 million into the Associate, after which our capital contribution commitment of US\$4.1 million in funding the Associate is fulfilled.

### *Other investments*

During the year in May, the Group invested HK\$2.5 million for long term purposes in a private company of which principal activities are financial consultancy and investment holding. We believe that through the network of this company, we would be able to access opportunities for new business development that could enhance the Group's turnover and profitability.

We are also pleased to report that subsequent to the yearend on 1 February 2004, one of our unlisted equity investments with a carrying value of approximately HK\$0.3 million was converted into shares of an overseas company, which is listed in an overseas stock exchange. We disposed of these converted shares during 31 March to 6 April 2004 for an aggregate cash consideration of approximately HK\$5.4 million, giving rise to a net gain of approximately HK\$5.1 million. This unlisted equity investment was acquired in March 2002, when

we were invited by an overseas customer to subscribe for their new shares that were issued for raising working capital to finance their operations. We decided to dispose of the converted listed investment as such investment is no longer a direct investment in our customer.

## **FUTURE PLAN AND PROSPECT**

We anticipate that the global economy will continue to improve and are pleased to report that the demand for our products has continued to grow after the yearend date. As a result, we foresee the growth of our turnover would be continuing throughout the year 2004.

Nonetheless, one of our challenges in the coming year is to maintain our profit margin in view of the rising production and raw material costs. In order to maintain our growth in turnover and profitability and to lessen the effect of rising product production costs, we would continue our strategy of developing more new products with value added features, implementing cost control and reduction measures and improving our production efficiency. We hope that this would in turn increase the Group's market share and strengthen the Group's market position.

Our emphasis on new product development is one of our success factors. Therefore, the Group will continue to invest in its human resources and product research and development capabilities. Moreover, we will invest in new machinery and production facilities so as to increase our production capacity for meeting the demand of our products from the customers.

At present, sales to the United States market account for approximately 2.6% of the Group's total turnover. In order to diversify the Group's customer base and to improve the Group's turnover furthermore, we are planning to develop more businesses from the United States market in the near future.

The Associate has commenced its mass production in late 2003 and has obtained orders of keypads from some renowned mobile phone manufacturers. We anticipate that the Associate would turn around in 2004.

## **OPERATIONS REVIEW**

The following highlights the Group's results for the year ended 31 December 2003.

- Turnover increased by 35.4% from the prior year to HK\$271.8 million for the year
- Gross profit margin has been improved from 16.4% for 2002 to 21.3% for the year
- Profit from operating activities before the finance costs and the share of the results of an associate was HK\$15.8 million, improving by HK\$12.2 from last financial year
- Finance costs increased by HK\$2.9 million from last year to HK\$5.8 million
- Share of loss of an associate was HK\$4.3 million
- Net profit for the year was HK\$3.5 million, improved by 2.4 times as compared to last year

The Group's electronic and related components and parts segment comprises manufacture and sale of keypads, synthetic rubber and plastic components and parts, and liquid crystal displays. In the year under review, sales turnover of this segment has increased by approximately 32.1% as compared with the previous financial year.



On the other hand, the consumer electronic product segment has achieved approximately 39.6% increase in sales turnover from the previous year. The overall increase in the Group's turnover is mainly attributable to the increased sales turnover related to new products with new value added features and, to both existing and new customers.

The improvement in the gross profit margin for the period under review was due to economies of scale and introduction of new products with value added features.

With the increases in both turnover and gross profit margin, the group's operating profit before the finance costs and the share of an associate improved remarkably by HK\$12.2 million.

The Group's finance costs increased by HK\$2.9 million, of which approximately HK\$2.4 million interest is related to the loan notes and convertible loan notes issued during the year for raising funds to finance our investment in the associate.

The Tianjin plant of our associated company started its commercial production after approximately nine-month period for its initial set up. The loss as reported by the associate company included a large amount of pre-operating expenses incurred during the year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

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

The Group currently has aggregate composite banking facilities of approximately HK\$79.8 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdrafts, import and export loans, amounted to approximately HK\$52.2 million as at 31 December 2003, of which HK\$45.6 million is repayable in 2004.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged deposits of the Group amounted to approximately HK\$29.0 million.

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

The gearing ratio on the basis of total debts to total assets as at 31 December 2003 is 57.3% (2002: 46.0%)

## **CHARGE ON THE GROUP ASSETS**

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$22.45 million and bank deposits amounting to approximately HK\$8.2 million.

## **CONTINGENT LIABILITIES**

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

## **CAPITAL STRUCTURE**

As at 31 December 2003, the Company had approximately 250 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$104.7 million.

Pursuant to the share option scheme of the Company, the Board of Directors granted share options to certain senior executives and employees of the Group. Details of the share options granted and are remaining not exercised are disclosed in note 31 to the Financial Statements. The exercise in full of these share options would result in the issue of 13.0 million additional shares and proceeds of approximately HK\$2.1 million.

## **FUND RAISING**

During the year on 3 March 2003, the Company entered into separate subscription agreements with several independent investors, pursuant to which these investors agreed to subscribe for unlisted convertible notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These convertible notes bear interest at 2% per annum and are convertible into shares of the Company at an initial conversion price of HK\$0.4 per share, subject to adjustment, during the period commencing from 17 March 2005, up to and including the day immediately prior to the maturity date of the convertible note. The maturity date of the convertible notes is 16 June 2005. Each of the holders of the convertible notes can on demand request the Company to redeem the whole or part of the convertible notes after 16 March 2004 with an interest at 15% of the principal amount compounded annually from the date of issue until the relevant due date for redemption. At the maturity date, the Company shall redeem all the then outstanding convertible notes at 132.25% of their face value.

Under the same agreements, the investors have also agreed to subscribe for unlisted loan notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These loan notes bear interest at 5% per annum, but are not convertible into shares of the Company. The maturity date of the loan notes is 16 March 2005. The Company has the option to redeem the entire loan notes on 17 March 2004 at 108% of the loan notes' face value. Moreover, each of the holders of the loan notes can on demand request the Company to redeem the whole or part of the loan notes after 16 March 2004 at 114% of their face value. At the maturity date, the Company shall redeem all the then outstanding loan notes at 114% of their face value.

The net proceeds of US\$2,529,744 (equivalent to approximately HK\$19,732,000) from the issue of these notes have been used to finance the Group's investment in the associate YOUEAL TTI Limited.

Subsequent to the balance sheet date on 17 March 2004, the Company exercised its option to redeem the whole of the loan notes of US\$1,282,500 at 108% of the loan notes face value.

## **EMPLOYEES**

As at 31 December 2003, the Group available to it a total workforce of approximately 3,100 of which approximately 60 were based in Hong Kong, approximately 20 were based in Singapore and approximately 3,020 were based in the PRC.

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

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

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

#### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code. The independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

#### **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

#### **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEB-SITE**

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board

**Lai Pei Wor**

*Chairman*

Hong Kong, 27 April 2004

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

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