



K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 675)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

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

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	349,259	271,845
Cost of sales		(270,603)	(214,046)
Gross profit		78,656	57,799
Other revenue and gains	4	13,802	5,533
Selling and distribution costs		(32,130)	(25,218)
Administrative expenses		(25,375)	(22,424)
Other operating income/(expenses), net	5	(2,801)	94
PROFIT FROM OPERATING ACTIVITIES	6	32,152	15,784
Finance costs	7	(5,521)	(5,808)
Share of loss of an associate		(6,128)	(4,335)
PROFIT BEFORE TAX		20,503	5,641
Tax	8	(2,846)	(2,101)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		17,657	3,540
DIVIDEND	9	2,655	—
EARNINGS PER SHARE	10		
Basic		6.82 cents	1.42 cents
Diluted		6.77 cents	1.41 cents

Notes:

- 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.
- 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, and profit/(loss) 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\$'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	191,090	148,037	158,169	123,808	-	-	-	-	349,259	271,845
Intersegment sales	6,567	4,931	-	-	-	-	(6,567)	(4,931)	-	-
Other revenue and gains	8,396	3,618	112	166	10	1,632	-	-	8,518	5,416
Total	<u>206,053</u>	<u>156,586</u>	<u>158,281</u>	<u>123,974</u>	<u>10</u>	<u>1,632</u>	<u>(6,567)</u>	<u>(4,931)</u>	<u>357,777</u>	<u>277,261</u>
Segment results	<u>19,999</u>	<u>2,382</u>	<u>5,359</u>	<u>13,392</u>	<u>1,510</u>	<u>(107)</u>			<u>26,868</u>	<u>15,667</u>
Interest income									170	117
Gain on disposal of a long term investment									5,114	-
Profit from operating activities									32,152	15,784
Finance costs									(5,521)	(5,808)
Share of loss of an associate	(6,128)	(4,335)	-	-	-	-	-	-	(6,128)	(4,335)
Profit before tax									20,503	5,641
Tax									(2,846)	(2,101)
Net profit from ordinary activities attributable to shareholders									<u>17,657</u>	<u>3,540</u>

(b) Geographical segments

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

Group	Segment revenue Sales to external customers		Other segment information			
	2004	2003	Segment assets		Capital expenditure	
	HK\$'000	HK\$'000	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	135,269	97,695	114,568	89,528	5,569	1,426
Mainland China	4,459	8,490	140,808	126,995	32,954	18,160
Total in the People Republic of China ("PRC")	<u>139,728</u>	<u>106,185</u>	<u>255,376</u>	<u>216,523</u>	<u>38,523</u>	<u>19,586</u>
Japan	29,025	34,626	5,325	6,592	-	-
Other Asian countries*	20,081	16,692	20,685	10,821	137	65
Total in Asia	<u>188,834</u>	<u>157,503</u>	<u>281,386</u>	<u>233,936</u>	<u>38,660</u>	<u>19,651</u>
Germany	64,347	50,141	3,544	2,612	-	-
Other European countries**	73,383	52,342	6,890	7,439	-	-
Total in Europe	<u>137,730</u>	<u>102,483</u>	<u>10,434</u>	<u>10,051</u>	<u>-</u>	<u>-</u>
North America	14,987	7,031	1,698	555	2,682	-
Others***	7,708	4,828	944	818	-	-
Consolidated	<u>349,259</u>	<u>271,845</u>	<u>294,462</u>	<u>245,360</u>	<u>41,342</u>	<u>19,651</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.

4. OTHER REVENUE AND GAINS		
	2004	2003
	HK\$'000	HK\$'000
Interest income	170	117
Tooling charge income	1,015	1,411
Sale of scrap	114	267
Warrant subscription reserve recognised as income upon expiry of warrants	–	1,390
Sales commissions	5,878	1,300
Gain on disposal of a long term investment	5,114	–
Sub-contracting fee income	998	–
Others	513	1,048
	<u>13,802</u>	<u>5,533</u>
5. OTHER OPERATING INCOME/(EXPENSES), NET		
	2004	2003
	HK\$'000	HK\$'000
Surplus on revaluation of leasehold land and buildings	238	248
Provision for doubtful debts, net	(921)	(93)
Loss on disposal and write off of fixed assets	(2,118)	(61)
	<u>(2,801)</u>	<u>94</u>
6. PROFIT FROM OPERATING ACTIVITIES		
The Group's profit from operating activities is arrived at after charging/(crediting):		
	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	267,408	212,902
Auditors' remuneration	934	877
Depreciation	21,830	23,674
Minimum lease payments under operating leases on land and buildings	3,006	3,166
Amortisation of intangible assets	2,824	1,144
Provision for slow-moving inventories	370	–
Staff costs (including directors' other emoluments):		
Wages and salaries	79,590	64,207
Pension scheme contributions	968	1,026
	<u>80,558</u>	<u>65,233</u>
Less: Amount capitalised in deferred development costs	(4,350)	(1,114)
	<u>76,208</u>	<u>64,119</u>
Foreign exchange losses/(gains)	<u>(616)</u>	<u>147</u>
7. FINANCE COSTS		
	2004	2003
	HK\$'000	HK\$'000
Interest expenses on bank loans and overdrafts wholly repayable within five years	3,184	2,312
Interest on finance leases	668	1,118
Interest on convertible loan notes and fixed rate loan notes	254	556
Accrued premium on redemption of convertible loan notes and fixed rate loan notes	1,415	1,822
	<u>5,521</u>	<u>5,808</u>
8. 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	2003
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	1,839	576
Overprovision in prior years	(180)	–
Deferred	1,187	1,525
Total tax charge for the year	<u>2,846</u>	<u>2,101</u>

9. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Proposed final – HK1 cent (2003: nil) per ordinary share	<u>2,655</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.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$17,657,000 (2003: HK\$3,540,000), and on the weighted average of 259,005,000 (2003: 250,005,000) 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\$17,657,000 (2003: HK\$3,540,000). The weighted average number of ordinary shares used in the calculation is the 259,005,000 (2003: HK\$250,005,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 1,976,000 (2003: HK\$1,369,000) 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 31 December 2003 was not taken into account as they had an anti-dilutive effect on the basic earnings per share for these years.

FINANCIAL RESULTS

For the year ended 31 December 2004, the Group's turnover reached HK\$349.3 million, representing a 28.5% increase over the previous year. Overall gross profit margin was also improved and increased from approximately HK\$57.8 million in the previous year to approximately HK\$78.7 million this year. Net profit attributable to shareholders was approximately HK\$17.7 million (2003: HK\$3.5 million).

Basic earnings per share for the year ended 31 December 2004 amounted to HK6.82 cents (2003: HK1.42 cents) per share.

FINAL DIVIDEND

The directors have decided to recommend the payment of a final dividend of HK1.00 cent per share (2003: nil) in respect of the year ended 31 December 2004 to the shareholders on the Register of Members of the Company on Wednesday, 8 June 2005.

CLOSURE OF REGISTERS

The Register of Members will be closed from Friday, 3 June 2005 to Wednesday, 8 June 2005, both days inclusive, during which period no transfer of shares can be registered.

In order to qualify for the proposed final dividend and attending the annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 2 June 2005.

BUSINESS REVIEW

I have pleasure to report that the Group's core businesses including consumer electronic products and precision parts and components collectively had another successful year and the Group achieved significant growth in turnover and earnings in the year under review. The turnover for the year is another new record level of the Group since the incorporation of the Company. Such growth in turnover resulted from a combination of several factors including sales revenue generated by new products, increased sales turnover to certain existing customers and to new customers.

As in the prior year, we have been facing with rising production and raw material costs. Our strategy of developing more new products with value added features, implementing cost control and reduction measures and improving our production efficiency so as to maintain our growth in turnover and profitability and to lessen the effect of rising product production costs have proved successful and fruitful.

With the development and introduction of new products with value added features that have better gross profit margin, the segmental results of the precision parts and components segment improved from approximately HK\$2.4 million in the last year to approximately HK\$20.0 million this year.

On the other hand, the segmental results of the consumer electronic products segment reduced from approximately HK\$13.4 million in the prior year to approximately HK\$5.4 million in the current year. The lower operating results of the consumer electronic products segment stems mainly from increased operating costs that are related to our new office in the United States of America (the "USA"), to the research and development, and sales and marketing human resources.

Asia and Europe have always been our major markets. Sales to customers located in these regions account for approximately 93.5% of the Group's total turnover which is slightly less than that of the prior year. Although we will expand our marketing activities into other regions such as the North American market, the Group's sales turnover to the Asian and European markets are expected to maintain healthy growth in the coming years in terms of monetary amount.

We have planned to develop more businesses from the North American market so as to diversify the Group's customer base and to improve the Group's turnover. We are pleased to report that sales turnover to the North American market increased from approximately HK\$7.0 million in the prior year to approximately HK\$15.0 million in the current year.

During the year, as part of our strategy for expanding our sales into the North American market, we entered into a trademark license agreement with Honeywell Intellectual Property Inc of the USA. Under the agreement, our Group is licensed for a period of six years starting from 1 January 2005 to use the trademark "HONEYWELL" for sale and distribution of certain environmental conditions measuring and displaying products in the North and South American markets. Moreover, in the fourth quarter of 2004, we established a subsidiary in the USA the principal business activity of which is the distribution of the Group's consumer electronic products including those under the licensed trademark "HONEYWELL". As of today, the subsidiary has established good relationships with a number of reputable customers in the USA and is expected to contribute to the Group's turnover in year 2005.

Subsequent to the year end on 16 March 2005, a USA company (the "Complainant") has filed a patent infringement complaint with the United States International Trade Commission (the "ITC") against our Company and two subsidiary companies. The Complainant has claimed that certain features of two of our weather forecasting products imported into the USA have infringed two of its patent. We have sought legal and licensed patent counsel opinions on the patent infringement as claimed by the Complainant and have been advised that the features of our weather forecasting products do not infringe the patent rights being held by the Complainant. However, prior to the closure and settlement of this complaint, we expect that our sales turnover of weather forecasting products in the USA would be affected.

Investments

Investment in an associate

During the year in February 2004, we made a further capital injection of approximately HK\$3.2 million into the joint venture company YOUEAL TTI Limited (the "Associate"), after which our capital contribution commitment of US\$4.1 million was fulfilled.

Moreover, in the fourth quarter of the current year, the shareholders of the Associate have agreed to advance a shareholders' loan of aggregate US\$1.5 million to the Associate for financing its working capital requirements. Our proportionate share of the shareholders' loan is US\$0.62 million (HK\$4.8 million) and was advanced to the Associate in late October 2004.

The Associate's sales turnover increased from approximately HK\$7.5 million in the prior year to approximately HK\$101.8 million this year. Its customers include certain global renowned cellular phone manufacturers. However, contrary to our expectation, the Associate has not been able to contribute profit to our Group in the current year. Our share of the Associate's operating loss for the year amounted to approximately HK\$6.1 million. The operating loss is due to increasing operating costs and high production defective rates. Management of the Associate is implementing certain cost and production control measures aiming to improve the Associate's operating results in 2005.

Other investments

As reported in our interim report for 2004, on 1 February 2004, one of our unlisted equity investments with a carrying value of approximately HK\$0.3 million was converted into shares of an overseas listed company. We disposed of these converted shares during the period from 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 this investment as it is no longer a direct investment in our customer.

FUTURE PLAN AND PROSPECTS

Our Group has two core businesses, which include consumer electronic products (time, weather forecasting and other products) and precision parts and components (keypads, synthetic rubber and plastics components and parts and liquid crystal displays). These core businesses have been performing remarkably in accordance with our expectation. We will continue our focus on developing these core businesses so that we would remain competitive in the market and hence secure a larger market share for these businesses in the future.

As envisaged in the prior year, the global economy has been improving and the demand for our products has continued to grow satisfactorily. Based on the current market situation, our newly established customer bases and marketing strategy, we believe that the momentum for the growth of our turnover would continue into 2005.

The Group's commitment in investing in human resources of both sales and marketing, and product research and development is important for sustaining our competitive edge and business growth. In the previous years, our commitment has proved to be fruitful. We will continue to invest and enhance our research and development workforce, sales and marketing organization for supporting continuous business growth. We strongly believe that such investment will certainly lead to growth in the Group's core businesses in the long run.

With the expansion of the Group's business, we will also invest and enhance our information systems in order to improve our resources planning and operational flows control. We are currently studying various ERP systems and, barring any unforeseen circumstances, expect to have an ERP system in place by the end of 2005.

As previously reported, in year 2002 we entered into an agreement with a third party to acquire a piece of land in Zhongshan, the PRC. The purchase transaction was completed in the fourth quarter of 2004. We intend to construct a new manufacturing facility on this land so as to cope with future business growth.

We anticipate there will be a requirement to expand our production capacity in the coming years in order to capture business opportunities and to meet increasing customers' demands for the Group's products. Funding of this anticipated expansion includes utilizing our internal cash resources and obtaining external financing, where appropriate.

The Company has not declared and paid a dividend to our shareholders since year 1999. Subject to the approval of our shareholders at the forthcoming annual general meeting, we are delighted to report that the Company would declare and pay a dividend for the year 2004 and expect that we would continue sharing the Group's results with our shareholders through regular dividend payments in the future.

OPERATIONS REVIEW

The following highlights the Group's results for the year ended 31 December 2004.

- Turnover increased by 28.5% from the prior year to HK\$349.3 million for the year.
- Gross profit margin has been improved from 21.3% for 2003 to 22.5% for the year
- Profit from operating activities before finance costs and share of the results of an associate was HK\$32.2 million, improving by HK\$16.4 million from the last financial year
- Finance costs decreased by HK\$0.3 million from last year to HK\$5.5 million
- Share of loss of an associate increased by HK\$1.8 million to HK\$6.1 million,
- Net profit for the year was HK\$17.7 million, improving by approximately 5.0 times as compared to last year

The Group's precision parts and components 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 increased by approximately 29.1% as compared with the previous financial year. On the other hand, the consumer electronic product segment has achieved approximately 27.8% increase in sales turnover from the previous year. As in 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.

Despite the increasing raw material costs, we are able to continue improving our gross profit margin in 2004. This is mainly due to our shift of product mixes to products with value added features.

With the increases in both turnover and gross profit margin, the group's operating profit before finance costs and share of an associate companies' operating loss improved remarkably by HK\$16.4 million.

The Group's finance costs remained at the same level as in the prior year. Interest and redemption premium related to the loan notes and convertible loan notes amounted to approximately HK\$1.67 million. Since we have redeemed all of the loan notes and a portion of the convertible loan notes in 2004 and the remaining balance of the convertible loan notes would mature in June 2005, the interest and redemption premium related to these notes would reduce in year 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows 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\$113.0 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\$64.9 million as at 31 December 2004, of which HK\$59.8 million is repayable in 2005.

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\$27.3 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 2004 is 56.9% (2003: 57.3%)

CHARGE ON THE GROUP ASSETS

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$21.5 million and bank deposit amounting to approximately HK\$8.2 million.

CONTINGENT LIABILITIES

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

CAPITAL STRUCTURE

As at 31 December 2004, the Company had approximately 265.5 million shares in issue with total shareholders' funds of the Group amounting to approximately HK\$127.0 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. The exercise in full of those share options granted but remaining not exercised would result in the issue of 2.5 million additional shares and proceeds of approximately HK\$0.65 million.

FUND RAISING

General

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have special fund raising exercise during the year 2004.

Fixed rate loan notes and convertible loan notes

During the year on 17 March 2004, the Company exercised its option to redeem all of the fixed rate loan notes of US\$1,282,500 at 108% of the loan notes face value. On 30 June 2004, the Company at the request of the convertible loan notes holders redeemed half of the issued convertible loan notes of which principal amount aggregating US\$641,250. The loan notes were redeemed with the Company's cash resources.

As at 31 December 2004, the principal amount of the outstanding unlisted convertible notes aggregated US\$641,250. 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 2004, up to and including the day immediately prior to the maturity date of the convertible note. The maturity date of the convertible notes is 17 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 had 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.

EMPLOYEES

As at 31 December 2004, the Group had a total workforce of approximately 3,580 of which approximately 80 were based in Hong Kong, approximately 20 were based in overseas and approximately 3,480 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 operates 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 compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company, namely, Mr. Tsao Kwang Yung, Peter, Mr. Kung Fan Cheong and Mr. Leung Man Kay. The committee reviewed the Group's 2004 final results before they were tabled for the Board's review and approval.

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, 26 April 2005

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, Mr. Kung Fan Cheong and Mr. Leung Man Kay as independent non-executive Directors.

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