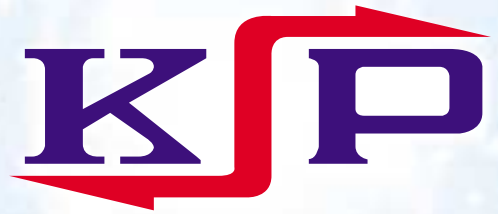


Interim Report 2001

K & P International Holdings Limited

(Incorporated in Bermuda with limited liability)



2001

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Directors”) of K & P International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2001 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$	HK\$
Turnover		84,158,580	112,014,427
Cost of sales		(67,048,253)	(87,183,483)
Gross profit		17,110,327	24,830,944
Other revenue		1,898,762	1,798,009
Selling and distribution costs		(8,581,650)	(9,571,225)
Administrative expenses		(9,813,635)	(11,856,596)
Other operating income/(expenses), net	3	2,309,931	(452,238)
Profit from operating activities	4	2,923,735	4,748,894
Finance costs	5	(1,508,577)	(1,932,226)
Profit before tax		1,415,158	2,816,668
Tax	6	(597,557)	(493,698)
Net profit from ordinary activities attributable to shareholders		817,601	2,322,970
Dividends	7	—	—
Retained profit for the period		817,601	2,322,970
Basic earnings per share	8	0.33 cents	0.93 cents

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		For the six months ended 30 June 2001 (Unaudited) HK\$
	Note	
Net profit for the period attributable to shareholders		<u>817,601</u>
Total recognised gains and losses		817,601
Warrant subscription reserve arising from issue of warrants	11	<u>1,389,475</u>
		<u><u>2,207,076</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2001 (Unaudited) HK\$	31 December 2000 (Audited) HK\$
Non-current assets			
Fixed assets		90,765,319	94,552,868
Technical know-how		702,467	826,426
Long term investments		5,023,000	5,023,000
		<u>96,490,786</u>	<u>100,402,294</u>
Current assets			
Inventories		30,283,389	35,063,553
Prepayments, deposits and other receivables		6,275,295	6,569,491
Trade and bills receivables	9	32,030,375	35,510,593
Pledged time deposit		5,174,595	5,039,642
Cash and cash equivalents		12,351,069	9,168,539
		<u>86,114,723</u>	<u>91,351,818</u>
Current liabilities			
Interest-bearing bank borrowings		18,338,884	23,983,541
Trade payables	10	17,000,844	17,684,758
Current portion of finance lease payables		5,994,228	5,471,461
Accrued liabilities and other payables		13,290,641	14,086,031
Due to a related company		5,979,375	9,829,375
Provision for taxation		1,234,502	944,826
		<u>61,838,474</u>	<u>71,999,992</u>
Net current assets		<u>24,276,249</u>	<u>19,351,826</u>
Total assets less current liabilities		<u>120,767,035</u>	<u>119,754,120</u>
Non-current liabilities			
Interest-bearing bank borrowings		208,118	1,712,717
Long term portion of finance lease payables		6,585,390	6,274,952
Deferred tax		2,067,000	2,067,000
		<u>8,860,508</u>	<u>10,054,669</u>
		<u>111,906,527</u>	<u>109,699,451</u>
Capital and reserves			
Issued capital		25,000,480	25,000,480
Reserves	11	86,906,047	84,698,971
		<u>111,906,527</u>	<u>109,699,451</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June 2001 (Unaudited) HK\$
Net cash inflow from operating activities	17,654,900
Net cash outflow from returns on investments and servicing of finance	(1,300,250)
Net taxes paid	(307,881)
Net cash outflow from investing activities	<u>(3,855,014)</u>
Net cash inflow before financing activities	12,191,755
Net cash outflow from financing activities	<u>(2,731,895)</u>
Increase in cash and cash equivalents	9,459,860
Cash and cash equivalents at beginning of period	<u>(13,062,415)</u>
Cash and cash equivalents at end of period	<u><u>(3,602,555)</u></u>
Analysis of balances of cash and cash equivalents	
Cash and bank balances	8,304,713
Time deposits	<u>4,046,356</u>
	12,351,069
Bank borrowings with maturities at inception of less than three months:	
Trust receipt loans	(9,619,831)
Bank overdrafts	<u>(6,333,793)</u>
	<u><u>(3,602,555)</u></u>

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountant, except that the comparative figures of the condensed consolidated cash flow statement and condensed consolidated statement of recognised gains and losses have not been presented as the Company has taken advantage of the transitional provisions set out in Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

Except the above change in accounting policy, the accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31 December 2000.

2. Segmental information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations is as follows:

	For the six months ended 30 June			
	2001		2000	
	Turnover (Unaudited) HK\$	Contribution to profit from operating activities (Unaudited) HK\$	Turnover (Unaudited) HK\$	Contribution to profit from operating activities (Unaudited) HK\$
By activity:				
Manufacture and sale of electronic and related components and parts	43,766,032	2,664,746	56,084,074	6,529,830
Manufacture and sale of electronic consumer products	40,392,548	258,989	55,930,353	(1,780,936)
	<u>84,158,580</u>	<u>2,923,735</u>	<u>112,014,427</u>	<u>4,748,894</u>
By geographical area:				
The People's Republic of China:				
Hong Kong	36,089,430	2,033,103	43,418,357	4,113,399
Elsewhere	119,682	4,454	1,254,833	353,617
	<u>36,209,112</u>	<u>2,037,557</u>	<u>44,673,190</u>	<u>4,467,016</u>
Other Asian countries	6,245,306	69,527	7,802,249	583,513
Europe:				
Germany	17,833,519	1,395	33,859,048	(271,935)
Italy	3,623,292	129,598	4,973,408	256,524
United Kingdom	1,219,315	(1,851)	4,444,045	(334,063)
France	5,546,322	(1,468)	3,986,799	(67,733)
Netherlands	966,828	164,927	1,480,131	(142,173)
Austria	5,847,895	408,575	3,964,071	298,552
Elsewhere	4,970,395	54,426	4,084,074	100,780
	<u>40,007,566</u>	<u>755,602</u>	<u>56,791,576</u>	<u>(160,048)</u>
North America	1,090,047	43,967	1,505,364	(111,569)
Others	606,549	17,082	1,242,048	(30,018)
	<u>84,158,580</u>	<u>2,923,735</u>	<u>112,014,427</u>	<u>4,748,894</u>

3. Other operating income/(expenses), net

	For the six months ended 30 June	
	2001 (Unaudited) HK\$	2000 (Unaudited) HK\$
Write-back of provision for doubtful debts	3,140,000	—
Others	(830,069)	(452,238)
	<u>2,309,931</u>	<u>(452,238)</u>

4. Profit from operating activities

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

	For the six months ended 30 June	
	2001 (Unaudited) HK\$	2000 (Unaudited) HK\$
Depreciation:		
Owned fixed assets	9,916,240	9,610,614
Leased fixed assets	1,674,019	1,649,717
	<u>11,590,259</u>	<u>11,260,331</u>
Amortisation of technical know-how	123,959	123,965
and after crediting:		
Foreign exchange gains, net	187,887	684,323
Interest income	<u>208,327</u>	<u>415,652</u>

5. Finance costs

	For the six months ended 30 June	
	2001 (Unaudited) HK\$	2000 (Unaudited) HK\$
Interest expense on bank loans and overdrafts wholly repayable within five years	978,319	1,822,094
Interest on finance leases	530,258	110,132
	<u>1,508,577</u>	<u>1,932,226</u>

6. Tax

	For the six months ended 30 June	
	2001 (Unaudited) HK\$	2000 (Unaudited) HK\$
Group:		
People's Republic of China:		
Hong Kong	265,285	493,698
Elsewhere	332,272	—
	<u>597,557</u>	<u>493,698</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere in the People's Republic of China have been calculated at the applicable rates of tax prevailing in the areas in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

7. Dividends

At a meeting of the board of directors held on 27 September 2001, the directors resolved not to pay an interim dividend to shareholders (2000: Nil).

8. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$817,601 (2000: HK\$2,322,970) and the weighted average of 250,004,800 ordinary shares in issue throughout the two periods.

Diluted earnings per share for the periods ended 30 June 2000 and 2001 have not been shown as the share options outstanding during these periods and the warrants outstanding during the current period had an anti-dilutive effect on the basic earnings per share for these periods.

9. Trade and bills receivables

The ages of the trade and bills receivables are analysed as follows:

	Group	
	30 June 2001 (Unaudited) HK\$	31 December 2000 (Audited) HK\$
Within 90 days	23,022,773	27,371,889
Between 91 to 180 days	3,398,016	4,964,662
Over 180 days	5,609,586	3,174,042
	<u>32,030,375</u>	<u>35,510,593</u>

Trading terms with 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 to 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivable and has a credit control policy to minimum credit risk. Overdue balance are regularly reviewed by senior management.

10. Trade payables

The ages of the accounts payable are analysed as follows:

	Group 30 June 2001 (Unaudited) HK\$	31 December 2000 (Audited) HK\$
Within 90 days	15,148,326	13,868,120
Between 91 to 180 days	1,397,136	3,554,626
Over 180 days	455,382	262,012
	<u>17,000,844</u>	<u>17,684,758</u>

11. Reserves

Group	Share premium account HK\$	Warrant Subscription reserve HK\$	Contributed surplus HK\$	Fixed asset revaluation reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2001	49,611,281	–	660,651	4,706,140	29,720,899	84,698,971
Placement of warrants	–	1,500,000	–	–	–	1,500,000
Warrant issue expenses	–	(110,525)	–	–	–	(110,525)
Net profit for the period	–	–	–	–	817,601	817,601
At 30 June 2001	<u>49,611,281</u>	<u>1,389,475</u>	<u>660,651</u>	<u>4,706,140</u>	<u>30,538,500</u>	<u>86,906,047</u>

12. Contingent liabilities

	Group 30 June 2001 (Unaudited) HK\$	31 December 2000 (Audited) HK\$
Bills discounted with recourse	<u>–</u>	<u>92,820</u>

13. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current period's presentation.

14. Approval of the financial statements

The financial statements were approved by the board of directors on 27 September 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group recorded a sales turnover of approximately HK\$84.2 million and a net profit attributable to shareholders of approximately HK\$0.82 million for the six months ended 30 June 2001, representing a decrease of 24.9% and 64.8%, respectively as compared with the corresponding period in the last financial year. Overall gross profit margin also decreased from 22.2% in the corresponding period to 20.3% this period.

The decline in the Group's financial results is mainly attributable to the slowdown in global economy. In spite of this, the Group has generated approximately HK\$9.5 million cash inflow during the period under review.

Earnings per share for the six months ended 30 June 2001 amounted to HK0.33 cents (2000: HK0.93 cents) per share.

Business review and prospect

During the period, the sales turnover of each of the electronic and related components and parts business and the consumer product business dropped by more than 22% as compared with the previous financial period. The worsening global economy has caused deferral of orders from customers and keen competition amongst suppliers leading to reduction in product price.

Since the last financial year, the prevailing weak Euro currency has affected the Group's consumer product business unfavourably as its major market is in Europe. Sales of consumer products to the European market have dropped by approximately 34% from the last financial period. Although the performance of the European market is unsatisfactory, we are pleased to report that sales turnover to market in Japan and other continents have achieved healthy growth.

During the period under review, Hong Kong's total export of electronic and electrical consumer products decreased by more than 25% from last year. As a result, our Group's electronic and related components and parts business was also impacted adversely. The decrease in sales turnover of this business from last corresponding period is approximately 23%. Though the sales turnover level is slack in the first half year, orders for the Group's components and parts have been improving since the end of second quarter.

In accordance with our marketing strategy for expanding overseas customer base for our electronic and related components and parts business, we have completed the set up of our office in Singapore during the period. We have successfully broadened our overseas customer base and secured orders from some renowned multinational corporations. The current orders from these new customers are not substantial due to the global economy downturn. Since our products are major critical components and parts for high value consumer products, we are confident that the order level from these new customers will be built up reasonably in the future.

Under our vision to become a global supplier of critical precision components and parts, we have been exploring new business opportunities that are in line with the Group's business and strategy. With the imminent entry of China into the World Trade Organization ("WTO"), the economy of China is expected to improve and grow continuously. There will be ample business opportunities in China for foreign investors and multinational corporations. We expect that the demand for critical components and parts in the China market will increase significantly. Therefore, we will strengthen our marketing effort to increase our presence in the China market so as to capture this golden opportunity for business growth.

Because of the current slowdown in the global economy, the business environment in the near future is expected to remain challenging. We will continue our efforts to control our operating costs, streamline our operations and continue our research and development for meeting our customers' demand.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow 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\$60 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$28.5 million as at 30 June 2001, of which approximately HK\$25 million is repayable in the next twelve months.

The Group's borrowings are denominated in either Hong Kong dollars or United States dollars. This matches with the currencies in which the Group conducts its business.

The gearing ratio based on total debts to equity decreased from 74.8% of previous years to 63.2% of this period.

Charge on Group Assets

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings in Hong Kong with a net book value of HK\$9.5 million and bank deposit amounting to approximately HK\$5.2 million.

Capital Structure

As at 30 June 2001, the Company had approximately 250 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$111.9 million.

During the period under review, on 16 March 2001, the Company issued 30,000,000 warrants (the "Warrants") with issue price of HK\$0.05 to several independent investors. The warrant entitle the holders to subscribe for new shares of the Company at a price of HK\$0.3 per share from March 2001 to March 2003. The Company would receive a subscription amounts of HK\$9 million on a full exercise of the Warrants and would apply the proceeds, if received, by for general working capital purposes.

Pursuant to a share option scheme which was approved at a special general meeting of the Company held on 4 December 1996, the Board of Directors have granted share options to certain directors, senior executive and employees of the Group. The exercise in full of the granted share options would, under the present capital structure of the Company, result in the issue of 21,800,000 additional shares for aggregate proceeds before expenses, of approximately HK\$4,185,500.

Application of Proceeds from Capital Raising

During the period under review on 16 March 2001, the Company issued 30,000,000 warrants (the "Warrants") with issue price of HK\$0.05 to several independent investors. The aggregate issue proceeds of the Warrants is HK\$1.5 million and had been used by the Group for general working capital purposes in accordance with the intended applications.

Employees

As at 30 June 2001, the Group had available to it a total workforce of approximately 2,550, of which approximately 50 were based in Hong Kong and approximately 2,500 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labor laws. Since December 1996, the Group has adopted a share option scheme whereby employees of the Group may be granted options, at the Board of Directors' discretion, to acquire shares in the Company.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of ordinary shares
Lai Pei Wor	Other*	97,242,000
	Personal	–
Chan Yau Wah	Personal	5,200,000
Wong Kwong Ming	Personal	3,406,000
Chung Yik Cheung, Raymond	Personal	<u>152,000</u>

* Details of Lai Pei Wor's other interests are set out in the "Substantial shareholders" section below.

Save as disclosed above, none of the directors, chief executives or their associates had any beneficial interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company granted options on the Company's shares in favor of certain directors, the summary details of which are as follows:

Name of Director	Number of share options at 31 December 2000	Number of share options granted during the period	Number of share options outstanding at end of period	Exercise period of share options	Exercise price of share options
Lai Pei Wor	1,500,000	–	1,500,000	9 October 1998 to 8 October 2001	HK\$0.315
	–	2,500,000	2,500,000	12 July 2001 to 11 July 2004	HK\$0.160
Chan Yau Wah	1,200,000	–	1,200,000	9 October 1998 to 8 October 2001	HK\$0.315
	–	2,500,000	2,500,000	12 July 2001 to 11 July 2004	HK\$0.160
Chung Yik Cheung, Raymond	800,000	–	800,000	9 October 1998 to 8 October 2001	HK\$0.315
	–	2,500,000	2,500,000	12 July 2001 to 11 July 2004	HK\$0.160
Wong Kwong Ming	1,000,000	–	1,000,000	9 October 1998 to 8 October 2001	HK\$0.315
	–	1,300,000	1,300,000	12 July 2001 to 11 July 2004	HK\$0.160

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or its associated corporations granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following interests of 10% or more in the share capital of the Company were recorded in the register of substantial shareholders required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares
Celaya Limited (<i>Note a</i>)	97,242,000
Ansbacher (BVI) Limited (<i>Note b</i>)	<u>97,242,000</u>

Notes:

- (a) Celaya Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Ansbacher (BVI) Limited in its capacity as trustee of The Lai Family Trust, a discretionary trust of which Lai Pak Hung and Lai Yee Man (both children of Lai Pei Wor and under the age of 18) and Chan Yuk Lin (wife of Lai Pei Wor) are discretionary objects.
- (b) The shares referred to herein relate to the same parcel of shares referred to in note (a) above.

Save as disclosed above, the Company has not been notified of any other interest representing 10% or more in the Company's issued share capital as at 30 June 2001.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2001.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period for the six months ended 30 June 2001, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the Group's unaudited interim results for the six months ended 30 June 2001.

Lai Pei Wor
Chairman

Hong Kong, 27 September 2001