



KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

HIGHLIGHTS

The Group's turnover decreased by approximately 7 per cent. to approximately HK\$265,945,000

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") increased by approximately 16.1 per cent. to approximately HK\$32,981,000

Profit attributable to shareholders increased by approximately 18.1 per cent. to approximately HK\$5,590,000

Bank balances and cash was approximately HK\$57,526,000

Basic earnings per share was HK1.01 cents

The board of Directors (the "Directors") of Karce International Holdings Company Limited (the "Company" together with its subsidiaries the "Group") announced the unaudited consolidated interim results of the Group for the six months ended 30 June 2003. The Group's audit committee has reviewed the interim results.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

		Six months ended 30 June	
		2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Turnover	3	265,945	285,967
Cost of sales		(217,111)	(233,080)
Gross profit		48,834	52,887
Other operating income		4,010	2,474
Distribution costs		(5,538)	(5,485)
Administrative expenses		(37,322)	(41,889)
Profit from operations	4	9,984	7,987
Finance costs		(2,015)	(1,771)
Share of result of an associate		1,134	-
Profit before taxation		9,103	6,216
Taxation	5	(2,808)	(1,181)
Profit before minority interests		6,295	5,035
Minority interests		(705)	(300)
Net profit attributable to shareholders		<u>5,590</u>	<u>4,735</u>
Earnings per share	6		
Basic		<u>HK1.01 cents</u>	<u>HK0.85 cent</u>

Note:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002 except that the Group has adopted the revised SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting period commencing on or after 1 January 2003.

The change to the Group’s accounting policies and the effect of adopting the revised standard is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and had no material impact on the Group’s accounts in prior periods/years.

3. SEGMENT INFORMATION

Business segments:

For management purpose, the Group is currently organised into three principal operating divisions – electronic calculators and organisers, conductive silicon rubber keypads and printed circuit boards. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

	Unaudited For the six months ended 30 June 2003					
	Electronic calculators and organisers HK\$’000	Conductive silicon rubber keypads HK\$’000	Printed circuit boards HK\$’000	Other operations HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
OPERATING RESULTS						
REVENUE						
External sales	142,416	49,481	62,545	11,503	–	265,945
Inter-segment sales	1,665	4,772	7,544	–	(13,981)	–
Total revenue	<u>144,081</u>	<u>54,253</u>	<u>70,089</u>	<u>11,503</u>	<u>(13,981)</u>	<u>265,945</u>
RESULT						
Segment result	<u>10,926</u>	<u>52</u>	<u>5,227</u>	<u>(5,785)</u>	<u>–</u>	10,420
Other operating income						147
Unallocated corporate expenses						<u>(583)</u>

Profit from operations		9,984
Finance costs		(2,015)
Share of result of an associate	1,134	1,134
		<u>9,103</u>
Profit before taxation		9,103
Taxation		(2,808)
		<u>6,295</u>
Profit before minority interests		6,295
Minority interests		(705)
		<u>5,590</u>
Profit for the period		<u><u>5,590</u></u>

Unaudited
For the six months ended 30 June 2002

	Electronic calculators and organisers HK\$'000	Conductive silicon rubber keypads HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
OPERATING RESULTS						
REVENUE						
External sales	174,284	46,881	39,076	25,726	–	285,967
Inter-segment sales	<u>3,780</u>	<u>4,796</u>	<u>7,335</u>	<u>–</u>	<u>(15,911)</u>	<u>–</u>
Total revenue	<u><u>178,064</u></u>	<u><u>51,677</u></u>	<u><u>46,411</u></u>	<u><u>25,726</u></u>	<u><u>(15,911)</u></u>	<u><u>285,967</u></u>
RESULT						
Segment result	<u><u>7,315</u></u>	<u><u>6,130</u></u>	<u><u>2,458</u></u>	<u><u>(9,707)</u></u>	<u><u>–</u></u>	6,196
Other operating income						2,474
Unallocated corporate expenses						<u>(683)</u>
Profit from operations						7,987
Finance costs						(1,771)
Share of result of an associate						<u>–</u>
Profit before taxation						6,216
Taxation						<u>(1,181)</u>
Profit before minority interests						5,035
Minority interests						<u>(300)</u>
Profit for the period						<u><u>4,735</u></u>

Geographical segments:

The Group's customers are principally located in Japan, Hong Kong, America and Europe.

The following table provides an analysis of the Group's sales by geographical markets:

	Turnover		Contribution to profit from operations	
	For the six months ended 30 June			
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Japan (note a)	72,599	67,970	2,845	1,473
Hong Kong (note b)	52,290	53,577	2,049	1,161
Europe	38,903	56,624	1,524	1,227
America	24,076	43,856	943	950
PRC, other than Hong Kong	39,890	26,202	1,563	568
Other Asian countries	26,212	29,278	1,027	635
Others	11,975	8,460	469	182
	<u>265,945</u>	<u>285,967</u>	<u>10,420</u>	<u>6,196</u>
Other revenue			147	2,474
Unallocated corporate expenses			(583)	(683)
Profit from operations			<u>9,984</u>	<u>7,987</u>

Notes:

- (a) The directors believe that a substantial portion of the Group's sales attributable to the Japanese market was subsequently resold to the European and American markets.
- (b) The directors believe that a portion of the Group's sales attributable to the Hong Kong market was subsequently resold to other markets.

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2003	2002
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Property, plant and equipment	17,858	15,666
Intangible assets – development costs	4,710	5,055
Property, plant and equipment written off	189	1,272
Allowance for doubtful debts	336	1,164
Operating lease rentals in respect of rented premises	308	252
Research and development costs expensed	972	353
Staff costs	<u>46,790</u>	<u>47,084</u>

5. TAXATION

	Six months ended 30 June	
	2003	2002
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
The charge comprises:		
Hong Kong Profits Tax	468	102
PRC enterprise income tax	<u>1,216</u>	<u>1,079</u>
	<u>1,684</u>	<u>1,181</u>

Share of taxation attributable to associated company		
Profit tax	-	-
Deferred taxation	<u>1,124</u>	<u>-</u>
	<u>1,124</u>	<u>-</u>
Total taxation charge	<u><u>2,808</u></u>	<u><u>1,181</u></u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax is calculated at the rates prevailing.

6. EARNINGS PER SHARE

The calculation of the earnings per share is based on the Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2003 of approximately HK\$5,590,000 (six months ended 30 June 2002: approximately HK\$4,735,000) and the weighted average number of 550,776,000 ordinary shares in the Company (six months ended 30 June 2002: 557,144,000 ordinary shares) in issue during the period.

No fully diluted earnings per share has been presented because the exercise price of the Company's outstanding share options was higher than the average market price for shares in both periods.

INTERIM DIVIDEND

As a prudent measure to safeguard the Group's interests in a turbulent economic environment, the directors of the Company (the "Directors") have decided not to recommend an interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

The outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong and countries among Asian countries, the Iraqic War and the worldwide economic downturn had slight impact on the Group's turnover in the second quarter of this year. However, the Group still recorded a satisfactory result in its overall performance in the first half year.

For the six months ended 30 June 2003, the Group recorded a turnover of approximately HK\$265,945,000, representing a decrease of approximately 7.0 per cent. as compared with approximately HK\$285,967,000 of the corresponding period in 2002.

Whilst the global economy, particularly the economy of the United States, was experiencing slow recovery, the Group through its strength of strong management and efficient operations was able to navigate the outbreak of SARS and the aftermath of the Iraqic War without affecting the Group's bottom line.

The Group also attained EBITDA of approximately HK\$32,981,000 for the six months ended 30 June 2003 (six months ended 30 June 2002: approximately HK\$28,408,000).

Net profit attributable to shareholders had also increased by approximately 18.1 per cent. to approximately HK\$5,590,000 (six months ended 30 June 2002: approximately HK\$4,735,000).

Electronic calculators and organisers

During the period under review, an unprecedented combination of unfavorable factors prevailed. The war in Iraq, together with the SARS epidemic, affected the confidence of consumers and retailers. Despite these challenging economic conditions, there was little impact on the segment result, which testified our highly competitive position in the electronic manufacturing industry and the resilient nature of the market itself.

The Group continued to focus on the market of electronic calculators and organizers under the branded customers located throughout Japan, Europe and the America during the period under review.

In the first six months of 2003, price competition was fierce as traders and suppliers slashed prices to liquidate their inventories. During the period under review, the business strategy continued to address on the consolidation of its key client base and to provide service which served a broad range of well known chain stores customers in America.

For the six months ended 30 June 2003, the turnover of electronic calculators and organisers decreased by approximately 18.3 per cent. to approximately HK\$142,416,000 (six months ended 30 June 2002 : approximately HK\$174,284,000).

Accordingly, the management succeeded in achieving tight cost control, attributed by competitive prices on the raw materials and components, which was substantially offset by the decrease in turnover during the period under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 2.4 per cent. from approximately 19.0 per cent. to approximately 21.4 per cent..

The Group strived for a combined proven excellence in product development and cost-effective manufacturing strategy with a new customer-centric approach. Nonetheless, the Group shifted the launch dates of several new products to the second half of the year, which has pathed the Group for even stronger growth in revenue in the coming period.

Given that the recovery is under way, it is expected that the turnover will continue to increase in the second half of the year and the profitability will substantially be improved.

Conductive silicon rubber keypads

For the six months ended 30 June 2003, the turnover of conductive silicon rubber keypads segment further increased by approximately 5.5 per cent. to approximately HK\$49,481,000 (six months ended 30 June 2002: approximately HK\$46,881,000), representing an approximately 18.6 per cent. of the turnover of the Group. This was due to the success of the Group's strategy to acquire Dongguan Tehsutec Electronic Company Limited in 2002.

However, in the first six months of 2003, the market was extremely tough. Facing similar unfavorable economic environment as that of the electronic calculators and organisers segment, along with the intensive price competition, the conductive silicon rubber keypads segment for the six months ended 30 June 2003, recorded an operating profit from operations of approximately HK\$52,000 (six months ended 30 June 2002: approximately HK\$6,130,000).

The Group's conductive silicon rubber keypads are mainly for use in electronic calculators, databanks, electronic organizers, mobile phones and remote controls.

Looking ahead, the Directors believe that the acquisition of Dongguan Tehsutec Electronic Company Limited will present the Group with great opportunity to better develop the manufacture of conductive silicon rubber keypads' business and the acquisition will contribute positively to the future revenue of the Group in the coming year.

Telephone keypads products

The Group will persist on its diversification strategy to explore new business opportunities so as to enhance its growth of turnover. On 9 May 2003, the Group established a subsidiary, On Shing Holdings Company Limited (the "On Shing Holdings", which together with its subsidiaries, collectively the "On Shing Group") with a technology partner based in Korea for the manufacture and distribution of telephone keypads products. The Group owns 51 per cent. of the equity interest in On Shing Holdings.

On Shing Holdings is engaged in the design, manufacture and distribution of telephone keypads and other conductive silicon rubber keypads products for the markets in Korea and Japan.

Through this strategic alliance, the Group has upgraded its technical capabilities to develop more sophisticated telephone and a more diversified conductive silicon rubber keypads product range.

In the coming year, the business strategy of the conductive silicon rubber keypads segment will continue to focus on customers and products diversification, effective cost control and quality management.

Printed Circuit Boards (“PCB”)

For the six months ended 30 June 2003, the PCB segment reported persistent growth in turnover to approximately HK\$62,545,000 (six months ended 30 June 2002: approximately HK\$39,076,000), representing an approximately 23.5 per cent. of the turnover of the Group. This was mainly due to its extensive sourcing network and its capability to provide customers with quick response and product alternatives.

The management focus on stringent cost management, which was mainly contributed by the competitive raw materials and components. In order to meet its increased orders, the Group assigned some complex work to outside subcontractors and the subcontracting fees amounted to approximately HK\$8,345,000 for the period under review. For the six months ended 30 June 2003, the gross profit margin was maintained at approximately 14.4 per cent.

Along with the substantial growth in PCB business, the Group is planning to spend approximately HK\$5,000,000 to acquire machineries in the coming period as the Directors believe that the future performance and prospects of the PCB business are optimistic.

Other operations

Electronic toys products

Turnover derived from the electronic toys products, such as infant toys and electronic learning products, recorded approximately HK\$11,503,000 (six months ended 30 June 2002: approximately HK\$5,015,000) for the six months ended 30 June 2003.

During the period under review, the electronic toys segment recorded an operating loss from operations of approximately HK\$806,000 (six months ended 30 June 2002: profit from operations of approximately HK\$442,000).

Although the investment in new products and business lines has clearly impacted the Group’s earnings for the first half of this year, the Directors believe that it is a sound investment which will bring in new businesses and sustain returns to shareholders in the coming years.

Cordless telephone

The Group established an associate, Ascalade Communications Holdings Limited (the “Ascalade Holdings”, which together with its subsidiaries, collectively the “Ascalade Group”) in August 2002 in which the Group owned 49 per cent. of the equity interest in Ascalade Holdings.

After the establishment of Ascalade Holdings, the Group’s telecommunication business was consolidated in Ascalade Group. Accordingly, the cordless telephone segment recorded an amortisation expense on the incurred development cost amounting to approximately HK\$4,680,000 for the period under review.

As a result, for the six months ended 30 June 2003, the cordless telephone segments recorded an operating loss from operations of approximately HK\$4,979,000 (six months ended 30 June 2002: loss from operations of approximately HK\$10,149,000).

Share of result of an associate, Ascalade Group

Through the establishment of Ascalade Group, the turnover derived from the telecommunication businesses and products, such as Parafone, 1.8 GHz, 2.4 GHz, 5.8 GHz cordless phones and wireless conference phones recorded approximately HK\$173,554,000 for the six months ended 30 June 2003. The Group was rewarded with the share of positive contribution to the Group’s operating profit amounted to approximately HK\$1,134,000 (six months ended 30 June 2002: Nil).

Cordless phones will continue to be an important sales driver of the Ascalade Group, as there is a significant demand for telephone products, in particular the Digital Enhanced Cordless Telephones (“DECT”) models, in the European market.

The customer base of Ascalade Group comprises prime telecom operating companies and telecom product distributors in the European market. Supported by a capable and dedicated management team, Ascalade Group is well positioned to take on further challenges and opportunities in full confidence and the Directors believe that the future performance and prospects of telecommunication business are optimistic.

Overall

For the six months ended 30 June 2003, the overall gross profit margin of the Group was maintained at approximately 18.4 per cent. (six months ended 30 June 2002: approximately 18.5 per cent.), whereas the unaudited consolidated net profit attributable to shareholders for the six months ended 30 June 2003 was amounted to approximately HK\$5,590,000, representing an increase of approximately 18.1 per cent. over the corresponding period in 2002.

Shareholders' equity increased to approximately HK\$323,987,000 as at 30 June 2003 from approximately HK\$321,183,000 as at 31 December 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled us to maintain a strong financial position. As at 30 June 2003, the Group had fixed deposits and cash balances aggregated to approximately HK\$57,526,000 (as at 31 December 2002: approximately HK\$68,718,000).

The Group currently has composite banking facilities amounted to an aggregate sum of approximately HK\$211,948,000 (as at 31 December 2002: approximately HK\$209,948,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$151,200,000 (as at 31 December 2002: HK\$151,069,000) in Hong Kong granted to the Group, approximately HK\$7,753,000 (as at 31 December 2002: approximately HK\$5,417,000) has been utilized as at 30 June 2003. The term loan banking facilities in the PRC was amounted to approximately HK\$60,748,000 (as at 31 December 2002: approximately HK\$58,879,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2003, total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK\$79,302,000 (as at 31 December 2002: approximately HK\$84,855,000), representing an approximately 24.5 per cent. of the total shareholders' equity (as at 31 December 2002: approximately 26.4 per cent.).

The Directors considered that the Group shall have sufficient financial resources to meet its future expansion plan and working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

FUTURE PLANS AND PROSPECTS

The results of the first half of the year reflected challenging economic conditions attributed by the SARS outbreak, the Iraqic war and poor consumer sentiment. Despite these conditions, all of the Group's businesses performed soundly and grew steadily from the investments undertaken in prior years.

The Directors are encouraged by the successful investment in an associate, Ascalade Group and are confident that the telecommunications industry will grow rapidly in the fall and Christmas period and create long term value for our shareholders. For the remainder of the year, the Group will continue to build up the telecommunication businesses in the European markets and will launch cordless telephones and other communication products in the American markets as well. At the same time, the Group will continue to develop and expand its existing core businesses while sustaining a healthy financial position.

The Directors are confident that diversifying the product mix as well as the customer base will place the Group in a good stand to prudently garner a better performance in 2003.

In October 2003, a series of promotional activities, including the participation in the coming Hong Kong Electronics Fair 2003, will be undertaken to establish a broad and solid overseas customer base for the "KARCE" branded products, including SIM card reader organisers, digital LCD Mini TV, integrated corded telephone system and walkie talkie.

The Group is also planning to upgrade its industry standard from ISO9002 to ISO14000 in order to serve a number of new customers with good sales potential. This establishment will provide the Group with an entry into a higher margin product mix. Whilst the Group is actively pursuing new ventures, the Directors will continue to focus on its core businesses and reinforce its industry leadership position by capitalizing on its research and development strengths and intensifying its international sales and marketing network.

The recently concluded Closer Economic Partnership Arrangement (“CEPA”) agreement between Hong Kong and the PRC will allow Hong Kong based service sectors to integrate rapidly with the Pearl River Delta and the rest of the PRC. Barring unforeseeable circumstances on the global economy, the Directors remain confident of its leading market position and its proven track record and are devoted to refine and strengthen its growth platform.

Save as disclosed herewith, no information in relation to the Group’s performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31 December 2002.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or, was not during the six months ended 30 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited, save and except that all non-executive Directors are not appointed for any specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Audit Committee (the “Committee”) has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the unaudited consolidated interim results for the six months ended 30 June 2003.

The members of the Committee included the two independent non-executive Directors of the Company, Mr. Tsao Kwang Yung, Peter and Mr. Goh Gen Cheung.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

There was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2003.

PUBLICATION OF OTHER FINANCIAL INFORMATION

Other financial information containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on The Stock Exchange of Hong Kong Limited’s website in due course.

By order of the Board
Tong Shek Lun
Chairman and Managing Director

Hong Kong, 22 September 2003

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