



KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED
(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

**ANNOUNCEMENT OF ANNUAL RESULTS
 FOR THE YEAR ENDED 31 DECEMBER 2003**

HIGHLIGHTS

The Group's turnover increased by 6.3 per cent. to approximately HK\$589,653,000
 Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") increased by approximately 37.8 per cent. to approximately HK\$72,842,000
 Profit attributable to shareholders increased by 198.8 per cent. to approximately HK\$23,050,000
 Bank balances and cash was approximately HK\$66,346,000
 Total net assets increased by 8.1 per cent. to approximately HK\$330,045,000
 Basic earnings per share increased by 201.4 per cent. to HK4.19 cents

ANNUAL RESULTS

The board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company") announces that 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 corresponding year in 2002 are as follows:

| | | For the year ended 31 December | |
|----------------------------------|-------------|---|---|
| | <i>Note</i> | 2003 HK\$'000 | 2002 HK\$'000 (restated) |
| Turnover | 3 | 589,653 | 554,548 |
| Cost of sales | | (478,877) | (454,633) |
| Gross profit | | 110,776 | 99,915 |
| Other operating income | | 8,267 | 13,302 |
| Distribution costs | | (13,183) | (12,035) |
| Administrative expenses | | (84,489) | (87,480) |
| Profit from operations | 4 | 21,371 | 13,702 |
| Finance costs | | (4,018) | (3,607) |
| Share of result of an associate | | 11,168 | 124 |
| Profit before taxation | | 28,521 | 10,219 |
| Taxation | 5 | (4,295) | (2,018) |
| Profit before minority interests | | 24,226 | 8,201 |
| Minority interests | | (1,176) | (488) |
| Profit for the year | | 23,050 | 7,713 |
| Dividend proposed per share | 6 | HK0.5 cent | HK0.5 cent |
| Earnings per share | 7 | | |
| Basic | | HK4.19 cents | HK1.39 cents |

Karce International Holdings Company Limited

Notes:

1. Basis of presentation

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda on 8 July 1997. The consolidated results include the results of the companies comprising the Group. All material intra-group transactions and balances have been eliminated on consolidation.

2. Adoption of revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted, for the first time, SSAP 12 "Income taxes" (Revised). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly.

3. Segment information

The turnover and contributions to profit from operations of the Group for the year ended 31 December 2003, analysed by business segments and by geographical segments, are as follows:

Business segments:

For management purposes, 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:

2003

| | Electronic calculators and organisers <i>HK\$'000</i> | Conductive silicon rubber keypads <i>HK\$'000</i> | Printed circuit boards <i>HK\$'000</i> | Other operations <i>HK\$'000</i> | Eliminations <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|----------------------------------|--|--|---|-------------------------------------|---------------------------------|---------------------------------|
| OPERATING RESULTS | | | | | | |
| TURNOVER | | | | | | |
| External sales | 300,116 | 120,748 | 133,093 | 35,696 | — | 589,653 |
| Inter-segment sales | 4,706 | 9,942 | 16,730 | 125 | (31,503) | — |
| Total | <u>304,822</u> | <u>130,690</u> | <u>149,823</u> | <u>35,821</u> | <u>(31,503)</u> | <u>589,653</u> |
| RESULT | | | | | | |
| Segment result | <u>19,401</u> | <u>1,863</u> | <u>13,698</u> | <u>(12,368)</u> | — | 22,594 |
| Other operating income | | | | | | 204 |
| Unallocated corporate expenses | | | | | | (1,427) |
| Profit from operations | | | | | | 21,371 |
| Finance costs | | | | | | (4,018) |
| Share of result of an associate | | | | | | 11,168 |
| Profit before taxation | | | | | | 28,521 |
| Taxation | | | | | | (4,295) |
| Profit before minority interests | | | | | | 24,226 |
| Minority interests | | | | | | (1,176) |
| Profit for the year | | | | | | <u>23,050</u> |

2002

| | Electronic calculators and organisers <i>HK\$'000</i> | Conductive silicon rubber keypads <i>HK\$'000</i> | Printed circuit boards <i>HK\$'000</i> | Other operations <i>HK\$'000</i> | Eliminations <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> (restated) |
|--------------------------|--|--|---|-------------------------------------|---------------------------------|---|
| OPERATING RESULTS | | | | | | |
| TURNOVER | | | | | | |
| External sales | 321,043 | 105,682 | 86,583 | 41,240 | — | 554,548 |
| Inter-segment sales | 4,363 | 10,065 | 12,701 | — | (27,129) | — |
| Total | <u>325,406</u> | <u>115,747</u> | <u>99,284</u> | <u>41,240</u> | <u>(27,129)</u> | <u>554,548</u> |
| RESULT | | | | | | |
| Segment result | <u>13,263</u> | <u>8,524</u> | <u>4,130</u> | <u>(11,620)</u> | — | 14,297 |

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| | |
|----------------------------------|--------------|
| Other operating income | 831 |
| Unallocated corporate expenses | (1,426) |
| Profit from operations | 13,702 |
| Finance costs | (3,607) |
| Share of result of an associate | 124 |
| Profit before taxation | 10,219 |
| Taxation | (2,018) |
| Profit before minority interests | 8,201 |
| Minority interests | (488) |
| Profit for the year | <u>7,713</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 market:

| | Turnover | | Contribution to profit from operations | |
|---|------------------|------------------|--|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Hong Kong (note a) | 157,054 | 99,903 | 6,018 | 2,576 |
| Japan (note b) | 110,735 | 141,697 | 4,243 | 3,653 |
| America | 49,380 | 66,367 | 1,892 | 1,711 |
| Europe | 87,815 | 92,919 | 3,365 | 2,396 |
| People's Republic of China ("PRC"), other than Hong Kong | 98,197 | 78,318 | 3,763 | 2,019 |
| Other Asian countries | 76,894 | 59,193 | 2,946 | 1,526 |
| Others | 9,578 | 16,151 | 367 | 416 |
| | <u>589,653</u> | <u>554,548</u> | <u>22,594</u> | <u>14,297</u> |
| Other operating income | | | 204 | 831 |
| Unallocated corporate expenses | | | (1,427) | (1,426) |
| Profit from operations | | | <u>21,371</u> | <u>13,702</u> |

Notes:

- The Directors believe that a portion of the Group's sales attributable to the Hong Kong market was subsequently resold to other markets.
- 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.

4. Profit from operations

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Profit from operations has been arrived at after charging: | | |
| Auditors' remuneration | | |
| Current year | 594 | 540 |
| Underprovision in the prior years | 60 | 5 |
| Depreciation and amortisation: | | |
| Property, plant and equipment | 35,614 | 31,958 |
| Intangible assets – development costs | 8,190 | 9,360 |
| Operating lease rentals | 1,137 | 1,256 |
| Impairment loss on property, plant and equipment | 3,698 | – |
| Loss on disposal of property, plant and equipment | 279 | 463 |
| Property, plant and equipment written off | – | 8,047 |
| Allowance for doubtful debts | – | 521 |
| Allowance for obsolete and slow-moving inventories | 258 | 316 |
| Research and development costs expensed | 3,049 | 5,579 |
| Revaluation deficit of land and buildings included in administrative expenses | 136 | 346 |
| Staff costs | <u>103,608</u> | <u>97,013</u> |

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5. Taxation

| | 2003 HK\$'000 | 2002 HK\$'000 (restated) |
|---|------------------|--------------------------------|
| The charge comprises: | | |
| Hong Kong Profits Tax: | | |
| Current year | 25 | 40 |
| Overprovision in prior years | (2) | – |
| PRC enterprise income tax | 2,279 | 1,604 |
| | <u>2,302</u> | <u>1,644</u> |
| Deferred taxation | 54 | (235) |
| | <u>2,356</u> | <u>1,409</u> |
| Taxation attributable to the Company and its subsidiaries | 1,939 | 609 |
| Share of taxation attributable to an associate | | |
| | <u>4,295</u> | <u>2,018</u> |

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. PRC enterprise income tax is calculated at the rates prevailing.

6. Dividend proposed

A final dividend of HK0.5 cent (2002: HK0.5 cent) per share with an amount of approximately HK\$2,754,000 (2002: approximately HK\$2,754,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year under review of approximately HK\$23,050,000 (2002: approximately HK\$7,713,000 as restated) and the weighted average number of 550,776,000 (2002: 555,598,268) ordinary shares in issue during the year.

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

8. Reserves

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Special reserve HK\$'000 | Statutory reserves HK\$'000 | Asset revaluation reserve HK\$'000 | Exchange reserve HK\$'000 | Goodwill reserve HK\$'000 | Capital redemption reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|--------------------------------|--------------------------------|-----------------------------------|---|---------------------------------|---------------------------------|--|---------------------------------|-------------------|
| THE GROUP | | | | | | | | | | |
| As at 1 January 2002 | | | | | | | | | | |
| – as originally stated | 79,022 | 35,597 | 19,487 | 6,553 | 51,062 | (1,847) | (31,539) | 286 | 96,800 | 255,421 |
| – prior period adjustment on adoption of SSAP 12 (Revised) | – | – | – | – | (13,787) | – | – | – | (305) | (14,092) |
| – as restated | 79,022 | 35,597 | 19,487 | 6,553 | 37,275 | (1,847) | (31,539) | 286 | 96,495 | 241,329 |
| On issue of shares | 3,600 | – | – | – | – | – | – | – | – | 3,600 |
| On repurchase of shares | (258) | – | – | – | – | – | – | 636 | (636) | (258) |
| Revaluation surplus on land and buildings | – | – | – | – | 4,865 | – | – | – | – | 4,865 |
| Minority share of post-acquisition reserve | – | – | – | – | (39) | – | – | – | – | (39) |
| Deferred tax liabilities arising on revaluation of land and buildings | – | – | – | – | (1,313) | – | – | – | – | (1,313) |
| Minority share of deferred tax liabilities arising on revaluation of land and buildings | – | – | – | – | 11 | – | – | – | – | 11 |
| Final dividend for 2001 paid | – | – | – | – | – | – | – | – | (5,571) | (5,571) |
| Profit for the year | – | – | – | – | – | – | – | – | 7,713 | 7,713 |
| As at 31 December 2002 | <u>82,364</u> | <u>35,597</u> | <u>19,487</u> | <u>6,553</u> | <u>40,799</u> | <u>(1,847)</u> | <u>(31,539)</u> | <u>922</u> | <u>98,001</u> | <u>250,337</u> |
| Revaluation surplus on land and buildings | – | – | – | – | 2,362 | – | – | – | – | 2,362 |
| Exchange differences on translation of overseas operations | – | – | – | – | – | 2,760 | – | – | – | 2,760 |
| Minority share of post-acquisition reserve | – | – | – | – | (22) | – | – | – | – | (22) |
| Deferred tax liabilities arising on revaluation of land and buildings | – | – | – | – | (774) | – | – | – | – | (774) |
| Minority share of deferred tax liabilities arising on revaluation of land and buildings | – | – | – | – | 8 | – | – | – | – | 8 |
| Final dividend for 2002 paid | – | – | – | – | – | – | – | – | (2,754) | (2,754) |
| Profit for the year | – | – | – | – | – | – | – | – | 23,050 | 23,050 |
| As at 31 December 2003 | <u>82,364</u> | <u>35,597</u> | <u>19,487</u> | <u>6,553</u> | <u>42,373</u> | <u>913</u> | <u>(31,539)</u> | <u>922</u> | <u>118,297</u> | <u>274,967</u> |

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DIVIDEND

The Directors will recommend at the forthcoming annual general meeting a final dividend of HK0.5 cent (2002: HK0.5 cent) per share payable on or before 30 June 2004 to shareholders whose names appear on the register of members of the Company on 25 May 2004 and is subject to the approval by the shareholders in the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 May 2004 to 25 May 2004, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for attending the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 18 May 2004.

BUSINESS AND OPERATIONAL REVIEW

BUSINESS REVIEW

The results of 2003 reflected challenging economic conditions attributed by the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the war in Iraq 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.

For the year ended 31 December 2003, turnover of the Group rose by approximately 6.3 per cent. to approximately HK\$ 589,653,000 (2002: approximately HK\$554,548,000). In spite of the competitive business environment, the Group was able to improve the gross profit margin by approximately 0.8 per cent. to approximately 18.8 per cent. (2002: approximately 18.0 per cent.).

Operating profit before taxation and minority interests increased by approximately 179.1 per cent. from previous year to approximately HK\$28,521,000 (2002: approximately HK\$10,219,000).

Net profit attributable to shareholders has also increased by 198.8 per cent. to approximately HK\$23,050,000 for the year ended 31 December 2003 (2002: approximately HK\$7,713,000). In addition, the earnings per share increased from approximately HK\$1.39 cents for the year ended 31 December 2002 to approximately HK\$4.19 cents for the year ended 31 December 2003.

Earnings before interest, taxation, depreciation and amortization ("EBITDA") from the Group's established businesses grew 37.8 per cent. to approximately HK\$72,842,000 (2002: approximately HK\$52,861,000). The Group will continue to develop and expand its core businesses while maintaining its healthy financial position.

The Directors are encouraged by the successful investment in an associate, Ascalade Communications Holdings Limited ("Ascalade Holdings"), which together with its subsidiaries, the "Ascalade Group") in which the Group owned 49 per cent. of its equity interest.

It was a very successful year for Ascalade Group in 2003. For the year ended 31 December 2003, Ascalade Group had achieved 486 times increases in record turnover and 90 times increase in profit before taxation respectively. Strong growth of sales in Ascalade Group has been driven by our innovation in product design and functionality which had led to increases in orders from the existing customers and thus, enhancing the ability to open up new markets, particularly in Europe, the United States of America and the Asia Pacific region.

The customer base of Ascalade Group comprises mainly of prime telecom operating companies and telecom product distributors in the European market. The core business of Ascalade Group continues to be the design and manufacture of digital and analogue corded and cordless telephones for sale to major telecom companies and distributors in Europe and Asia-Pacific.

Supported by a capable and dedicated management team, Ascalade Group is well positioned to take on further challenges and opportunities in full confidence.

SEGMENTAL ANALYSIS

Electronic calculators and organisers

During the year under review, an unprecedented combination of unfavourable factors prevailed. The war in Iraq, together with the SARS epidemic, affected the confidence of consumers and retailers. These challenging economic conditions, however, had insignificant 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 year under review.

A series of promotional activities, including participation in the Hong Kong Electronics Fair 2003 in October, were undertaken to establish a broad and solid overseas customer base for the Group's KARCE products.

For the year ended 31 December 2003, the turnover derived from sales of electronic calculators and organizers slightly decreased by approximately 6.5 per cent. to approximately HK\$300,116,000 (2002: approximately HK\$321,043,000), representing approximately 50.9 per cent. of the turnover of the Group.

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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 year under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 2 per cent. to approximately 21.4 per cent. (2002: approximately 19.4 per cent.). Allowing more flexibility in proacting to fast changing market demands, the Group strived for a combined proven excellence in product development and cost-effective manufacturing strategy with a new customer-centric approach.

As a result, the operating profit from sales of electronic calculators and organizers for the year ended 31 December 2003 amounted to approximately HK\$19,401,000 (2002: approximately HK\$13,623,000).

Given that economic recovery is under way, it is expected that turnover and profitability will continue to improve substantially in the coming year.

Conductive silicon rubber keypads

For the year ended 31 December 2003, the turnover of conductive silicon rubber keypads segment further increased by approximately 14.3 per cent. to approximately HK\$120,748,000 (2002: approximately HK\$105,682,000), representing approximately 20.5 per cent. of the turnover of the Group. This was due to the success on the Group's strategy of the acquisition of Dongguan Tehsutec Electronic Limited in October 2002.

However, the market was extremely tough in 2003. Facing similar unfavourable economic environment as that of the electronic calculators and organizers segment, along with the intensive price competition, the gross profit margin dropped by approximately 6 per cent. from approximately 20 per cent. to 14 per cent.

As a result, conductive silicon rubber keypads segments recorded an operating profit of approximately HK\$1,863,000 for the year ended 31 December 2003 (2002: approximately HK\$8,524,000).

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

Through the setting up of On Shing Holdings Company Limited (the "On Shing Holdings", which together with its subsidiaries, the "On Shing Group") with a technology partner based in Korea for the manufacture and distribution of telephone keypads products, the Group has upgraded its technical capabilities to develop more sophisticated conductive silicon rubber keypads products.

Looking ahead, the Directors believe that, through this strategic alliance, the long term ultimate strategy to enhance the competitiveness of silicone rubber keypads products can be achieved.

Printed Circuit Boards ("PCB")

For the year ended 31 December 2003, the PCB segment achieved significant growth. Turnover derived from PCB segment increased by approximately 53.7 per cent. to approximately HK\$133,093,000 (2002: approximately HK\$86,583,000), representing an approximately 22.6 per cent. of the turnover of the Group. The increases in turnover and net profit were due to the strong full year contribution from multi-layer manufacturing operations.

The management continued to focus on stringent cost management, which was mainly contributed by the competitive prices in 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\$17,199,000 for the year ended 31 December 2003 (2002: approximately HK\$5,412,000). For the year under review, the gross profit margin had increased by approximately 5 per cent. to approximately HK\$25,224,000 (2002: approximately 11.8 per cent.).

Along with the substantial growth in PCB business, the Group is planning to acquire additional machineries in the coming year 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\$35,696,000 for the year ended 31 December 2003 (2002: approximately HK\$20,530,000).

During the year under review, the electronic toys segment recorded an operating loss before taxation of approximately HK\$3,501,000 (2002: loss from operations of approximately HK\$2,298,000).

Although the investments in new products and business lines had clearly affected the Group's earnings 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 year.

Cordless telephone products

After the establishment of Ascalade Holdings, the Group's telecommunication business was consolidated in Ascalade Group. Accordingly, the cordless telephone segment recorded an amortization expense on the incurred development cost amounted to approximately HK\$8,190,000 for the year ended 31 December 2003 (2002: approximately HK\$9,360,000). During the year under review, the incurred development cost was fully amortized.

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As a result, for the year ended 31 December 2003, the cordless telephone segment recorded an operating loss before taxation of approximately HK\$8,867,000 (2002: loss from operations of approximately HK\$9,322,000)

Share of result of an associate, Ascalade Group

It was a very successful year for Ascalade Group in 2003. The turnover derived from the telecommunication businesses and products, such as parafone, 1.8 GHz, 2.4GHz, 5.8GHz cordless phones and wireless conference phones grew by approximately 386 per cent. to approximately HK\$483,334,000 for the year ended 31 December 2003 (2002: approximately HK\$99,423,000).

During the year under review, Ascalade Group incurred development cost amounted to approximately HK\$28,704,000 for the development of Digital Enhanced Cordless Telephones (“DECT”) phones and telecommunication products.

The Group had been rewarded with the share of positive contribution to the Group’s operating profit before taxation amounted to approximately HK\$11,168,000 (2002: approximately HK\$124,000).

In the coming year, Ascalade Group will maintain its commitment in research and development and is planning to produce new DECT products with colour screen, voice over internet protocol wireless telephone and baby monitors. The management of Ascalade Group will focus on stringent cost control in order to enhance its profit margin. The Directors are confident that Ascalade Group will report another year of growth in 2004 and in turn, brings an encouraging return to the Group.

FUTURE PLANS AND PROSPECTS

Although 2003 was a difficult year due to SARS, the war in Iraq and an increasingly competitive world environment, the Group had performed well in all of its established business sectors and enjoyed strong cashflows from its diversified operations. EBITDA from the Group’s established businesses had grown by approximately 37.8 per cent. to approximately HK\$72,842,000 (2002: approximately HK\$52,861,000). The Group will continue to develop and expand its core businesses while maintaining its healthy financial position.

With affirmed improving economy ahead, the Group is expecting new business opportunities in the coming year.

Electronics calculators and organisers

The electronics calculators and organizers business will manage to get customized electronic modules approved by various major customers. This will bring additional business along with the established businesses of electronics components and electronic-integrated connectors.

To cater for the upcoming business expansion, additional production capacity and clean rooms are in the process of setting up and expected to be completed by the end of the second quarter of 2004.

PCB

With growing business opportunities from both existing and new communication customers, the Group is expecting greater PCB demand for application of communication products in 2004, which would bring about even better layer count mix.

It is expected that critical raw material prices may trend further upwards and as a result, PCB selling prices should be able to hold well and even move slightly upwards in the coming year. Accordingly, together with the layer count mix improvement, the average selling price of the PCB products is expected to improve further in the coming year.

The Group will cautiously evaluate the business opportunities available from both the existing customers and newly developed customers and will launch an expansion plan when the right market opportunities warrant.

Ascalade Group

The sales orders of Ascalade Group in the first half of 2004 have continued to be strong and the Directors are confident that a full order book can be attained for the balance of the year. The management of Ascalade Group has been working diligently on new product development for 2004 and the initial response in “CEBIT” held at Hannover in Germany has been very positive. In the coming year, the Group will progressively increase the manufacturing capacity in tandem to cope with the growing cordless telephone business in Ascalade Group.

Despite the competitive market condition, the Directors anticipate another exciting year ahead with full orders and growing customer base. The Directors believe that both the turnover and the net profit derived from Ascalade Group will report another year of growth.

With the introduction of a number of economic revival policies such as the People’s Republic of China (the “PRC”) and Hong Kong Closer Economic Partnership Arrangement (“CEPA”) by the Central Government of the PRC, economic recovery is now underway in Hong Kong. Of course, our businesses are also sensitive to global economic trends, and in particular the US and European economies, as well as increasing global competition.

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Despite the challenges we may be facing ahead, the Directors are fully confident that with the healthy financial position, solid business foundation, efficient and loyal management and staff, all of the existing core businesses will continue to provide satisfactory recurring contributions in 2004 and the operations in Ascalade Group will demonstrate their potential to create long-term intrinsic value to our shareholders.

Barring unforeseeable circumstances, the management is confident of further improving performances in the coming financial year as the Group's growth platform has been refined and strengthened.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK\$330,045,000 as at 31 December 2003 from approximately HK\$305,415,000 as at 31 December 2002. As at 31 December 2003, the short term and long term interest bearing debts to shareholders' equity was approximately 39.3 per cent. (2002: approximately 27.8 per cent.).

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 31 December 2003, the Group had fixed deposits and cash balances aggregated to approximately HK\$66,346,000 (2002: approximately HK\$68,718,000).

As at 31 December 2003, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$231,721,000 (2002: approximately HK\$209,948,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$170,400,000 (2002: approximately HK\$151,069,000) in Hong Kong granted to the Group, approximately HK\$46,022,000 (2002: approximately HK\$5,417,000) had been utilised as at 31 December 2003. The term loan banking facilities in the PRC amounted to approximately HK\$61,321,000 (2002: approximately HK\$58,879,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

In 2003, the current ratio was maintained at approximately 1.1 (2002: approximately 1.5) based on current assets of approximately HK\$325,868,000 and current liabilities of approximately HK\$285,740,000 and the quick ratio was approximately 0.9 (2002: approximately 1.0).

As at 31 December 2003, total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK\$129,838,000 (2002: approximately HK\$84,855,000), representing approximately 39.3 per cent. of the total shareholders' equity (2002: approximately 27.8 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.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's cash balances are deposited in Hong Kong dollars or United States dollars with major banks in Hong Kong.

As stated under the section head of "Liquidity And Financial Resources", the Group had term loans banking facilities in the PRC amounted to approximately HK\$61,321,000 (2002: approximately HK\$58,879,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

Having considered the interest rate environment and the possibility on the appreciation of Renminbi, the Group has obtained a three year term loan amounting to HK\$45,000,000 and plans to repay the term loan banking facilities in the PRC.

The exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options. As at 31 December 2003, we had no outstanding forward contract in place to hedge against possible exchange losses from future net cash flows. Speculative currency transactions are strictly prohibited. The management of currency risk is centralized in the headquarter of the Group in Hong Kong.

Apart from the above, most of the Group's assets and liabilities, revenues and expenditures are either in Hong Kong dollars or United States dollars. Therefore, the Directors consider the exposure risk to foreign currency fluctuations minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed approximately 7,940 full time employees, out of which 80 were based in Hong Kong and 7,860 were based in the PRC. The Group remunerated its employees on the basis of industry's practice and the performance of individual employee. Employees may also participate in the share option scheme of the Company.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the 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 Company's bye-laws.

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AUDIT COMMITTEE

The Audit Committee ("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 audited consolidated results for the year ended 31 December 2003.

The members of the Committee included the two independent non-executive Directors of the Company.

PURCHASE, SALES AND REDEMPTION OF SECURITIES

During the year ended 31 December 2003, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

PUBLICATION OF OTHER FINANCIAL INFORMATION

Other financial information containing all the information required by paragraphs 45(1) to 45(3) (both paragraphs inclusive) 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, 19 April 2004

* *for identification only*



KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Karce International Holdings Company Limited (the “Company”) for the financial year ended 31 December 2003 will be held at The Crystal Room IV, 3rd Floor, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, New Territories, Hong Kong on Tuesday, 25 May 2004 at 11:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2003;
2. to declare a final dividend for the year ended 31 December 2003;
3. to re-elect the directors and authorise the board of directors to fix the remuneration;
4. to re-appoint auditors and authorise the board of directors to fix their remuneration; and
5. to consider as special business and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

A. “**THAT**:-

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company (the “**Directors**”) during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; (iii) the exercise of any option under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers, employees of the Company and/or any of its subsidiaries or other eligible participants of shares or rights to acquire shares in the Company or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this Resolution:-
“**Relevant Period**” means the period from the passing of this Resolution until whichever is the earliest of:-
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (iii) the date of which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“**Rights Issue**” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).”

B. “**THAT**:-

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase shares of the Company, subject to and in accordance with all applicable laws and requirements, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company which may be purchased pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this resolution:-
“**Relevant Period**” means the period from the passing of this Resolution until whichever is the earlier of:-
 - (i) the conclusion of the next annual general meeting of the Company;

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- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (iii) the date which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”
- C. “**THAT** conditional upon Resolutions A and B set out above being passed, the aggregate nominal amount of the shares of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution B above shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the Resolution A above.”
6. As special business, to consider and if thought fit, pass the following resolutions as special resolutions :
- “**THAT** the bye-laws of the Company be amended in the following aspects :
- A. by adding the following definition in Bye-law No.1 immediately after the definition of “Act”:
“associate” the meaning attributed to it in the rules governing the listing of shares of the Company on the Designated Stock Exchange.
- B. by deleting Bye-law No.76 in its entirety and substituting thereof the followings:
76. (1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.
- (2) Where any Member is, under the rules governing the listing of shares of the Company on the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.
- C. by deleting Bye-law No.88 in its entirety and substituting thereof the following:
88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given for his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.
- D. by deleting Bye-law No.103 in its entirety and substituting thereof the followings:
103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) is/are materially interested, but this prohibition shall not apply to any of the following matters namely :
- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by giving of security;
 - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/ their interest in shares or debentures or other securities of the Company;
 - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owned five (5) per cent. or more if and so long as (but only if so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associate(s) is/are derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any

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shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorized unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

- (3) Where a company in which a Director and/or his associate(s) hold five (5) per cent. or more is/are material interested in a transaction, then that Director shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) and/or his associate (s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

By Order of the Board
Wong Hei Chiu
Company Secretary

Hong Kong, 19 April 2004

Notes:

1. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
3. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the principal office of the Company, Units I and 2, 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

** for identification only*

Please also refer to the published version of this announcement in The Standard dated 20 April 2004.