



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 2002

HIGHLIGHTS

The Group's turnover increased by 18 per cent. to approximately HK\$286 million

Profit attributable to shareholders increased by 8 per cent. to approximately HK\$4.7 million

Bank balances and cash increased by HK\$5 million to approximately HK\$86 million

Total assets increased by 2.3 per cent. to approximately HK\$316 million

Basic earnings per share was HK 0.85 cents

The board of Directors of Karce International Holdings Company Limited (the "Company" together with its subsidiaries the "Group") announced the unaudited interim results of the Group for the first six months ended 30 June 2002. The Group's audit committee has reviewed the interim results.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Notes	2002	2001
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Turnover	3	285,967	241,641
Cost of sales		(233,080)	(204,682)
Gross profit		52,887	36,959
Other revenue		2,474	3,545
Distribution costs		(5,485)	(5,705)
Administrative expenses		(41,889)	(27,171)
Profit from operations	4	7,987	7,628
Finance costs		(1,771)	(1,873)
Profit before taxation		6,216	5,755
Taxation	5	(1,181)	(970)
Profit before minority interests		5,035	4,785
Minority interests		(300)	(403)
Net profit attributable to shareholders		4,735	4,382
Earnings per share	6		
Basic		0.85 cents	0.81 cents

Notes:

1. BASIS OF PREPARATION

The condensed 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 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 2001 except as described below.

In the current period, the Group has adopted, for the first time, the following revised or new SSAPs issued by the HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

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:

	(Unaudited)							
	For the six months ended 30 June							
	2002				2001			
	External sales	Inter- segment sales	Segment sales	Segment results	External sales	Inter- segment sales	Segment sales	Segment results
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(restated)</i>							
OPERATING RESULTS								
By segments:								
Electronic calculators and organisers	174,284	3,780	178,064	7,315	177,415	3,236	180,651	4,843
Conductive silicon rubber keypads	46,881	4,796	51,677	6,130	19,848	3,629	23,477	4,368
Printed circuit boards	39,076	7,335	46,411	2,458	44,069	7,373	51,442	2,771
Other operations	25,726	-	25,726	(9,707)	309	-	309	(1,392)
	<u>285,967</u>	<u>15,911</u>	<u>301,878</u>	<u>6,196</u>	<u>241,641</u>	<u>14,238</u>	<u>255,879</u>	<u>10,590</u>
Sub-total	-	(15,911)	(15,911)	-	-	(14,238)	(14,238)	-
Elimination	<u>-</u>	<u>(15,911)</u>	<u>(15,911)</u>	<u>-</u>	<u>-</u>	<u>(14,238)</u>	<u>(14,238)</u>	<u>-</u>
Consolidated	<u>285,967</u>	<u>-</u>	<u>285,967</u>	<u>6,196</u>	<u>241,641</u>	<u>-</u>	<u>241,641</u>	<u>10,590</u>
Other revenue				2,474				3,545
Unallocated corporate expenses				(683)				(6,507)
				<u>7,987</u>				<u>7,628</u>
Profit from operations				(1,771)				(1,873)
Finance costs				<u>6,216</u>				<u>5,755</u>
Profit before taxation				(1,181)				(970)
Taxation				<u>5,035</u>				<u>4,785</u>
Profit before minority interests				(300)				(403)
Minority interests				<u>4,735</u>				<u>4,382</u>
Profit for the period				<u><u>4,735</u></u>				<u><u>4,382</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			
	2002 <i>HK\$'000</i> (unaudited)	2001 <i>HK\$'000</i> (unaudited)	2002 <i>HK\$'000</i> (unaudited)	2001 <i>HK\$'000</i> (unaudited) (Restated)
Japan (<i>note a</i>)	67,970	66,723	1,473	3,016
Hong Kong (<i>note b</i>)	53,577	51,188	1,161	2,270
Europe	56,624	29,528	1,227	1,294
America	43,856	30,211	950	1,359
PRC, other than Hong Kong	26,202	25,646	568	1,045
Other Asian countries	29,278	31,284	635	1,331
Others	8,460	7,061	182	275
	<u>285,967</u>	<u>241,641</u>	<u>6,196</u>	<u>10,590</u>
Other revenue			2,474	3,545
Unallocated corporate expenses			(683)	(6,507)
Profit from operations			<u>7,987</u>	<u>7,628</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 Europe and America 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	
	2002	2001
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (unaudited)

Profit from operations has been arrived at after charging:

Depreciation and amortisation	20,721	13,977
Property, plant and equipment written off	1,272	–
Allowance for doubtful debts	1,164	1,085
Operating lease rentals in respect of rented premises	252	141
Staff costs	<u>47,084</u>	<u>35,962</u>

5. TAXATION

Six months ended 30 June	
2002	2001
HK\$'000	HK\$'000
(unaudited)	(unaudited)

The charge comprises:

Hong Kong Profits Tax		
– current year	102	–
PRC enterprise income tax	1,079	970
	<hr/>	<hr/>
	1,181	970
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit attributable to operation in Hong Kong during the period.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

No provision for deferred taxation has been made as the effect of all timing differences is minimal.

6. EARNINGS PER SHARE

The calculation of the earnings per share is based on the unaudited net profit attributable to shareholders for the six months ended 30 June 2002 of approximately HK\$4,735,000 (six months ended 30 June 2001: approximately HK\$4,382,000) and the weighted average number of 557,144,000 ordinary shares (six months ended 30 June 2001: 539,937,945 ordinary shares) in issue during the period.

No fully diluted earnings per share is presented as the dilution effect is immaterial.

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 2002 (2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

During the period under review, it was an exceptionally challenging one for the Group. The management's ability in accommodating unforeseen changes and minimizing negative impact clearly demonstrates their capable expertise.

For the six months ended 30 June 2002, the Group recorded a turnover of approximately HK\$286 million, representing an increase of approximately 18 per cent. as compared with approximately HK\$242 million of the corresponding period in 2001.

Net profit attributable to shareholders had also increased by 8 per cent. to approximately HK\$4.7 million (six months ended 30 June 2001: approximately HK\$4.4 million).

Electronic calculators and organisers

During the period under review, the Group continued to focus on the sales of electronic calculators and organizers under the branded customers located throughout Japan, Europe and the United States of America. The Group has moved forward with a strategy that combined proven excellence in product development and cost-effective manufacturing with a new customer-centric approach.

For the six months ended 30 June 2002, the turnover of electronic calculators and organisers has slightly decreased by 2 per cent. to approximately HK\$174 million (six months ended 30 June 2001: approximately HK\$177 million). In the first quarter, the market was extremely tough. Price competition was fierce as traders and suppliers lowered the selling prices of the products in order to speed up their sales.

The management focused on tight cost control, mainly contributed by the raw materials and components, was substantially offset by the slight decrease in turnover during the period under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 58 per cent. from approximately 12 per cent. to approximately 19 per cent.. Demand in Europe and the United States of America remained strong in line with its economic growth but prices were subdued. Given that the recovery is under way, it is expected turnover will continue in the second half of the year and the profitability will continue to improve.

In the coming year, the Group will continue to adopt its business strategy for customers diversification, high value added production, effective cost control and quality management.

Conductive silicon rubber keypads

For the six months ended 30 June 2002, the turnover of conductive silicon rubber keypads significantly increased by 135 per cent. to approximately HK\$47 million (six months ended 30 June 2001: approximately HK\$20 million) representing approximately 16 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 2001.

Through the strategic alliance, the Group explored new business opportunities to expand its customers base and serve a broad range of well known customers in Japan and the People's Republic of China ("PRC"). The effort was rewarded as the contribution to operating profit amounted to approximately HK\$6 million (six months ended 30 June 2001: approximately HK\$4.4 million).

The Group's conductive silicon rubber keypads are mainly made 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 Limited will continue to give the Group the opportunity to better develop the manufacturing of conductive silicon rubber keypads' business and the acquisition will contribute positively to the future revenue growth of the Group in the coming year.

Printed Circuit Boards ("PCB")

For the six months ended 30 June 2002, the turnover of PCB dropped to approximately HK\$39 million (six months ended 30 June 2001: approximately HK\$44 million) representing approximately 14 per cent. of the turnover of the Group.

During the period under review, business strategy was adopted by the Group to consolidate its key client base and stringent cost control was proposed. The Group's effort in this direction had resulted in an improved gross profit margin to approximately 15 per cent. from approximately 13 per cent. of the corresponding period under review.

Along with the substantiate growth in PCB business, the Group has further spent approximately HK\$3 million to acquire machineries in the coming period and the Directors believe that the future performance and prospects of the PCB business are optimistic.

Other operations

For the six months ended 30 June 2002, the Group spent approximately HK\$10 million on development costs for the manufacturing of Digital Enhanced Cordless Telephone (“DECT phones”) and telecommunication products. (six months ended 30 June 2001: nil).

Turnover derived from the above new businesses and products, such as Parafone and 1.8 GHz DECT phones, amounted to approximately HK\$21 million for the six months ended 30 June 2002. As these product lines are still at the initial development stage, their contribution was insignificant in the first half year of 2002, inevitably affecting our bottom line. For the six months ended 30 June 2002, the cordless telephone segments recorded an operating loss before taxation of approximately HK\$10 million. (six months ended 30 June 2001: loss from operations of approximately HK\$1.4 million)

Although the investment in new products and business lines had clearly impacted the Group’s earnings this year, the Directors believe it is a sound investment in exciting new areas of growth that will sustain returns to shareholders in the coming years, as earnings from new businesses come in.

For the six months ended 30 June 2002, the overall gross profit margin of the Group increased by approximately 20 per cent. to approximately 18 per cent. (six months ended 30 June 2001: approximately 15 per cent.).

Nevertheless, the unaudited consolidated net profit attributable to shareholders for the six months ended 30 June 2002 amounted to approximately HK\$4.7 million, representing an increase of approximately 8 per cent. over the corresponding period in 2001.

Shareholders’ equity increased to approximately HK\$316 million as at 30 June 2002 from approximately HK\$309 million as at 31 December 2001.

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 2002, the Group has cash in hand of approximately HK\$86 million (as at 31 December 2001: approximately HK\$81 million).

The Group currently has aggregated banking facilities amounting to approximately HK\$167 million (as at 31 December 2001: approximately HK\$160 million). The trade and overdraft banking facilities of approximately HK\$104 million (as at 31 December 2001: HK\$102 million) in Hong Kong and the term loan banking facilities of approximately HK\$58 million (as at 31 December 2001: HK\$53 million) in the PRC. All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2002, total indebtedness included bank borrowings and obligations under finance leases and hire purchase contracts amounted to approximately HK\$69 million (as at 31 December 2001: approximately HK\$69 million).

The total indebtedness as at 30 June 2002 represented approximately 22 per cent. of the total shareholders’ equity (as at 31 December 2001: approximately 22 per cent.).

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

POST BALANCE SHEET DATE DEVELOPMENT

The Directors also takes pleasure to announce that the Group has established an associate company, Ascalade Communications Holdings Limited (“Ascalade Holdings”) with Arkon Technologies Inc. (“Arkon”) on 14 August 2002.

Arkon is one of the leading technology companies in Richmond, British Columbia, Canada and sales offices in Asia and Europe specializing in research and development of high-end telecommunications products. Arkon is also a leading product development company that develops, licenses and distributes hardware and software designs in wireless telecommunications and networking products and has a global clientele comprises manufacturers and telecom service providers. The Group and the Arkon’s major shareholders each owns 49 per cent of the equity interest in Ascalade Holdings. Through a strategic alliance with Arkon, the Group has upgraded its technical capabilities to develop more sophisticated electronic, wireless telecommunications and networking products. More importantly, the Directors believe that, through the setting up of Ascalade Holdings, the long-term ultimate strategy to enhance the competitiveness of the Group’s products can be achieved.

Ascalade Holdings will be engaged in the design, manufacture and distribution of cordless phones and other telecommunication products for the markets in Hong Kong, Europe and North America. The Directors expect that the initial production capabilities of Ascalade Holdings will be able to achieve 3 to 4 million pieces of cordless phones per year.

In order to sustain its growth momentum, the Group has agreed to provide a loan amounted to HK\$39 million to Ascalade Holdings as its working capital. This loan amount is expected to be used by Ascalade Holdings for paying a monthly fee of USD300,000 as development costs and for acquiring machineries and equipments amounting to approximately HK\$8 million in the second half of the year.

The Directors believe that Ascalade Holdings will provide a strong growth in turnover and contribute to the future growth of the Group.

FUTURE PLANS AND PROSPECTS

The Directors view the second half of the year with cautious optimism. The Directors will continue to develop existing business and pursue new growth areas, while keeping tight control over costs and stringent risk management, against mounting instability in the world economy.

As profit margins for traditional products such as electronic calculators and organizers are likely to continue to be squeezed, the Group has adopted a strategy of carefully planned, customer driven expansion. The Group’s manufacturing facility in Dongguan has only been utilized up to approximately 80 per cent. when compared to the overall production capacity. Operation efficiency has continued to improve and the production has continued to grow as customers are satisfied with both the Group’s products and deliveries. The Group continues to remain positive on growth opportunities in the manufacturing of DECT phones and other telecommunication products.

The Group will continue to focus on its core businesses and reinforce its leadership position by capitalizing on its research and development strengths and international sales and marketing network.

Looking forward, the Group has maintained positive momentum. Nevertheless, the Directors anticipate a much more difficult business environment ahead originating from the political and financial instability of the global economy and accordingly, the Directors will continue to strive for a healthy balance sheet and low debt ratio.

The Directors also believe that with its strong management team, product diversification, closed and established customer relations and effective strategic planning, the Group is confident in maintaining its positive direction in the future. Barring unforeseeable circumstances, the Directors are confident that performances in the coming financial year can be impaired as the Group’s growth platform has been refined and strengthened.

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 2002 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 ("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 2002.

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

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 2002.

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, 16 September 2002

* *for identification only*

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