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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

HIGHLIGHTS

The Group's turnover decreased by approximately 7.5 per cent. to approximately HK$331,244,000

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") decreased by approximately 18 per cent. to approximately HK$32,858,000

Profit attributable to shareholders decreased by approximately 30 per cent. to approximately HK$11,842,000

Bank balances and cash increased by approximately 124 per cent. to approximately HK$78,196,000

Net assets increased by approximately 3 per cent. to approximately HK$398,918,000

Basic earnings per share decreased by approximately 30 per cent. to approximately HK2.15 cents

The board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company" together with its subsidiaries the "Group") is pleased to present to the shareholders of the Company the unaudited consolidated interim results of the Group for the six months ended 30 June 2005. The Company's audit committee has reviewed the interim results.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Six months ended 30 June	
		2005	2004
		HK$'000	*HK$'000*
	Note	***(unaudited)***	*(unaudited and restated)*
Turnover	*4*	**331,244**	358,166
Cost of sales		**(278,681)**	(296,218)
Gross profit		**52,563**	61,948
Other operating income		**8,381**	3,903
Distribution costs		**(5,463)**	(7,946)
Administrative expenses		**(36,286)**	(43,521)
Finance costs		**(1,785)**	(1,766)
Share of result of an associate		**(5,453)**	5,325
Profit on disposal of a subsidiary		**2,227**	–
Profit on deemed disposal of partial interest in an associate		**1,106**	–
Profit before taxation	*5*	**15,290**	17,943
Taxation	*6*	**(3,448)**	(3,151)
Net profit for the period		**11,842**	14,792
Attributable to:			
Equity holders of the Company		**11,842**	17,019
Minority interests		**–**	(2,227)
		11,842	14,792
Earnings per share	*7*		
Basic		**HK2.15 cents**	HK3.09 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
	(unaudited)	*(audited and restated)*
NON-CURRENT ASSETS		
Property, plant and equipment	**214,439**	308,239
Land use rights	**12,342**	17,500
Investment properties	**61,118**	–
Negative goodwill	**–**	(3,215)
Interest in an associate	**75,019**	111,227
Club debenture	**1,180**	1,180
	364,098	434,931
CURRENT ASSETS		
Inventories	**75,851**	112,971
Trade, deposit and other receivables	**128,577**	139,449
Bills receivables	**–**	1,952
Investment held for trading	**32,121**	–
Amount due from an associate	**545**	677
Bank balances and cash	**78,196**	34,868
	315,290	289,917
CURRENT LIABILITIES		
Trade and other payables	**147,284**	181,532
Bills payable	**2,701**	2,702
Tax payable	**28,713**	27,083
Obligation under finance leases – due within one year	**9,166**	9,662
Bank borrowings – due within one year	**32,208**	55,667
	220,072	276,646
NET CURRENT ASSETS	**95,218**	13,271
TOTAL ASSETS LESS CURRENT LIABILITIES	**459,316**	448,202
NON-CURRENT LIABILITIES		
Obligation under finance leases – due after one year	**5,308**	7,533
Bank borrowings – due after one year	**36,000**	32,500
Deferred tax liabilities	**19,090**	20,127
	60,398	60,160
	398,918	388,042
CAPITAL AND RESERVES		
Share capital	**55,078**	55,078
Reserves	**343,840**	332,964
	398,918	388,042

Note:

1. **BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. **PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of HKAS 1 has resulted in a change in the presentation of the income statement and the statement of changes in equity. In particular, the presentation of shares of tax and results of associates and minority interest have been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(a) Business combination

In the current period, the Group has applied HKFRS 3 "Business Combinations" and the principal effects of the application to the Group are summarised below:

Goodwill

In prior periods, goodwill arising on consolidation for acquisition prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

In accordance with HKFRS 3, goodwill which had previously been taken directly to reserve will not be recognised in the income statement on the disposal or impairment of the acquired business, or under any other circumstances.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In prior periods, negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income statement in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets.

In accordance with the relevant transitional provision in HKFRS 3, negative goodwill as at 1 January 2005 was de-recognised by the way of a corresponding adjustment to the opening retained profits as at 1 January 2005.

The resulting effect on the financial statements of the Group is set out in note 3 below.

(b) Owned-occupied Leasehold Interest in Land

In prior periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively.

The resulting effect on the financial statements of the Group is set out in note 3 below.

(c) Financial Instruments

In the current period, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 39 is summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments' as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealized gains or losses of "trading securities" are reported in the income statement for the period in which gains or losses which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Debt securities reported under SSAP 24 was classified as "financial assets at fair value through profit or loss" upon the adoption of the HKAS 39.

Derivatives

In prior periods the recognised and unrecognised gain or losses of foreign currency forward contracts are recognised in accordance with the scope of SSAP 11. From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deeded as held for trading or designated as effective hedging instruments. Under HKAS 39, derivative (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are classified as held for trading, changes in fair values of such derivatives are recognised in profit and loss for the period in which they arise.

The resulting effect on the financial statements of the Group is set out in note 3 below.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior periods are as follows:

	HKAS 1 *HK$'000* *Note 2*	**HKAS 17** *HK$'000* *Note 2(b)*	**HKAS 39** *HK$'000* *Note 2(c)*	**HKFRS 3** *HK$'000* *Note 2(a)*	**Total effect** *HK$'000*
For the six months ended 30 June 2005					
Decrease in amortisation of negative goodwill	–	–	–	(363)	(363)
Decrease in amortisation of land use rights	–	106	–	–	106
Decrease in gain on disposal of a subsidiary	–	–	–	(747)	(747)
Increase in other income	–	–	128	–	128
Increase in share of results of an associate	1,318	–	–	–	1,318
Increase in income tax expenses	(1,318)	–	–	–	(1,318)
	–	106	128	(1,110)	(876)

	HKAS 1 *HK$'000* *Note 2*	HKAS 17 *HK$'000* *Note 2(b)*	Total effect *HK$'000*
For the six months ended 30 June 2004			
Decrease in amortisation of land use rights	–	119	119
Decrease in share of results of an associate	(1,368)	–	(1,368)
Decrease in income tax expenses	1,368	–	1,368
	–	119	119

The cumulative effects of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31.12.2004 Originally stated *HK$'000*	Applied retrospectively HKAS 17 *HK$'000* *Note 2(b)*	As at 31.12.2004 Restated *HK$'000*	Adjustment on 1.1.2005 HKFRS 3 *HK$'000* *Note 2(a)*	As at 1.1.2005 Restated *HK$'000*
Cumulative effect on the balance sheet of the Group					
Property, plant and equipment	334,807	(26,568)	308,239	–	308,239
Land use rights	–	17,500	17,500	–	17,500
Negative goodwill	(3,215)	–	(3,215)	3,215	–
Deferred taxation	(22,872)	2,745	(20,127)	–	(20,127)
Total effect on assets and liabilities		(6,323)		3,215	
Asset revaluation reserve	55,032	(7,421)	47,611	–	47,611
Retained profits	169,958	1,098	171,056	3,215	174,271
Total effect on equity		(6,323)		3,215	

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised as below:

	Originally stated *HK$'000*	HKAS 1 *HK$'000* *Note 2*	HKAS 17 *HK$'000* *Note 2(b)*	Restated *HK$'000*
Retained profits	118,297	–	860	119,157
Asset revaluation reserve	42,373	–	(8,242)	34,131
Minority interest	–	6,644	–	6,644
Total effect on equity		6,644	(7,382)	

4. 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:

2005			**Unaudited For the six months ended 30 June**			
	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						
TURNOVER						
External sales	**224,437**	**29,725**	**73,090**	**3,992**	**–**	**331,244**
Inter-segment sales	**1,082**	**6,384**	**10,117**	**–**	**(17,583)**	**–**
Total	**225,519**	**36,109**	**83,207**	**3,992**	**(17,583)**	**331,244**
RESULT						
Segment result	**27,272**	**(5,545)**	**(927)**	**(998)**		**19,802**
Other operating income						**87**
Unallocated corporate expenses						**(694)**
Finance costs						**(1,785)**
Share of result of an associate						**(5,453)**
Profit on disposal of a subsidiary						**2,227**
Profit on deemed disposal of partial interest in an associate						**1,106**
Profit before taxation						**15,290**
Taxation						**(3,448)**
Profit for the period						**11,842**

2004

	Unaudited For the six months ended 30 June					
	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						
TURNOVER						
External sales	201,627	75,513	67,109	13,917	–	358,166
Inter-segment sales	5,826	5,903	13,272	–	(25,001)	–
Total	207,453	81,416	80,381	13,917	(25,001)	358,166
RESULT						
Segment result	12,773	2,017	4,077	(4,001)	–	14,866
Other operating income						126
Unallocated corporate expenses						(608)
Finance costs						(1,766)
Share of result of an associate						5,325
Profit before taxation						17,943
Taxation						(3,151)
Profit for the period						14,792

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			
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	*(unaudited)*	***(unaudited)***	*(unaudited)*
Hong Kong (note a)	**125,996**	98,478	**7,532**	4,055
Japan (note b)	**36,535**	92,678	**2,184**	3,816
Europe	**43,961**	50,820	**2,628**	2,092
America	**28,153**	21,208	**1,683**	873
People's Republic of China ("PRC"), other than Hong Kong	**44,103**	27,182	**2,637**	1,238
Other Asian countries	**45,895**	64,814	**2,743**	2,669
Others	**6,601**	2,986	**395**	123
	331,244	358,166	**19,802**	14,866

Notes:

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

(b) 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.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation		
– Property, plant and equipment	**18,029**	17,635
– Land use rights	**146**	206
Loss on disposal of fixed assets	**–**	137
Allowance for doubtful debts	**525**	6,337
Provision for stock obsolescence	**2,881**	–
Operating lease rentals	**750**	357
Research and development costs	**254**	187
Staff costs	**48,278**	54,834

6. TAXATION

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Hong Kong Profits Tax	**2,651**	1,796
PRC enterprise income tax	**2,371**	1,355
Profit tax	**5,022**	3,151
Deferred taxation	**(1,574)**	–
	3,448	3,151

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2004: 17.5%) on the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax is calculated at the rates prevailing.

7. EARNINGS PER SHARE

The calculation of the earnings per share is based on the Group's unaudited net profit attributable to equity shareholders of the Company for the six months ended 30 June 2005 of approximately HK$11,842,000 (six months ended 30 June 2004: approximately HK$17,019,000) and the weighted average number of 550,776,000 ordinary shares (six months ended 30 June 2004: 550,776,000 ordinary shares) in issue during the period.

No fully diluted earnings per share has been presented because all the outstanding share options were lapsed in prior year.

8. COMPARATIVES

As explained in notes 1 and 2 due to the adoption of the New HKFRSs during the current period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

Despite a challenging operating landscape in the global platform, the Group still achieved a satisfactory result in the first half of 2005.

Year 2005 is a milestone for the Group. Ascalade Communications Inc. ("Ascalade Inc.", which together with its subsidiaries, the "Ascalade Group") has been successfully listed on the Toronto Stock Exchange ("TSX") on 27 June 2005 and has raised net proceeds of approximately US$29,100,000 (equivalent to approximately HK$226,980,000). Ascalade Inc. has developed a core competency for innovative design and efficient manufacturing of advanced digital wireless products.

On the other hand, the Group used to own two factories which were both engaging in the business of manufacturing of conductive silicon rubber keypads. In January 2005, the Group disposed the entire equity interest in an indirect wholly owned subsidiary, Dongguan Tehsutec Electronic Company Limited ("DTEC") which owned one of such factories.

For the six months ended 30 June 2005, the Group recorded a turnover of approximately HK$331,244,000, representing a decrease of approximately 7.5 per cent. as compared with approximately HK$358,166,000 of the corresponding period in 2004.

During the period under review, the Group experienced pressure on its profit margin from cost factors in the Peoples' Republic of China ("the PRC") such as wages, electricity, transportation, more stringent social responsibility standards and the cost of materials. In view of this, the Group has been changing the product mix to more premium-grade products in order to have greater pricing flexibility in face of these challenges.

Labour and electricity shortages in the PRC continued to present problems as the Group's production capacity is mainly located in the Guangdong region. Wages and benefits needed to be increased in order to retain skilled workers. The labour issue remained one of the main concerns for the Group, compounded by the new concerns for working, living and safety standards for workers.

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") of the Group's established businesses decreased by approximately 18 per cent. to approximately HK$32,858,000 (six months ended 30 June 2004: approximately HK$40,104,000).

For the six months ended 30 June 2005, the overall gross profit margin fell from approximately 17.3 per cent. to 15.9 per cent.

During the period under review, sustained, stringent and effective cost controls were successful in keeping administrative expenses at a stable and reasonable level.

As a result of the Group's ongoing efforts in diversifying its products and increasing its productivity, the Group attained a consolidated net profit for the six months ended 30 June 2005 of approximately HK$11,842,000 (six months ended 30 June 2004: approximately HK$14,792,000).

Electronic calculators and organizers

Despite the worldwide unstable supply and rising demand of copper and oil which have placed considerable pressure on both the supply and costs of the raw materials, the turnover of the electronic calculators and organizers business managed to grow and continued to contribute stable revenue to the Group during the period under review by taking full advantage of economies of scale of the Group and implementing effective cost control.

For the six months ended 30 June 2005, the turnover of electronic calculators and organizers remained as the core revenue generator of the Group, increased by approximately 11 per cent. to approximately HK$224,437,000 (six months ended 30 June 2004: approximately HK$201,627,000). It accounted for 68 per cent. of the Group's total turnover.

Supported by the product development engineers and designers based in Hong Kong and China, the Group boasts a consistent track record of the launching different product(s) every year. Besides product development, the research and development team also plays an important part in improving and refining the Group's production processes to cope with market's demand. A series of promotional activities continued to establish a broad and solid overseas customer base for the Group's "Karce" products.

On the other hand, the Group has also developed a series of tight cost control in order to keep the latest competitive prices in raw materials and components at a profitable and acceptable level.

With the continuous growth in business, the operating results rose strongly by approximately 114% per cent., from approximately HK$12,773,000 for the six months ended 30 June 2004 to approximately HK$27,272,000 for current period.

Conductive silicon rubber keypads

For the six months ended 30 June 2005, the turnover contributed from the conductive silicon rubber keypads business decreased by approximately 61 per cent. to approximately HK$29,725,000 (six months ended 30 June 2004: approximately HK$75,513,000) and the segment recorded an operating loss from operations of approximately HK$5,545,000 (six months ended 30 June 2004: profit from operations of approximately HK$2,017,000), representing 9 per cent. of the turnover of the Group.

The Group used to own two factories which were both engaging in the business of manufacturing of conductive silicon rubber keypads. During the period under review, the conductive silicon rubber keypads segment was under a series of consolidation. After acquisition of the remaining 49 per cent. equity interest of On Shing Holdings Company Limited in November 2004, the Group disposed the entire equity interest in DTEC in January 2005 which owned one of such factories at a consideration of HK$12,000,000. The gain arising from the disposal of approximately HK$2,227,000 has been recorded in this period.

After the consolidation, the Directors consider that the Group could streamline and concentrate on the development of its conductive silicon rubber keypads business and high value-added plastic plus rubber ("P+R") telephone keypads products in one factory for more effective management on business operations, key employees and client base.

With the successful acquisition and integration of the conductive silicon rubber keypads segment, the Group is more diversified in terms of product mix, geographical coverage and customer base, and enjoys economies of scale.

The Directors believe that the results will be in line with the management's expectations and turn into a sound result in the second half of the year as the segment is expected to keep pace with customer expectations, increase production volume and expand the vertical production line.

Printed circuit boards ("PCB")

For the six months ended 30 June 2005, turnover derived from PCB segment reported persistent growth by approximately 9 per cent. to approximately HK$73,090,000 (six months ended 30 June 2004: approximately HK$67,109,000), representing approximately 22 per cent. of the turnover of the Group. The increase in turnover was due to the continued demand from multi-layer manufacturing operations.

The results dropped from a profit of approximately HK$4,077,000 to a loss of approximately HK$927,000. This was mainly attributed to the increase of prices in raw materials and components. In addition, the production facilities of the Group had reached the maximum capacity during the period under review and part of the procedures was subcontracted to external parties.

Due to the increasing demand of PCB in the global market, the Group strategically mapped out the production blueprint and largely expanded the production scale to enjoy the maximum benefits on the economies of scale.

Coping with the substantial growth in PCB's turnover, the Group started to build a new factory complex during the period under review which is expected to be completed in the first quarter of 2006. The Group will also acquire new equipment and machinery for integration of the vertical manufacturing units in the new factory complex.

During the period under review, the Group recognized the needs to improve the operational efficiency particularly in the face of rising costs and working capital needs of the business. The key to driving efficiency is to identify the key value drivers and inefficiencies in each part of the business and to establish clear and effective processes that can enhance value creation.

The Group has therefore undertaken a project to implement an Enterprise Resource Planning (ERP) system. The system together with the knowledge base of our dedicated staff will provide the Group with the necessary tools to support planning, rapid decision making and operational effectiveness, and improve our key performance indicators.

Other operations

Electronic toys products

Turnover derived from other operations is mainly contributed by electronic toys products, such as infant toys and electronic learning products. For the six months ended 30 June 2005, turnover from the electronic toys segment recorded approximately HK$3,992,000 (six months ended 30 June 2004: approximately HK$13,917,000).

During the period under review, the segment results from electronic toys segment recorded an operating loss before taxation of approximately HK$998,000 for the six months ended 30 June 2005 (six months ended 30 June 2004: approximately HK$4,001,000).

Cordless telephone products

With the establishment of Ascalade Group, the Group's telecommunication business was consolidated and managed as an associate.

For the six months ended 30 June 2005, the cordless telephone segment recorded a share of net loss after taxation of approximately HK$5,453,000 (six months ended 30 June 2004: net profit after taxation of approximately HK$5,325,000).

With the strong growth in revenue and profitability of Ascalade Inc. in the past few years, the Directors are pleased to announce that Ascalade Inc. was successfully listed on TSX on 27 June 2005 with the stock symbol "ACG".

As announced by the Company in March 2005, the Group assigned a loan and advances owed by a member of the Ascalade Group to Ascalade Inc. of approximately HK$70,984,000 in exchange for the issuance of CDN$5,009,000 convertible debentures ("Debentures") and 62,612 warrants ("Warrants") and 904,973 common shares in Ascalade Inc.. The Group's attributable equity interest in Ascalade Inc. has since then increased from approximately 30.8 per cent. to approximately 39.2 per cent.

Upon the new issue of 8,000,000 common shares in Ascalade Inc. for the listing on TSX, the Group's attributable equity interest in Ascalade Inc. has since then decreased from approximately 39.2% to approximately 19.2% soon after the completion of the listing on TSX on 27 June 2005. As at 30 June 2005, Ascalade Inc. remains the Group's associate as the Group has significant influence on its financial and operational functions and decisions of Ascalade Inc.. In this transaction, the Group made a profit on deemed disposal of interest in an associate of approximately HK$1,106,000.

As announced on 16 June 2005, the Group had entered into a transfer agreement on 15 June 2005 pursuant to which the Group had agreed to sell the Debentures and Warrants at a total consideration of approximately US$4,118,135 (approximately HK$32,121,453) and US$1 respectively to Yeebo Investment Limited, a company incorporated in the Labuan, Malaysia and is a subsidiary of Yeebo (International Holdings) Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Disposals").

The Directors consider that it is a prudent decision to realize part of the Group's investment in Ascalade Inc. through the Disposals so as to balance its possible risk, enhance its liquidity and improve its cash flow within a relatively short period of time given that the Shares of Ascalade Inc. owned by the Group are subject to lock-up after the listing of Ascalade Inc. on TSX.

In view of the recent unstable global market conditions such as the fluctuation of oil prices and raising interest rates, the Directors reckon that it is in the interest of the Group to maintain a sufficient amount of capital and the proceeds can make the already robust financial position of the Group even stronger.

Upon the completion of the Disposals on 3 August 2005, the Group's attributable equity interest in Ascalade Inc. has further decreased from approximately 19.2% to approximately 15.2%.

Share of result of an associate, the Ascalade Group

The following information should be read in conjunction with the Ascalade Inc.'s unaudited interim consolidated financial statements and accompanying notes included therein for the six months periods ended 30 June 2005 and 2004. All of the Ascalade Inc.'s financial statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). Additional information relating to Ascalade Inc. may be found at www.sedar.com.

Revenue

For the six months ended 30 June 2005, turnover of Ascalade Inc. increased by approximately 23 per cent. to approximately US$44,463,000 (equivalent to approximately HK$346,811,000) during the six months ended 30 June 2005 compared with approximately US$36,022,000 (equivalent to approximately HK$281,130,000) during the same period in 2004.

The increase in revenues was substantially due to a rise in sales of cordless phones, reflecting the new contracts with Philips Consumer Electronics and continued strength in sales out of our European customer base that includes another positive sales from our lines of digital wireless baby monitors.

Gross profit

Gross profit was approximately US$5,841,000 (equivalent to approximately HK$45,560,000) during the six months ended 30 June 2005, compared with approximately US$6,250,000 (equivalent to approximately HK$48,750,000) during the same period in 2004. Fluctuations in gross margins percentages between periods are largely related to an increase in the cost of power, continued price pressure on the lower end cordless phones, partially offset by an improvement in product mix.

Result

Net loss for the six months ended 30 June 2005 was approximately US$2,175,000 (equivalent to approximately HK$16,965,000), compared to net earnings of approximately US$1,394,000 (equivalent to approximately HK$10,868,000), for the same period of 2004. This was also mainly caused by the increase in number of employees in all regions to assist with functions relating to the growing sales volume and the impact of the acquisition of Ascalade Technologies in 2004 and ongoing costs and fees associated with being a public issuer and the increase in amortization of capitalized product development costs and depreciation of manufacturing equipment.

The listing is expected to create a synergy effect on the overall management of the business of Ascalade Inc. as it is expected that the research and development of Ascalade Inc. can be strengthened, its engineering capacity will be increased and its market recognition in North America will be enhanced. Through the listing, Ascalade is also able to attract extra funding and capital from investors to develop its business and enhance its net assets value and shareholders' bases.

Ascalade Inc. continues to focus on increasing technological advancement with new areas such as VoIP (Voice over Internet Protocol) and WiFi (wireless fidelity), the Directors are confident in the future prospects of Ascalade Inc. and believe that the investment in Ascalade Inc. will give a positive contribution to the Group in the long run.

INTERIM DIVIDEND

The Directors do not recommend of any interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: nil).

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$398,918,000 as at 30 June 2005 from approximately HK$388,042,000 as at 31 December 2004. As at 30 June 2005, the short term and long term interest bearing debts to shareholders' equity was approximately 20.7 per cent. (as at 31 December 2004: approximately 27.1 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 30 June 2005, the Group has fixed deposits and cash balances aggregated to approximately HK$78,196,000 (as at 31 December 2004: approximately HK$34,868,000).

As at 30 June 2005, the Group had banking facilities amounted to an aggregate sum of approximately HK$376,008,000 (as at 31 December 2004: approximately HK$381,102,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK$307,800,000 (as at 31 December 2004: approximately HK$307,800,000) in Hong Kong granted to the Group, approximately HK$2,701,000 (as at 31 December 2004: approximately HK$17,567,000) had been utilized as at 30 June 2005.

As at 30 June 2005, the term loan banking facilities in the PRC reduced to an amount of approximately HK$13,208,000 (as at 31 December 2004: approximately HK$28,302,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2005, total indebtedness including bank borrowings and obligations under finance lease contracts amounted to approximately HK$82,682,000 (as at 31 December 2004: approximately HK$105,362,000), representing approximately 20.7 per cent. of the total shareholders' equity (as at 31 December 2004: approximately 27.1 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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group employed approximately 6,975 full time employees, out of which 86 were based in Hong Kong and 6,889 were based in the PRC. With respect to the disposal of a subsidiary in January 2005, the Group has also streamlined the employee level by keeping the key and outstanding staffs and workers in our focusing factory. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which include provident fund, medical insurance and training are provided. In addition, share options may also be granted in accordance to the terms of the Group's approved share option scheme.

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenues and expenditures are either in Hong Kong dollars or the United States dollars. As a measure of additional prudence, the Group uses different derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

As stated under the section headed "Liquidity And Financial Resources", the Group had term loan banking facilities in Hong Kong and the PRC amounted to approximately HK$68,208,000 (as at 31 December 2004: approximately HK$73,302,000). 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 further obtained a three-year term loan amounting to HK$15,000,000 in March 2005 and repaid the term loan banking facilities in the PRC of RMB15,000,000 during the period under review.

The fair value of the Group's outstanding derivative instruments as at 30 June 2005 represents the net amount we would have received/paid if these contracts were closed out at 30 June 2005. The gain was largely caused by a period-end premium in the forward currency markets for the Hong Kong dollar. In the current period, the Group has adopted the new Hong Kong Accounting Standard 39 – Financial Instruments: Recognition and Measurement, the fair value of these outstanding derivatives will be recognised as assets or liabilities (as the case may be).

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

FUTURE PLANS AND PROSPECTS

The Group will continue its diversification strategy in order to expand its new customer base and explore new business opportunities so as to enhance the growth of turnover.

The global market will continue to face numerous challenges in the coming years. Fluctuation of supply and price of raw materials and electronic components and shortage of electricity, all of these will continue to impose pressure on the costs and margins of the Group.

Conflict aside, major opportunities continue to exist from certain Japanese well known branded models to relocate their manufacturing sites from Japan to the PRC.

The management of the Group is considering to form a joint venture company with a trading and distribution partner in Japan for the manufacture and distribution of PCB products. Through the strategic partnership, the Group can upgrade its technical capabilities to develop more sophisticated multi-layer PCB products. The Directors will update the shareholders on the progress when appropriate.

In order to strengthen our business, the Group is committed to projects and investments that bring returns and value-added results. The Group will continue to streamline the existing operations and tighten cost control measures. The Directors believe that the strategic pursuit, business experience and healthy financial position can sustain and enhance business growth for the Group.

Looking forward, the Group is well positioned to continue its financial success and achieve further growth given its efficient productivity and economies of scale.

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

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2005, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005, with deviations from certain code provisions as explained below.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The roles of the Chairman and the CEO are not separated and are performed by the same individual, Mr. Tong Shek Lun. The Directors will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Company and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until 22 April 2005 that the Company established a remuneration committee as required under the code provision.

To replace the vacancy arised from the passing away of Mr. Tsao Kwang Yung, Peter, an independent non-executive director and the Chairman of the Audit Committee of the Company, on 21 September 2005, the Company has appointed Mr Chan Ho Man, who possesses the appropriate qualification and experience, as an independent non-executive director and a member of audit committee, remuneration committee and nomination committee to comply with the requirements as set out under Rules 3.10(1) and 3.21 of the Listing Rules.

Reference is made to the announcement made by the Company on 6 June 2005 pursuant to which the Company announced that following the death of Mr. Tsao Kwang Yung, Peter, the Company had only two independent non-executive directors and two audit committee members which fell below the minimum number of three independent non-executive directors and three audit committee members as required under Rules 3.10(1) and 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") respectively. The Board confirmed that upon the appointment of Mr. Chan as an independent non-executive director and a member of the audit committee of the Company, the Company had satisfied the requirements under Rules 3.10(1) and 3.21 of the Listing Rules as explained above.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

On 22 April 2005, a remuneration committee and a nomination committee were established by the Company. Each of the committees comprises three members, the majority of which being independent non-executive Directors. Each of the committees has adopted the terms of the reference in line with those set out in Appendix 14 of the Listing Rules.

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 2005.

The members of the Committee included the three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Chan Ho Man.

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 2005.

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

As at the date of this announcement, the Board consists of four executive Directors, Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina, two non-executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey and three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Chan Ho Man.

Hong Kong, 21 September 2005

* *for identification only*

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