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## **KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED**

**泰盛實業集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1159)**

### **UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS 2012**

#### **INTERIM RESULTS**

The board of directors (the “Directors” or the “Board”) of Karce International Holdings Company Limited (“the Company”) is pleased to present the unaudited condensed consolidated operating results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2012, together with the unaudited comparative figures of the corresponding period in the 2011 are as follows:

#### **CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended 30 June 2012*

		<b>Six months ended 30 June</b>	
		<b>2012</b>	<b>2011</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Continuing operations</b>			
Revenue	4	<b>4,853</b>	4,138
Cost of goods sold		<b>(4,835)</b>	(3,408)
Gross profit		<b>18</b>	730
Other revenue		<b>243</b>	–
Administrative expenses		<b>(4,236)</b>	(3,910)
Finance costs	5	<b>(16,009)</b>	(19,397)
Loss before taxation	6	<b>(19,984)</b>	(22,577)
Income tax credit	7	<b>2,641</b>	3,200
Loss for the period from continuing operations		<b>(17,343)</b>	(19,377)

\* *For identification purposes only*

		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Unaudited)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	8	<u>—</u>	<u>(35,000)</u>
Loss for the period, attributable to owners of Company		<u>(17,343)</u>	<u>(54,377)</u>
Increase in fair value of available-for-sale investments, representing other comprehensive income for the period		<u>462</u>	<u>—</u>
Loss and total comprehensive expense for the period, attributable to owners of the Company		<u><b>(16,881)</b></u>	<u><b>(54,377)</b></u>
		<i>HK Cents</i>	<i>HK Cents</i>
<b>Loss per share</b>			
From continuing and discontinued operations	9		
Basic		<b>(2.47)</b>	(7.74)
Diluted		<b>(2.47)</b>	(7.74)
From continuing operations			
Basic		<b>(2.47)</b>	(2.76)
Diluted		<b>(2.47)</b>	(2.76)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Notes</i>	<b>30 June 2012 HK\$'000 (Unaudited)</b>	31 December 2011 HK\$'000 (Audited)
<b>Non-current Assets</b>			
Equipment	11	14	16
Available-for-sale investments	12	<u>5,682</u>	<u>5,220</u>
		<u>5,696</u>	<u>5,236</u>
<b>Current Assets</b>			
Inventories		–	937
Trade receivables	13	893	927
Prepayments, deposits and other receivables		797	474
Bank balances and cash		<u>13,184</u>	<u>19,293</u>
		<u>14,874</u>	<u>21,631</u>
<b>Current Liabilities</b>			
Accruals and other payables		973	3,757
Promissory notes	14	<u>87,500</u>	<u>87,036</u>
		<u>88,473</u>	<u>90,793</u>
<b>Net Current Liabilities</b>		<u>(73,599)</u>	<u>(69,162)</u>
<b>Total Assets less Current Liabilities</b>		<u><u>(67,903)</u></u>	<u><u>(63,926)</u></u>
<b>Non-current Liabilities</b>			
Amount due to a shareholder		1,653	1,653
Convertible bonds	15	245,128	229,583
Deferred tax liabilities	16	<u>9,054</u>	<u>11,695</u>
		<u>255,835</u>	<u>242,931</u>
<b>Net Liabilities</b>		<u><u>(323,738)</u></u>	<u><u>(306,857)</u></u>
<b>Capital and Reserves</b>			
Share capital		70,236	70,236
Reserves		<u>(393,974)</u>	<u>(377,093)</u>
<b>Equity attributable to owners of the Company</b>		<u><u>(323,738)</u></u>	<u><u>(306,857)</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 (Unaudited)

	Attributable to owners of the Company							Total
	Share capital	Share premium	Capital redemption reserve	Special reserve	Investment revaluation reserve	Convertible bonds reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011	70,236	102,675	1,564	(123)	–	120,398	(526,170)	(231,420)
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(54,377)	(54,377)
At 30 June 2011	<u>70,236</u>	<u>102,675</u>	<u>1,564</u>	<u>(123)</u>	<u>–</u>	<u>120,398</u>	<u>(580,547)</u>	<u>(285,797)</u>

For the six months ended 30 June 2012 (Unaudited)

	Attributable to owners of the Company							Total
	Share capital	Share premium	Capital redemption reserve	Special reserve	Investment revaluation reserve	Convertible bonds reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2012	70,236	102,675	1,564	(123)	(14)	120,398	(601,593)	(306,857)
Loss for the period	–	–	–	–	–	–	(17,343)	(17,343)
Increase in fair value of available-for-sales investments recognised directly in equity	–	–	–	–	462	–	–	462
Loss and total comprehensive expense for the period	–	–	–	–	462	–	(17,343)	(16,881)
At 30 June 2012	<u>70,236</u>	<u>102,675</u>	<u>1,564</u>	<u>(123)</u>	<u>448</u>	<u>120,398</u>	<u>(618,936)</u>	<u>(323,738)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in)/from operating activities	<u>(6,109)</u>	<u>32,325</u>
Net cash generated from investing activities	<u>–</u>	<u>15,000</u>
Net (decrease)/increase in cash and cash equivalents	(6,109)	47,325
Cash and cash equivalent at 1 January	<u>19,293</u>	<u>15,856</u>
Cash and cash equivalent at 30 June, represented by bank balances and cash	<u><u>13,184</u></u>	<u><u>63,181</u></u>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”).

The Company is an investment holding company where the Group is principally engaged in the trading and sale of conductive silicon rubber keypads and associated products.

The consolidated financial statements are presented in Hong Kong dollars, which are the functional currency of the Company.

These unaudited condensed consolidated interim 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 and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (the “2011 Annual Report”).

## 2. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

- amendments to HKFRS 7 “Financial Instruments: Disclosures – Transfers of Financial Assets”; and
- amendments to HKAS 12 “Deferred Tax: Recovery of Underlying Assets”

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 Cycle <sup>1</sup>
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>3</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2013*

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2015*

<sup>3</sup> *Effective for annual periods beginning on or after 1 July 2012*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2014*

Saved as disclosed in the 2011 Annual Report, the directors of the Company anticipate that the application of the new and revised HKFRSs issued but not yet effective will have no material impact on the results and the financial position of the Group.

### 3. SEGMENT INFORMATION

Information reported to the executive Directors of the Company, being the chief operating decision maker (“CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods sold.

The Group currently has only one operating segment, namely conductive silicon rubber keypads, which engages in the business of trading of conductive silicon rubber keypads and associated products.

During the year ended 31 December 2010, the directors have determined to discontinue the liquid crystal on silicon (“LCoS”) television business and accordingly the LCoS television segment, being a separate operating segment for the purpose of HKFRS 8, constitutes a discontinued operation of the Group.

The following is an analysis of the Group’s revenue and results by operating segments for the periods under review:

#### *Six months ended 30 June 2012*

	<b>Continuing operations Conductive silicon rubber keypads and segment total <i>HK\$’000</i></b>	<b>Discontinued operations LCoS television and segment total <i>HK\$’000</i></b>	<b>Total <i>HK\$’000</i></b>
Revenue – External sales	<u>4,853</u>	–	<u>4,853</u>
Segment result	<u>18</u>	–	<u>18</u>
Unallocated income (expenses) items:			
Central administration costs and directors’ salaries	(4,236)	–	(4,236)
Other income	243	–	243
Finance costs	<u>(16,009)</u>	–	<u>(16,009)</u>
Loss before taxation	<u>(19,984)</u>	–	<u>(19,984)</u>



Six months ended 30 June 2011

	Continuing operations Conductive silicon rubber keypads and segment total <i>HK\$'000</i>	Discontinued operations LCoS television and segment total <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue – External sales	4,138	–	4,138
Segment result	376	–	376
Unallocated income (expenses) items:			
Central administration costs and directors' salaries	(3,556)	–	(3,556)
Impairment loss on intangible asset	–	(50,000)	(50,000)
Gain on forfeited deposit for disposal of LCoS	–	15,000	15,000
Finance costs	(19,397)	–	(19,397)
Loss before taxation	(22,577)	(35,000)	(57,577)

#### 4. REVENUE

Revenue, which is the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

#### 5. FINANCE COSTS

	<b>Continuing operations and consolidated</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Effective interests on:		
Convertible bonds	15,545	13,636
Promissory notes	464	5,761
	<b>16,009</b>	19,397

## 6. LOSS BEFORE TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging:						
Cost of inventories recognised as expense	4,835	3,408	-	-	4,835	3,408
Depreciation of equipment	2	2	-	-	2	2
Directors' remuneration and staff costs	947	727	-	-	947	727
Management fee (included in administrative expense, note)	404	434	-	-	404	434
	<u>404</u>	<u>434</u>	<u>-</u>	<u>-</u>	<u>404</u>	<u>434</u>

*Note:* The above amount is paid to Man Lee Management Limited, a company beneficially held and significantly influenced by an entity which is also a shareholder that has significant influence over the Company, for the Group's share of administrative and management services fees for an office premise, included in which an amount of HK\$312,000 (2011: HK\$240,000) represents the share of the lease payments paid under an operating lease for the period.

## 7. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements since the Group has no assessable profits in Hong Kong for the period.

	Continuing operations and consolidated	
	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Deferred tax credit – current period ( <i>note 16</i> )	<u>2,641</u>	<u>3,200</u>

## 8. DISCONTINUED OPERATIONS

The (loss) gain from the discontinued operations of LCoS television business comprise:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Impairment loss recognised in respect of intangible asset	–	(50,000)
Gain on forfeiture of the deposit received for disposal of Sourcestar	–	15,000
	<u>–</u>	<u>(35,000)</u>

## 9. LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

### (a) From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
<i>Loss</i>		
Loss for the purpose of basic loss per share	(17,343)	(54,377)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds (net of tax)	<u>12,980</u>	<u>11,386</u>
Loss for the purpose of diluted loss per share	<u>(4,363)</u>	<u>(42,991)</u>
<i>Number of shares</i>		
Number of ordinary shares for the purpose of basic and diluted loss per share (in thousands)	<u>702,356</u>	<u>702,356</u>

The computation of diluted loss per share from continuing and discontinued operations does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in decrease in loss per share from continuing operations for the six months ended 30 June 2012 and 2011.

**(b) From continuing operations**

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Loss</i>		
Loss for the purpose of basic loss per share	(17,343)	(19,377)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds (net of tax)	<u>12,980</u>	<u>11,386</u>
Loss for the purpose of diluted loss per share	<u><u>(4,363)</u></u>	<u><u>(7,991)</u></u>

The denominators used are the same as those detailed above for basic and diluted loss per share for continuing and discontinued operations.

**(c) From discontinued operations**

The discontinued operations contributed no results to the Group for the six months ended 30 June 2012.

Basic and diluted loss per share from the discontinued operations is HK4.98 cents per share, based on loss for the six months ended 30 June 2011 from discontinued operations attributed to the owners of the company of HK\$35,000,000 and the denominators detailed above for basic and diluted loss per share for continuing and discontinued operations.

**10. DIVIDEND**

No interim dividend was paid or declared by the Company for the six months ended 30 June 2012 (2011: nil).

**11. MOVEMENTS IN EQUIPMENT**

There was no material acquisition of equipment for the six months ended 30 June 2012 and 2011.

## 12. AVAILABLE-FOR-SALE INVESTMENTS

Amounts comprised:

	At 30 June 2012 <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
PRC Subsidiary ( <i>note i</i> )	–	–
Equity securities listed in Hong Kong, at fair value ( <i>note ii</i> )	<u>5,682</u>	<u>5,220</u>
	<u><u>5,682</u></u>	<u><u>5,220</u></u>

*Notes:*

- (i) As set out in note 3 of the 2011 Annual Report, the Group lost the control over the PRC Subsidiary (as defined in the 2011 Annual Report) and the PRC Subsidiary had been deconsolidated from the consolidated financial statements of the Company on 1 December 2009. The PRC Subsidiary has therefore been recognised by the Company as an available-for-sale investment since then.
- (ii) The fair value is based on the quoted prices of the respective securities in active markets for identical assets.

## 13. TRADE RECEIVABLES

The Group generally allows an average credit period of 60 days to its trade customers. An aged analysis of trade receivables, net of provision for impairment loss recognised in respect of trade receivables, is as follows:

	At 30 June 2012 <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
0-30 days	<u><u>893</u></u>	<u><u>927</u></u>

#### 14. PROMISSORY NOTES

On 15 January 2009, the Group issued promissory notes of HK\$375,000,000 at zero coupon rate as part of the consideration for acquiring the entire interest in Pacific Choice Group (as defined in 2011 Annual Report). The effective interest rate was 16% at the date of grant.

On 16 February 2009, the Group and the bearer of the promissory notes had agreed that if there was an early repayment of HK\$250,000,000, 10% of the principal amount of the promissory notes, i.e. HK\$37,500,000, would be cancelled in favour to the Group. The repayment had been made on 19 February 2009.

On 26 April 2010, the Group and the bearer of the promissory notes had agreed to extend the maturity date from 14 January 2011 to 14 January 2012. A gain on extension of maturity of promissory note of approximately HK\$11,908,000 is recognised during the year ended 31 December 2010.

The promissory notes matured on 14 January 2012. No demand for claims of any amount of the promissory notes has been received from the holder of the promissory notes or its representative up to the date of this announcement.

The movements of the promissory note are as follows:

	Six months ended 30 June	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at the beginning of the period	87,036	74,964
Interest charged	464	5,761
	<hr/>	<hr/>
Carrying amount at the end of the period	<b>87,500</b>	80,725
	<hr/> <hr/>	<hr/> <hr/>

## 15. CONVERTIBLE BONDS

### *Zero-coupon Tranche 1 Bonds due 2014*

On 15 January 2009, the Company issued the Tranche 1 Bonds (as defined in 2011 Annual Report) due on 14 January 2014 with a principal amount of HK\$300,000,000 at zero coupon rate as part of the consideration for acquisition of the Pacific Choice Group. The Tranche 1 Bonds are convertible into fully paid ordinary shares at a conversion price of HK\$0.4 per share, subject to anti-dilutive adjustments. Upon full conversion a total of 750,000,000 new ordinary shares, as at 31 December 2010 and 2011, would be issued by the Company. The Company shall redeem any convertible bonds which remain outstanding on the maturity date at its principal amount.

None of the Tranche 1 Bonds was converted from the date of issue to the end of the reporting period.

The convertible bonds contain liability and equity components. The equity component is presented under the equity heading of “convertible bonds reserve”.

The fair value of the liability component of the convertible bonds at the issue date was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan. The effective interest rate of the liability component is 14% per annum.

The movement of the liability component of the convertible bonds for the period is set out below:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Carrying amount at the beginning of the period	<b>229,583</b>	201,389
Interest charged	<b>15,545</b>	13,636
Carrying amount at the end of the period	<b><u>245,128</u></b>	<b><u>215,025</u></b>

## 16. DEFERRED TAX LIABILITIES

The major deferred tax liabilities recognised by the Group and movements thereon during the current period and prior fiscal year are as follows:

	<b>Promissory notes <i>HK\$'000</i></b>	<b>Convertible bonds <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1 January 2011	<u>2,068</u>	<u>16,271</u>	<u>18,339</u>
Credit to profit or loss			
– Release upon amortisation of promissory notes and convertible bonds under effective interest method	<u>(950)</u>	<u>(2,250)</u>	<u>(3,200)</u>
At 30 June 2011	<u>1,118</u>	<u>14,021</u>	<u>15,139</u>
At 1 January 2012	76	11,619	11,695
Credit to profit or loss			
– Release upon amortisation of promissory notes and convertible bonds under effective interest method	<u>(76)</u>	<u>(2,565)</u>	<u>(2,641)</u>
At 30 June 2012	<u><u>–</u></u>	<u><u>9,054</u></u>	<u><u>9,054</u></u>

## 17. MATERIAL ACQUISITION AND DISPOSAL

During the period under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company.



## 18. RELATED PARTY DISCLOSURES

### (i) *Particulars of amount due to a related party*

	At 30 June 2012 <i>HK\$'000</i>	At 31 December 2011 <i>HK\$'000</i>
A shareholder, who has significant influence, of the Company, included in non-current liabilities ( <i>note</i> )	<u>1,653</u>	<u>1,653</u>

*Note:* The amount is unsecured, interest free and has no fixed terms of repayment. The shareholder has agreed not to demand for repayment for twelve months from the end of the reporting period. Accordingly, the amount is classified as non-current.

### (ii) *Key management compensation*

The remuneration of the key management of the Group during the period was as follows:

	Six months ended 30 June	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Short-term benefits	496	485
Retirement benefits scheme contributions	<u>18</u>	<u>11</u>
	<u>514</u>	<u>496</u>

The remuneration of directors and other members of key management is determined by the board of directors having regard to the performance of individual and market trends.

## **19. SHARE OPTION SCHEME**

The Company's share option scheme adopted on 29 May 2002 (the "Old Share Option Scheme") has lapsed on 28 May 2012. No options have been granted under the Old Share Option Scheme since its adoption.

On 1 June 2012, a share option scheme (the "New Share Option Scheme") was adopted. Under the New Share Option Scheme, the Board of the Directors may grant options to eligible participants, including employees and directors, of the Company and any of its subsidiaries to subscribe for shares of the Company. The New Share Option Scheme is valid and effective for a period of 10 years commencing from the adoption date after which no further options may be issued.

The number of shares, which may be issued upon exercise of all outstanding options granted under the New Share Option Scheme and other schemes adopted by the Group, is not permitted to exceed 30% of the shares of the Company in issue at any point in time. The total number of shares in respect of which options may be granted under the New Share Option Scheme and other schemes adopted by the Group in aggregate is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The total number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue at any 12-month period.

Consideration of HK\$1 is payable by the grantee on the acceptance of option granted. Option may be exercised from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses and 10 years from the offer date of that option. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing prices of the shares on the Stock Exchange on the date of the grant of the options; the average of the closing prices of the shares for the five trading days immediately preceding the date of the grant of the options; and the nominal value of the shares.

No options have been granted under the New Share Option Scheme since its adoption.

## **20. CONTINGENT LIABILITIES**

The group did not have any significant contingent liabilities as at 30 June 2012 and 31 December 2011.

## **21. CAPITAL COMMITMENTS**

The group did not have any significant capital commitments as at 30 June 2012 and 31 December 2011.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business and Operational Review**

For the six months ended 30 June 2012 (the “Period”), the unsolved European debt crisis and global economic slowdown continued to wreak havoc in the Group’s principal business of conductive silicon rubber keypads trading. In response to the market challenges, the Group dedicated itself to expanding its product portfolio, while actively identifying possible investment opportunities to diversify its business and income base.

The Group’s revenue for the six-month period rose by 17.3% year on year to HK\$4,853,000, while gross profit trimmed to HK\$18,000 from HK\$730,000 of the same period last year as a result of high costs and increase in the proportion of lower profit margin associated products of conductive silicon rubber keypads.

Finance costs, which comprised effective interest on convertible bonds and promissory notes, amounted to HK\$16,009,000 for the first half of 2012, as compared to HK\$19,397,000 for the same period of 2011. The decrease in finance costs, which was due to the maturity of certain amount of promissory notes at the beginning of 2012, coupled with no loss/gain recognized from discontinued operations for the six months ended 30 June 2012 (2011 corresponding period: loss of HK\$35,000,000) had enabled the Group to narrow its loss attributable to owners of the Company to HK\$17,343,000 as opposed to HK\$54,377,000 for the same period of 2011. Basic loss per share for the Period was approximately HK2.47 cents (2011 corresponding period: basic loss per share was HK7.74 cents).

## **SEGMENTAL ANALYSIS**

### **Conductive Silicon Rubber Keypads**

The Group currently has only one operating segment, namely conductive silicon rubber keypads trading.

Affected by the unsolved European debt crisis and continuous economic slowdown, orders received from customers had reduced. On top of that, surge in smartphone use and rising popularity of touch-screen keyboards further undermined the sales volume of conductive silicon rubber keypads.

On the other hand, the cost of conductive silicon rubber keypads remained high due to increase in production costs as a result of rise in wages and raw material costs in Mainland China.

To cope with these market challenges, the Group continued to expand its product mix. During the period under review, the Group succeeded in uplifting its sales volume amid adverse market conditions, through increasing the proportion of associated products of conductive silicon rubber keypads. Benefiting from the enhanced sales volume, revenue from the Group's conductive silicon rubber keypads trading business rose by 17.3% to HK\$4,853,000 for the period under review. However, the profit margin of these associated products was lower, leading to a retreat in segment profit to HK\$18,000.

### **LCoS Televisions**

As the LCoS television business has ceased operation and has been deconsolidated from the Group's consolidated financial statements with effect from 1 December 2009, this segment did not generate any revenue or profit during the period under review.

On 24 August 2011, the Group entered into a cancellation agreement with a purchaser ("Purchaser") to cancel a disposal agreement in relation to the LCoS television business. Pursuant to the cancellation agreement, HK\$35,000,000 of the HK\$50,000,000 deposit made as part payment of the consideration for the said disposal was returned to the Purchaser, while the remaining HK\$15,000,000 was retained by the Company. Accordingly, the LCoS television business reported a loss of HK\$35,000,000 for the first half of 2011.

During the six-month period, the Group continued to look for potential buyers, including the original vendors, to acquire the LCoS television business.

### **SUBSEQUENT EVENTS**

The Group's share trading has been suspended since 30 July 2012, pending an announcement on a very substantial disposal. The Group will keep its shareholders informed on this transaction following clearance from the Stock Exchange of Hong Kong Limited.

### **FUTURE PLANS AND PROSPECTS**

Global economic uncertainties and economic slowdown in major countries will continue in the second half of 2012. Sluggish demand and rising production costs are expected to pose even greater challenges for the Group's conductive silicon rubber keypads trading business.

The Group will continue to consolidate its existing business through exploring new associated products of conductive silicon rubber keypads and exercising stringent cost control.

To broaden its revenue base, the Group will keep identifying suitable targets for investment or acquisition. However, in view of the current market conditions, the Group will adopt a prudent investment approach when it comes to decide on a specific project.

## **INTERIM DIVIDEND**

The Directors do not recommend any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

## **CAPITAL STRUCTURE**

The Group has a deficiency in shareholders' equity of approximately HK\$323,738,000 (31 December 2011: a deficiency of approximately HK\$306,857,000). As at 30 June 2012, the short term and long term interest bearing debts to shareholders' equity was nil (31 December 2011: nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operation by internally generated cash flow.

Prudent financial management and selective investment criteria have enabled the Group to maintain a stable financial position. As at 30 June 2012, the Group's fixed deposits and cash balances decreased to approximately HK\$13,184,000 (31 December 2011: approximately HK\$19,293,000).

As at 30 June 2012, the current ratio was approximately 0.17 (31 December 2011: approximately 0.24) based on current assets of approximately HK\$14,874,000 and current liabilities of approximately HK\$88,473,000 and the quick ratio was approximately 0.17 (31 December 2011: approximately 0.23).

## **MATERIAL ACQUISITION AND DISPOSAL**

During the period under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company.

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong Dollars, Renminbi and US Dollars which have been relatively stable during the period. The Group was not exposed to material exchange risk and had not employed any financial instruments for hedging purposes.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2012, the Group employed approximately 7 full time employees in Hong Kong. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Group.

## **CORPORATE GOVERNANCE PRACTICES**

The Group has established a formal and transparent procedure to protect the interests of the shareholders of the Group. The Group regularly reviews the corporate governance procedures and developments of the Group. The Group applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the period under review, except that:

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing. The roles of the chairman and the CEO of the Group was not separated and was performed by the same individual, Mr. Sun Ying Chung acted as both the chairman and CEO throughout the period under review. The Directors meet regularly to consider major matters affecting the operations of the Group. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry of all Directors, that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2012.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## **PUBLICATION OF OTHER FINANCIAL INFORMATION**

Other financial information containing all the information required by Appendix 16 of the Listing Rules will be available on the website of Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) under "Latest Listed Companies Information" and the website of the Company at [www.aplushk.com/clients/1159](http://www.aplushk.com/clients/1159) in due course.

By Order of the Board  
**Karce International Holdings Company Limited**  
**Sun Ying Chung**  
*Chairman*

Hong Kong, 29 August 2012

*As at the date of this announcement, the Board consists of two executive Directors, Mr. Sun Ying Chung and Mr. Chan Sung Wai; two non-executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey; and three independent non-executive Directors, Mr. Lum Pak Sum, Mr. Law Chun Choi and Mr. Mak Ka Wing, Patrick.*