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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 2010**

**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 2010, together with the unaudited comparative figures of the corresponding period in the 2009 are as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2010*

|   |              | <b>Six months ended 30 June</b> |                    |
|---|--------------|---------------------------------|--------------------|
|   |              | <b>2010</b>                     | <b>2009</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>13,116</b>                   | 22,480             |
| Cost of goods sold  |              | <b>(10,934)</b>                 | (27,651)           |
| Gross profit/(loss)   |              | <b>2,182</b>                    | (5,171)            |
| Other revenue   | 4            | –                               | 4                  |
| Other gains and losses  | 5            | –                               | (33,054)           |
| Selling and distribution costs  |              | <b>(3)</b>                      | (312)              |
| Administrative expenses   |              | <b>(2,730)</b>                  | (8,859)            |
| Impairment loss recognised in respect of<br>available-for-sale investment |              | –                               | (2,838)            |
| Finance costs   | 7            | <b>(17,543)</b>                 | (18,047)           |
| Loss before taxation  | 6            | <b>(18,094)</b>                 | (68,277)           |
| Taxation  | 8            | <b>2,895</b>                    | 1,649              |
| Loss for the period from continuing operations                            |              | <b>(15,199)</b>                 | (66,628)           |

\* *For identification purposes only*

|  |              | <b>Six months ended 30 June</b> |                 |
|--|--------------|---------------------------------|-----------------|
|  |              | <b>2010</b>                     | 2009            |
|  | <i>Notes</i> | <b><i>HK\$'000</i></b>          | <i>HK\$'000</i> |
|  |              | <b>(Unaudited)</b>              | (Unaudited)     |
| <b>Discontinued operations</b>                     |              |                                 |                 |
| Profit for the period from discontinued operations | <i>9</i>     | <u>–</u>                        | <u>97,075</u>   |
| (Loss)/profit for the period                       |              | <u><b>(15,199)</b></u>          | <u>30,447</u>   |
| Attributable to:                                   |              |                                 |                 |
| Owners of the Company                              |              | <u><b>(15,199)</b></u>          | <u>30,447</u>   |
|  |              | <i>HK Cents</i>                 | <i>HK Cents</i> |
| <b>(Loss)/earnings per share</b>                   |              |                                 |                 |
|  | <i>10</i>    |                                 |                 |
| From continuing and discontinued operations        |              |                                 |                 |
| Basic  |              | <b>(2.16)</b>                   | 4.40            |
| Diluted  |              | <b>(2.16)</b>                   | 2.92            |
| From continuing operations                         |              |                                 |                 |
| Basic  |              | <b>(2.16)</b>                   | (9.62)          |
| Diluted  |              | <b>(2.16)</b>                   | (9.62)          |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

|  | <b>Six months ended 30 June</b> |                       |
|--|---------------------------------|-----------------------|
|  | <b>2010</b>                     | 2009                  |
| <i>Notes</i>   | <b><i>HK\$'000</i></b>          | <i>HK\$'000</i>       |
|  | <b>(Unaudited)</b>              | (Unaudited)           |
| <b>(Loss)/profit for the period</b>  | <u><b>(15,199)</b></u>          | <u>30,447</u>         |
| Exchange difference on translation of financial statements of foreign operations |                                 |                       |
| – continuing operations  | –                               | (115)                 |
| – discontinued operations  | <u>–</u>                        | <u>(1,474)</u>        |
|  | <u>–</u>                        | <u>(1,589)</u>        |
| Other comprehensive income for the period  |                                 |                       |
| – continuing operations  | –                               | –                     |
| – discontinued operations  | <u>–</u>                        | <u>(34,516)</u>       |
|  | <u>–</u>                        | <u>(34,516)</u>       |
| <b>Total comprehensive expenses for the period</b>                               | <u><b>(15,199)</b></u>          | <u><b>(5,658)</b></u> |
| Attributable to:   |                                 |                       |
| Owners of the Company  | <u><b>(15,199)</b></u>          | <u><b>(5,658)</b></u> |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

|   | <i>Notes</i> | <b>30 June<br/>2010<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2009<br>HK\$'000<br>(Audited) |
|---|--------------|--|--|
| <b>Non-current Assets</b>                           |              |  |  |
| Property, plant and equipment                       | <i>12</i>    | <u>13</u>  | –  |
|   |              | <u>13</u>  | –  |
| <b>Current Assets</b>                               |              |  |  |
| Trade receivables                                   | <i>13</i>    | <b>9,407</b>   | 8,238  |
| Prepayments, deposits and other receivables         | <i>14</i>    | <b>324</b>   | 89   |
| Amount due from a related company                   |              | –  | 7,171  |
| Bank balances and cash                              |              | <u><b>16,393</b></u>                                 | <u>25,544</u>                                |
|   |              | <u><b>26,124</b></u>                                 | <u>41,042</u>                                |
| <b>Current Liabilities</b>                          |              |  |  |
| Trade payables                                      | <i>15</i>    | <b>456</b>   | 127  |
| Other payables and accruals                         | <i>16</i>    | <b>724</b>   | 967  |
| Amount due to a shareholder                         |              | –  | 3,000  |
| Amount due to a related company                     |              | –  | 163  |
|   |              | <u><b>1,180</b></u>                                  | <u>4,257</u>                                 |
| <b>Net Current Assets</b>                           |              | <u><b>24,944</b></u>                                 | <u>36,785</u>                                |
| <b>Total Assets less Current Liabilities</b>        |              | <u><b>24,957</b></u>                                 | <u>36,785</u>                                |
| <b>Non-current Liabilities</b>                      |              |  |  |
| Amount due to a shareholder                         |              | <b>7,153</b>   | 18,430                                       |
| Convertible bonds                                   | <i>17</i>    | <b>188,618</b>                                       | 176,785                                      |
| Deferred tax liabilities                            | <i>18</i>    | <b>19,493</b>  | 22,388                                       |
| Promissory notes                                    | <i>19</i>    | <u><b>80,741</b></u>                                 | <u>75,031</u>                                |
|   |              | <u><b>296,005</b></u>                                | <u>292,634</u>                               |
| <b>Net Liabilities</b>                              |              | <u><b>(271,048)</b></u>                              | <u>(255,849)</u>                             |
| <b>Equity attributable to owners of the Company</b> |              |  |  |
| <b>Capital and Reserves</b>                         |              |  |  |
| Share capital                                       |              | <b>70,236</b>  | 70,236                                       |
| Reserves  |              | <u><b>(341,284)</b></u>                              | <u>(326,085)</u>                             |
|   |              | <u><b>(271,048)</b></u>                              | <u>(255,849)</u>                             |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

|  | Attributable to owners of the Company |                           |                             |                             |                                |                                       |  |                              |  |                                       |   | Total<br>HK\$'000 |                                     |
|--|---------------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------------|---------------------------------------|--|------------------------------|--|---------------------------------------|---|-------------------|-------------------------------------|
|  | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Special reserve<br>HK\$'000 | Statutory reserves<br>HK\$'000 | Asset revaluation reserve<br>HK\$'000 | Investment revaluation reserve<br>HK\$'000 | Exchange reserve<br>HK\$'000 | Capital redemption reserve<br>HK\$'000 | Convertible bonds reserve<br>HK\$'000 | (Accumulated loss)/ retained profit<br>HK\$'000 |                   | Discontinued operations<br>HK\$'000 |
| At 1 January 2009  | 65,236                                | 102,875                   | 26,084                      | 3,557                       | 6,553                          | 7,656                                 | (436)                                      | 10,627                       | 1,564                                  | -                                     | (72,413)  | 101,967           | 253,270                             |
| Exchange difference on translation of foreign operations     | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | (115)                        | -                                      | -                                     | -   | (1,474)           | (1,589)                             |
| Net income recognised directly in equity                     | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | (115)                        | -                                      | -                                     | -   | (1,474)           | (1,589)                             |
| Profit for the period  | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | -                            | -                                      | -                                     | 30,447  | -                 | 30,447                              |
| Transfer to profit or loss on disposal of foreign operations | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | -                            | -                                      | -                                     | 65,977  | (100,493)         | (34,516)                            |
| Total comprehensive income for the period                    | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | (115)                        | -                                      | -                                     | 96,424  | (101,967)         | (5,658)                             |
| Issue of shares  | 5,000                                 | -                         | -                           | -                           | -                              | -                                     | -  | -                            | -                                      | -                                     | -   | -                 | 5,000                               |
| Equity component of convertible bonds                        | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | -                            | -                                      | 144,189                               | -   | -                 | 144,189                             |
| Deferred tax arising from issue of convertible bonds         | -                                     | -                         | -                           | -                           | -                              | -                                     | -  | -                            | -                                      | (23,791)                              | -   | -                 | (23,791)                            |
| At 30 June 2009  | <u>70,236</u>                         | <u>102,875</u>            | <u>26,084</u>               | <u>3,557</u>                | <u>6,553</u>                   | <u>7,656</u>                          | <u>(436)</u>                               | <u>10,512</u>                | <u>1,564</u>                           | <u>120,398</u>                        | <u>24,011</u>                                   | <u>-</u>          | <u>373,010</u>                      |

## For the six months ended 30 June 2010

|  | Attributable to owners of the Company |                           |                             |  |                                       |                              |                  | Total<br>HK\$'000 |
|--|---------------------------------------|---------------------------|-----------------------------|--|---------------------------------------|------------------------------|------------------|-------------------|
|  | Share capital<br>HK\$'000             | Share premium<br>HK\$'000 | Special reserve<br>HK\$'000 | Capital redemption reserve<br>HK\$'000 | Convertible bonds reserve<br>HK\$'000 | Accumulated Loss<br>HK\$'000 |                  |                   |
| At 1 January 2010                                    | <u>70,236</u>                         | <u>102,675</u>            | <u>(123)</u>                | <u>1,564</u>                           | <u>120,398</u>                        | <u>(550,599)</u>             | <u>(255,849)</u> |                   |
| Loss for the period and total comprehensive expenses | -                                     | -                         | -                           | -                                      | -                                     | (15,199)                     | (15,199)         |                   |
| At 30 June 2010                                      | <u>70,236</u>                         | <u>102,675</u>            | <u>(123)</u>                | <u>1,564</u>                           | <u>120,398</u>                        | <u>(565,798)</u>             | <u>(271,048)</u> |                   |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2010                     | 2009            |
|   | <i>HK\$'000</i>          | <i>HK\$'000</i> |
|   | (Unaudited)              | (Unaudited)     |
| <b>Cash (used in)/generated from operations</b>               | <b>(9,136)</b>           | 49,153          |
| Tax refund  | —                        | 7               |
| <b>Net cash (used in)/generated from operating activities</b> | <b>(9,136)</b>           | 49,160          |
| <b>Net cash (used in)/generated from investing activities</b> | <b>(15)</b>              | 200,455         |
| <b>Net cash used in financing activities</b>                  | <b>—</b>                 | (247,445)       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(9,151)</b>           | 2,170           |
| <b>Cash and cash equivalent at 1 January</b>                  | <b>25,544</b>            | 1,609           |
| Effect of foreign exchange rate changes                       | —                        | (115)           |
| <b>Cash and cash equivalent at 30 June</b>                    |                          |                 |
| <b>Bank balances and cash</b>                                 | <b>16,393</b>            | 3,664           |

# 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.

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 Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

## 2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009.

Certain new standards, amendments and interpretations to the published standards (collectively “New Standards”) are mandatory for the accounting period beginning 1 January 2010. The New Standards relevant to the Group are as follows:

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

### 3. SEGMENT INFORMATION

The Group's reportable segments under HKFRS 8 are as follows:

- Conductive silicon rubber keypads
- Electronic products – disposed of during the six months ended 30 June 2009
- LCoS television – acquired on 15 January 2009 and the whole business was deconsolidated from that of the Group on 1 December 2009

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 2010

|                                | <b>Continuing<br/>operations</b>                                  |
|--------------------------------|---|
|                                | <b>Conductive<br/>silicon<br/>rubber<br/>keypads<br/>HK\$'000</b> |
| <b>Revenue</b>                 |   |
| External sales                 | 13,116  |
| Inter-segment sales            | —   |
| <b>Total revenue</b>           | <b>13,116</b>   |
| Operating profit               | 2,182   |
| <b>Segment result</b>          | <b>2,182</b>  |
| Unallocated corporate expenses |   |
| Operating loss                 | (2,733)   |
| Finance costs                  | (17,543)  |
| <b>Loss before taxation</b>    | <b>(18,094)</b>   |
| Taxation                       | 2,895   |
| <b>Loss for the period</b>     | <b>(15,199)</b>   |



Six months ended 30 June 2009

|   | Continuing operations                                  |                                |                          |                   | Discontinued operations            |                          |                   |                          |
|---|--|--------------------------------|--------------------------|-------------------|------------------------------------|--------------------------|-------------------|--------------------------|
|   | Conductive<br>silicon<br>rubber<br>keypads<br>HK\$'000 | LCoS<br>television<br>HK\$'000 | Eliminations<br>HK\$'000 | Total<br>HK\$'000 | Electronic<br>products<br>HK\$'000 | Eliminations<br>HK\$'000 | Total<br>HK\$'000 | Consolidated<br>HK\$'000 |
| <b>Revenue</b>  |  |                                |                          |                   |                                    |                          |                   |                          |
| External sales  | 22,480   | -                              | -                        | 22,480            | 91,287                             | -                        | 91,287            | 113,767                  |
| Inter-segment sales   | 1,442  | -                              | (1,442)                  | -                 | 180                                | (180)                    | -                 | -                        |
| <b>Total revenue</b>  | <u>23,922</u>  | <u>-</u>                       | <u>(1,442)</u>           | <u>22,480</u>     | <u>91,467</u>                      | <u>(180)</u>             | <u>91,287</u>     | <u>113,767</u>           |
| Operating profit/(loss)   | (8,614)  | (629)                          | (1,262)                  | (10,505)          | 5,644                              | 1,262                    | 6,906             |                          |
| Exclude – realised gain on<br>foreign exchange forward<br>contracts           | -  | -                              | -                        | -                 | (564)                              | -                        | (564)             |                          |
| <b>Segment result</b>   | <u>(8,614)</u>   | <u>(629)</u>                   | <u>(1,262)</u>           | <u>(10,505)</u>   | <u>5,080</u>                       | <u>1,262</u>             | <u>6,342</u>      | <u>(4,163)</u>           |
| Unallocated corporate<br>expenses   |  |                                |                          |                   |                                    |                          |                   |                          |
| Operating loss of other<br>segment  |  |                                |                          | (3,833)           |                                    |                          | -                 | (3,833)                  |
| Realised gain on foreign<br>exchange forward<br>contracts                     |  |                                |                          | -                 |                                    |                          | 564               | 564                      |
| Gain on disposal of<br>subsidiaries   |  |                                |                          | -                 |                                    |                          | 90,888            | 90,888                   |
| Gain on waiver of<br>promissory notes   |  |                                |                          | 28,297            |                                    |                          | -                 | 28,297                   |
| Loss on redemption of<br>promissory notes                                     |  |                                |                          | (61,351)          |                                    |                          | -                 | (61,351)                 |
| Finance costs   |  |                                |                          | (18,047)          |                                    |                          | (719)             | (18,766)                 |
| Impairment loss recognised<br>in respect of available-for-<br>sale investment |  |                                |                          | (2,838)           |                                    |                          | -                 | (2,838)                  |
| <b>(Loss)/profit before<br/>taxation</b>                                      |  |                                |                          | (68,277)          |                                    |                          | 97,075            | 28,798                   |
| Taxation  |  |                                |                          | 1,649             |                                    |                          | -                 | 1,649                    |
| <b>(Loss)/profit for the period</b>   |  |                                |                          | <u>(66,628)</u>   |                                    |                          | <u>97,075</u>     | <u>30,447</u>            |

#### 4. REVENUE AND OTHER 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.

An analysis of other revenue is as follows:

|   | Continuing operations |                 | Discontinued operations |                 | Consolidated    |                 |
|---|-----------------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
|   | 2010                  | 2009            | 2010                    | 2009            | 2010            | 2009            |
|   | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i>         | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income   | -                     | 4               | -                       | -               | -               | 4               |
| Gain on fair value change on derivative financial instruments | -                     | -               | -                       | 564             | -               | 564             |
|   | <u>-</u>              | <u>4</u>        | <u>-</u>                | <u>564</u>      | <u>-</u>        | <u>568</u>      |

#### 5. OTHER GAINS AND LOSSES

|  | Continuing operations |                 | Discontinued operations |                 | Consolidated    |                 |
|--|-----------------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
|  | 2010                  | 2009            | 2010                    | 2009            | 2010            | 2009            |
|  | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i>         | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Gain on waiver of promissory notes     | -                     | 28,297          | -                       | -               | -               | 28,297          |
| Loss on redemption of promissory notes | -                     | (61,351)        | -                       | -               | -               | (61,351)        |
| Gain on disposal of subsidiaries       | -                     | -               | -                       | 90,888          | -               | 90,888          |
|  | <u>-</u>              | <u>(33,054)</u> | <u>-</u>                | <u>90,888</u>   | <u>-</u>        | <u>57,834</u>   |

## 6. LOSS BEFORE TAXATION

|  | Continuing operations |                     | Discontinued operations |                 | Consolidated    |                     |
|--|-----------------------|---------------------|-------------------------|-----------------|-----------------|---------------------|
|  | 2010                  | 2009                | 2010                    | 2009            | 2010            | 2009                |
|  | <i>HK\$'000</i>       | <i>HK\$'000</i>     | <i>HK\$'000</i>         | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>     |
| Loss before taxation has been arrived at after charging:               |                       |                     |                         |                 |                 |                     |
| Cost of inventories recognised as expense                              | <b>10,934</b>         | 10,731              | -                       | 57,100          | <b>10,934</b>   | 67,831              |
| Loss on disposal of property, plant and equipment                      | -                     | 287                 | -                       | -               | -               | 287                 |
| Depreciation and amortisation  |                       |                     |                         |                 |                 |                     |
| - Properties, plant and equipment                                      | <b>1</b>              | 4,554               | -                       | 3,707           | <b>1</b>        | 8,261               |
| - Prepaid lease payments   | -                     | 49                  | -                       | 62              | -               | 111                 |
| Impairment loss recognised in respect of trade receivables             | -                     | 200                 | -                       | -               | -               | 200                 |
| Allowance for obsolete and slow moving inventories                     | -                     | 405                 | -                       | -               | -               | 405                 |
| Operating lease rentals  | <b>252</b>            | 1,070               | -                       | 55              | <b>252</b>      | 1,125               |
| Staff costs  | <b>559</b>            | 9,263               | -                       | 15,009          | <b>559</b>      | 24,272              |
| Impairment loss recognised in respect of available-for-sale investment | -                     | 2,838               | -                       | -               | -               | 2,838               |
|  | <b><u>-</u></b>       | <b><u>2,838</u></b> | <b><u>-</u></b>         | <b><u>-</u></b> | <b><u>-</u></b> | <b><u>2,838</u></b> |

## 7. FINANCE COSTS

|  | Continuing operations |                      | Discontinued operations |                   | Consolidated         |                      |
|--|-----------------------|----------------------|-------------------------|-------------------|----------------------|----------------------|
|  | 2010                  | 2009                 | 2010                    | 2009              | 2010                 | 2009                 |
|  | <i>HK\$'000</i>       | <i>HK\$'000</i>      | <i>HK\$'000</i>         | <i>HK\$'000</i>   | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| Imputed interests on:                              |                       |                      |                         |                   |                      |                      |
| Convertible bonds                                  | <b>11,833</b>         | 9,948                | -                       | -                 | <b>11,833</b>        | 9,948                |
| Promissory notes                                   | <b>5,710</b>          | 8,032                | -                       | -                 | <b>5,710</b>         | 8,032                |
| Interests on:                                      |                       |                      |                         |                   |                      |                      |
| Bank borrowings wholly repayable within five years | -                     | 30                   | -                       | 696               | -                    | 726                  |
| Obligation under finance lease                     | -                     | 37                   | -                       | 23                | -                    | 60                   |
|  | <b><u>17,543</u></b>  | <b><u>18,047</u></b> | <b><u>-</u></b>         | <b><u>719</u></b> | <b><u>17,543</u></b> | <b><u>18,766</u></b> |

## 8. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Under the relevant prevailing PRC income tax law, the PRC subsidiaries of the Group are subject to income tax at a rate of 25% for the six months ended 30 June 2010 (30 June 2009: 25%) on their respective taxable income.

|                                    | Continuing operations |                       | Discontinued operations |                 | Consolidated          |                       |
|------------------------------------|-----------------------|-----------------------|-------------------------|-----------------|-----------------------|-----------------------|
|                                    | 2010                  | 2009                  | 2010                    | 2009            | 2010                  | 2009                  |
|                                    | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>         | <i>HK\$'000</i> | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Current tax:                       |                       |                       |                         |                 |                       |                       |
| Hong Kong Profits Tax              | -                     | (14)                  | -                       | -               | -                     | (14)                  |
| PRC enterprise income tax          | -                     | 6                     | -                       | -               | -                     | 6                     |
| Profit tax (Refund)                | -                     | (8)                   | -                       | -               | -                     | (8)                   |
| Deferred taxation                  | <u>(2,895)</u>        | <u>(1,641)</u>        | <u>-</u>                | <u>-</u>        | <u>(2,895)</u>        | <u>(1,641)</u>        |
| Tax (credit)/charge for the period | <u><b>(2,895)</b></u> | <u><b>(1,649)</b></u> | <u><b>-</b></u>         | <u><b>-</b></u> | <u><b>(2,895)</b></u> | <u><b>(1,649)</b></u> |

## 9. DISCONTINUED OPERATIONS

There were no discontinued operations for the six months ended 30 June 2010.

The profit for the period from the discontinued operations is analysed as follows:

|  | 2010            | 2009                 |
|--|-----------------|----------------------|
|  | <i>HK\$'000</i> | <i>HK\$'000</i>      |
| Profit of electronic products operation for the period | -               | 6,187                |
| Gain on disposal of electronic products operation      | <u>-</u>        | <u>90,888</u>        |
|  | <u><b>-</b></u> | <u><b>97,075</b></u> |

## 10. EARNINGS /(LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

### From continuing and discontinued operations

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

|  | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| <i>Earnings/(loss)</i>   |                         |                         |
| Earnings/(loss) for the purpose<br>of basic earnings/(loss) per share                              | (15,199)                | 30,447                  |
| Effect of dilutive potential ordinary shares:  |                         |                         |
| Interest on convertible bonds  | <u>11,833</u>           | <u>9,948</u>            |
| Earnings/(loss) for the purpose of diluted earnings/(loss) per share                               | <u>(3,366)</u>          | <u>40,395</u>           |
| <i>Number of shares</i>  |                         |                         |
| Weighted average number of ordinary shares for the purpose of<br>basic earnings/(loss) per share   | 702,356                 | 692,411                 |
| Effect of dilutive potential ordinary shares:  |                         |                         |
| Convertible bonds  | <u>750,000</u>          | <u>691,989</u>          |
| Weighted average number of ordinary shares for the purpose of<br>diluted earnings/(loss) per share | <u><u>1,452,356</u></u> | <u><u>1,384,400</u></u> |

Diluted loss per share from continuing and discontinued operations for the period ended 30 June 2010 was the same as the basic loss per share. The Company's outstanding convertible bonds were not included in the calculation of diluted loss per share from continuing and discontinued operations because the effect of the Company's outstanding convertible bonds was anti-dilutive.

### From continuing operations

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

|   | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| <i>Earnings/(loss)</i>                          |                         |                         |
| Loss for the purpose of<br>basic loss per share | (15,199)                | (66,628)                |
| Effect of dilutive potential ordinary shares:   |                         |                         |
| Interest on convertible bonds                   | <u>11,833</u>           | <u>9,948</u>            |
| Loss for the purpose of diluted loss per share  | <u><u>(3,366)</u></u>   | <u><u>(56,680)</u></u>  |

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

Diluted loss per share from continuing operations for the six months ended 30 June 2009 and 30 June 2010 were the same as the basic loss per share. The Company's outstanding convertible bonds were not included in the calculation of diluted loss per share from continuing operations because the effect of the Company's outstanding convertible bonds was anti-dilutive.

### From discontinued operations

There was no discontinued operations for the six months ended 30 June 2010.

Basic and diluted earnings per share for the six months ended 30 June 2009 for the discontinued operations was HK14.02 cents per share and HK7.01 cents per share respectively. The numerators were based on the profit for the six months ended 30 June 2009 from discontinued operations of approximately HK\$97,075,000, while the denominators used were the same as those detailed above for both basic and diluted earnings/(loss) per share.

## 11. DIVIDEND

No interim dividend was declared by the Company for the six months ended 30 June 2010.

## 12. MOVEMENTS IN PROPERTY, PLANT & EQUIPMENT

There was no material acquisition of property, plant and equipment for the six months ended 30 June 2010.

For the year of 2009, the Group had acquired property, plant and equipment of approximately HK\$2,544,000.

## 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:

|                               | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Not yet due                   | 6,214                   | 5,366                   |
| Overdue within 30 days        | 997                     | 1,699                   |
| Overdue for 31-60 days        | 1,752                   | 1,173                   |
| Overdue for 61-90 days        | 6                       | –                       |
| Overdue for more than 90 days | 438                     | –                       |
|                               | <u>9,407</u>            | <u>8,238</u>            |

**14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

|   | <b>2010</b><br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Prepayments, deposits and other receivables | 324                            | 709                     |
| Less: Deconsolidation of subsidiaries       | <u>–</u>                       | <u>(620)</u>            |
|   | <b><u>324</u></b>              | <b><u>89</u></b>        |

**15. TRADE PAYABLES**

|                                       | <b>2010</b><br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Not yet due or overdue within 30 days | 172                            | –                       |
| Overdue for 31-60 days                | 209                            | –                       |
| Overdue for 61-90 days                | 75                             | –                       |
| Overdue for more than 90 days         | <u>–</u>                       | <u>127</u>              |
|                                       | <b><u>456</u></b>              | <b><u>127</u></b>       |

**16. OTHER PAYABLES AND ACCRUALS**

|                             | <b>2010</b><br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|-----------------------------|--------------------------------|-------------------------|
| Other payables and accruals | <u>724</u>                     | <u>967</u>              |
|                             | <b><u>724</u></b>              | <b><u>967</u></b>       |



## 17. CONVERTIBLE BONDS

On 15 January 2009, the Company issued the Tranche 1 Bonds due on 14 January 2014 with a principal amount of HK\$300,000,000, which is interest free. The Tranche 1 Bonds are issued as part of the consideration for acquisition of Pacific Choice. The Tranche 1 Bonds are convertible into fully paid ordinary shares with a par value of HK\$0.1 each of the Company at an initial conversion price of HK\$0.4 per share, subject to adjustment. The effective interest rate is 14%.

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

The fair value of the liability component of the convertible bonds at the issuance date was determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

|  | <i>HK\$'000</i>       |
|--|-----------------------|
| At 1 January 2009                        | –                     |
| Liability component at the date of issue | 155,811               |
| Interest expenses charged                | <u>20,975</u>         |
| At 31 December 2009                      | <u><u>176,785</u></u> |

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

|                           | <i>HK\$'000</i>       |
|---------------------------|-----------------------|
| At 1 January 2010         | 176,785               |
| Interest expenses charged | <u>11,833</u>         |
| At 30 June 2010           | <u><u>188,618</u></u> |

## 18. DEFERRED TAX LIABILITIES

The major deferred tax liabilities recognised by the Group are derived from the temporary differences between the tax base amounts and carrying amounts of convertible bonds of approximately HK\$18,378,000 (2009: HK\$20,331,000) and promissory note of approximately HK\$1,115,000 (2009: HK\$2,057,000).

## 19. PROMISSORY NOTES

On 15 January 2009, the Group issued promissory notes of HK\$375,000,000 for acquiring the entire issued share capital of Pacific Choice at Zero coupon rate. The effective interest rate is 16%.

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.

|   | <i>HK\$'000</i>      |
|---|----------------------|
| At 1 January 2009                           |                      |
| Fair value of promissory notes issued       | 278,686              |
| Early redemption                            | (188,649)            |
| Cancellation in respect of early redemption | (28,297)             |
| Interest expenses charged                   | <u>13,291</u>        |
| At 31 December 2009                         | <u><u>75,031</u></u> |
| At 1 January 2010                           | 75,031               |
| Interest expenses charged                   | <u>5,710</u>         |
| At 30 June 2010                             | <u><u>80,741</u></u> |

## 20. MATERIAL ACQUISITION AND DISPOSALS

There were no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2010.

## 21. RELATED PARTY TRANSACTION

During the period ended 30 June 2010, the Group had entered into the following transaction with related party which, in the opinion of the directors, were carried out in the ordinary course of the Group's business.

| Name of related party            | Nature of transaction                     | 2010                           | 2009                           |
|----------------------------------|---|--------------------------------|--------------------------------|
|                                  |   | <i>HK\$'000</i><br>(Unaudited) | <i>HK\$'000</i><br>(Unaudited) |
| T & S Industrial Company Limited | Administration fee paid<br>by the Company | 383                            | 454                            |

## 22. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2010 and 31 December 2009.

## 23. CAPITAL COMMITMENTS

The Group did not have any significant capital commitments as at 30 June 2010 and 31 December 2009.

## 24. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events up to the reporting date of interim report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Operational Review

For the six months ended 30 June 2010 (the "Period"), the Group concentrated its effort in consolidating its existing business of conductive silicon rubber keypads trading, as well as identifying business opportunities in new industries and markets.

Following the disposal of the conductive silicon rubber keypad manufacturing business and electronic products operation in 2009, the Group's revenue for the Period was mainly generated from the trading of conductive silicon rubber keypads and amounted to HK\$13,116,000 (2009 corresponding period: HK\$22,480,000).

In the first half of 2010, the Group continued to exercise stringent cost control and successfully lower its operating expenses. During the Period, the ratio of selling and distribution costs to revenue was 0.02%, representing a decrease of 1.37 percentage points from 1.39% of the corresponding period of last year. The ratio of administrative expenses to revenue decreased by 18.6 percentage points to 20.8% as compared with 39.4% of the corresponding period of last year.

The Group reported a loss attributable to owners of the Company for the six months ended 30 June 2010 of approximately HK\$15,199,000, as opposed to a profit of HK\$30,447,000 for the first half of 2009, which included the results of the discontinued operations. Basic loss per share for the Period was HK2.16 cents (2009 corresponding period: basic earnings per share of HK4.40 cents).

## **SEGMENTAL ANALYSIS**

### **Conductive Silicon Rubber Keypads**

The market environment of conductive silicon rubber keypads continued to be extremely competitive. Following the completion of the disposal of the keypad manufacturing operation, the Group focused on enhancing operational efficiency and exercising cost control measures to improve the margins of its trading business. During the Period, the conductive silicon rubber keypad trading business posted an operating profit of HK\$2,182,000 (2009 corresponding period: loss of HK\$8,614,000).

With prudent financial management and extensive experience in trading operations, the Group is confident in weathering any possible challenges ahead and will continue to explore ways to improve operational efficiency of this segment.

## **LCoS Televisions**

With respect to the LCoS television business, the production plan at the Suzhou plant had not been realised, due to failure in delivery of the key production machineries to the plant. During the Period, the Group incurred non-cash finance costs of HK\$17,543,000, as a result of the imputed interests on the convertible bonds and promissory notes issued to the vendors as part of the consideration for the acquisition of patents and machineries required for the production of LCoS television.

Since the pledge created on the key manufacturing machineries had not been discharged, the transfer of ownership of the machineries to the Group could not be completed. Without the machineries, the production plan and sales plan of LCoS televisions had not been realised. In view of the rapid advancement in television technology, the Group is of the view that it has missed the golden opportunity for developing LCoS televisions. The Directors of the Company have resolved that the Pacific Choice Group which carried out the LCoS television business be treated as having been deconsolidated from that of the Group with effect from 1 December 2009.

The board proposed that the vendors to buy back the LCoS television business and cancel the convertible bonds and promissory notes issued to them as part of the consideration for the acquisition. A demand letter for the proposed settlement was issued in July 2010 to the warrantors to obtain the vendors' counteroffer on the above proposed repurchase of the LCoS television business. However, as of now, no terms in such connection have been negotiated or agreed. The Group will continue to negotiate with the vendors on the proposed settlement.

In May 2010, an Independent Committee was established to study, investigate and follow up on the LCoS television business.

## **FUTURE PLANS AND PROSPECTS**

The global economy has been maintaining positive growth on average, as a result of the stimulus policies adopted by various governments since the outbreak of the financial crisis in 2008. Driven by market recovery and popularity of electronic devices, demand for conductive silicon rubber keypads is expected to grow. However, the profit margin of the trading business is under pressure as manufacturers' production costs continue to rise, while the selling prices of keypad products are expected to further decline. The Group will strive to improve the operation efficiency of the conductive silicon rubber keypad trading business to ensure growth in profitability.

Regarding the LCoS television business, the Group will continue to negotiate with the vendors to buy back the LCoS television business to them. Up to the present, no reply has been received from the vendors. The Group is also exploring other alternatives such as disposing the business to other third parties. If the abovementioned attempts fail, the Group does not rule out taking legal actions against the vendors and the warrantors.

In addition to maintaining stable operation of the existing keypad trading business, the Group believes it needs to broaden its business portfolio and income source to sustain its ongoing development. In June 2010, the Group entered into a memorandum of understanding ("MOU") in relation to a proposed acquisition of 55% equity interest in a PRC company, with an aim to expand the Group's business to the manufacture of steel bar for prestressed concrete. As no progress had been made in the proposed acquisition, the Group entered into an agreement to terminate the MOU, effective from 6 August 2010.

With the recovery in the global economy, it is anticipated that demand for energy and resources will continue to surge. Resource and energy-related industries in Asia, particularly in the PRC, which is the main engine for growth in global markets, are expanding rapidly. The Group will continue to explore opportunities for investment in companies or projects with a solid business platform in area with healthy prospects, as part of its strategy for sustaining long-term development and bringing greater returns to the Group and its shareholders.

## **INVESTMENT STEERING COMMITTEE**

An Investment Steering Committee was established in June 2010 which composed of one executive director, one non-executive director and one independent non-executive director. The Committee is responsible for the consideration, recommendation of potential investment projects. Ad-hoc meetings will be held when potential projects are identified. During the meeting, they will review individual project's position and action to be taken if necessary, and to recommend to the board for consideration and approval.

## **INTERIM DIVIDEND**

The Directors do not recommend any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

## **CAPITAL STRUCTURE**

The Group has a deficiency in shareholders' equity of approximately HK\$271,048,000 as at 30 June 2010 (31 December 2009: a deficiency of approximately HK\$255,849,000). As at 30 June 2010, the short term and long term interest bearing debts to shareholders' equity was nil (31 December 2009: nil).

## **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 the Group to maintain a strong financial position. As at 30 June 2010, the Group's fixed deposits and cash balances decreased to approximately HK\$16,393,000 (31 December 2009: approximately HK\$25,544,000).

As at 30 June 2010, the current ratio was approximately 22.1 (31 December 2009: approximately 9.6) based on current assets of approximately HK\$26,124,000 and current liabilities of approximately HK\$1,180,000 and the quick ratio was approximately 22.1 (31 December 2009: approximately 9.6).

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.

## **MATERIAL ACQUISITION AND DISPOSALS**

The Company has no material acquisition and disposal during the period.

## **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 2010, the Group employed approximately 8 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**

### **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.

Under the code provision A.4.1, the appointment of non-executive Directors should have been appointed for a specific term. During the period under review, the non-executive Directors were not appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s by-laws.

### **Directors’ Securities Transactions**

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 June 2010.

## **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 2010.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Group.

## **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, 24 August 2010

*As at the date of this announcement, the Board consists of three executive directors, Mr. Sun Ying Chung, Mr. Chan Sung Wai and Mr. Wong King Lam, Joseph, 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.*