



KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰 盛 實 業 集 團 有 限 公 司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

HIGHLIGHTS

The Group's turnover increased by approximately 34.7 per cent. to approximately HK\$358,166,000
 Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") increased by approximately 26.4 per cent. to approximately HK\$40,104,000
 Profit attributable to shareholders increased by approximately 202.3 per cent. to approximately HK\$16,900,000
 Bank balances and cash was increased by approximately 1.5 per cent. to approximately HK\$67,357,000
 Net assets increased by approximately 4.3 per cent. to approximately HK\$344,159,000
 Basic earnings per share increased by approximately 204 per cent. to approximately HK3.07 cents

The board of Directors (the "Directors") of Karce International Holdings Company Limited (the "Company" together with its subsidiaries the "Group") announced the unaudited consolidated interim results of the Group for the six months ended 30 June 2004. The Group's audit committee has reviewed the interim results.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Note	Six months ended 30 June	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	3	358,166	265,945
Cost of sales		(296,337)	(217,111)
Gross profit		61,829	48,834
Other operating income		3,903	4,010
Distribution costs		(7,946)	(5,538)
Administrative expenses		(43,521)	(37,322)
Profit from operations	4	14,265	9,984
Finance costs		(1,766)	(2,015)
Share of result of an associate		6,693	1,134
Profit before taxation		19,192	9,103
Taxation	5	(4,519)	(2,808)
Profit before minority interests		14,673	6,295
Minority interests		2,227	(705)
Net profit attributable to shareholders		16,900	5,590
Earnings per share	6		
Basic		HK3.07 cents	HK1.01 cents

Note:

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and building.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

Business segments:

For management purpose, the Group is currently organised into three principal operating divisions – electronic calculators and organisers, conductive silicon rubber keypads and printed circuit boards. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2004	Unaudited For the six months ended 30 June					
	Electronic calculators and organisers HK\$'000	Conductive silicon rubber keypads HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
OPERATING RESULTS						
TURNOVER						
External sales	201,627	75,513	67,109	13,917	–	358,166
Inter-segment sales	5,826	5,903	13,272	–	(25,001)	–
Total	<u>207,453</u>	<u>81,416</u>	<u>80,381</u>	<u>13,917</u>	<u>(25,001)</u>	<u>358,166</u>
RESULT						
Segment result	<u>12,654</u>	<u>2,017</u>	<u>4,077</u>	<u>(4,001)</u>	–	14,747
Other operating income						126
Unallocated corporate expenses						(608)
Profit from operations						14,265
Finance costs						(1,766)
Share of result of an associate						6,693
Profit before taxation						19,192
Taxation						(4,519)
Profit before minority interests						14,673
Minority interests						2,227
Profit for the period						<u>16,900</u>
2003						
	Unaudited For the six months ended 30 June					
	Electronic calculators and organisers HK\$'000	Conductive silicon rubber keypads HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
OPERATING RESULTS						
TURNOVER						
External sales	142,416	49,481	62,545	11,503	–	265,945
Inter-segment sales	1,665	4,772	7,544	–	(13,981)	–
Total	<u>144,081</u>	<u>54,253</u>	<u>70,089</u>	<u>11,503</u>	<u>(13,981)</u>	<u>265,945</u>
RESULT						
Segment result	<u>10,926</u>	<u>52</u>	<u>5,227</u>	<u>(5,785)</u>	–	10,420
Other operating income						147
Unallocated corporate expenses						(583)
Profit from operations						9,984
Finance costs						(2,015)
Share of result of an associate						1,134
Profit before taxation						9,103
Taxation						(2,808)
Profit before minority interests						6,295
Minority interests						(705)
Profit for the period						<u>5,590</u>

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Geographical segments:

The Group's customers are principally located in Japan, Hong Kong, America and Europe.

The following table provides an analysis of the Group's sales by geographical markets:

	Turnover		Contribution to profit from operations	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Hong Kong (note a)	98,478	52,290	4,055	2,049
Japan (note b)	92,678	72,599	3,816	2,845
Europe	50,820	38,903	2,092	1,524
America	21,208	24,076	873	943
People's Republic of China ("PRC"), other than Hong Kong	27,182	39,890	1,119	1,563
Other Asian countries	64,814	26,212	2,669	1,027
Others	2,986	11,975	123	469
	358,166	265,945	14,747	10,420
Other revenue			126	147
Unallocated corporate expenses			(608)	(583)
Profit from operations			14,265	9,984

Notes:

- (a) The Directors believe that a portion of the Group's sales attributable to the Hong Kong market was subsequently resold to other markets.
 (b) The Directors believe that a substantial portion of the Group's sales attributable to the Japanese market was subsequently resold to the European and American markets.

4. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Property, plant and equipment	17,960	17,858
Intangible assets – development costs		4,710
Loss on disposal of property, plant and equipment	137	276
Allowance for doubtful debts	6,337	336
Operating lease rentals in respect of rented premises	357	308
Research and development costs expensed	183	972
Staff costs	54,834	46,790

5. TAXATION

	Six months ended 30 June	
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
The charge comprises:		
Hong Kong Profits Tax	1,796	468
PRC enterprise income tax	1,355	1,216
	3,151	1,684
Share of taxation attributable to an associate	1,368	1,124
Total taxation charge	4,519	2,808

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2003: 17.5%) on the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax is calculated at the rates prevailing.

6. EARNINGS PER SHARE

The calculation of the earnings per share is based on the Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2004 of approximately HK\$16,900,000 (six months ended 30 June 2003: approximately HK\$5,590,000) and the weighted average number of 550,776,000 ordinary shares (six months ended 30 June 2003: 550,776,000 ordinary shares) in issue during the period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

During the period under review, the Group achieved highly satisfactory results despite a volatile market and pressure on material prices. The management's ability in accommodating unforeseen changes and minimizing negative impact clearly demonstrated their capable expertise.

For the six months ended 30 June 2004, the Group recorded a turnover of approximately HK\$358,166,000, representing an increase of approximately 34.7 per cent. as compared with approximately HK\$265,945,000 of the corresponding period in 2003.

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") from the Group's established businesses grew by approximately 26.4 per cent. to approximately HK\$40,104,000 (six months ended 30 June 2003: approximately HK\$31,728,000). The Group will continue to develop and expand its core business while maintaining its healthy financial position.

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

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Due to strong performance of the Ascalade Group, the net profit attributable to shareholders grew impressively by approximately 202.3 per cent. to approximately HK\$16,900,000 (six months ended 30 June 2003: approximately HK\$5,590,000).

Electronic calculators and organisers

During the period under review, the electronic calculators and organisers segment continued to record remarkable performance. Given the Group's growth momentum in the second half of 2003, in addition to the increased production volume, the expanded vertical production line and the diversification into a wide array of value-added consumer electronic products.

The Group continued to focus on the sales of electronic calculators and organisers under the branded customers located throughout Japan, Europe and the United States of America. For the six months ended 30 June 2004, the turnover of electronic calculators and organisers remained as the core revenue generator of the Group, increased by approximately 41.6 per cent. to approximately HK\$201,627,000 (six months ended 30 June 2003: approximately HK\$142,416,000). It accounted for 56.3 per cent. of the Group's total turnover.

During the period under review, to keep pace with customer expectations and to address global concerns on the protection of environment and labour rights, the Group have enhanced both the production facilities and working environment, including the upgrading of leisure facilities for staff. In accordance with international standards, the Group had implemented strict adherence to overtime restrictions and minimum-wage requirements. New environmental control facilities have also been installed. These enhancements will ensure our long-term competitiveness but have inevitably caused one-off investment and overhead increases. The resulting rise in operating expenses was partly offset by the consistent efforts to control administrative and distribution costs, as well as our constant and operational efficiencies.

To deal with the problem of electricity shortage in Southern China, the Group has acquired four power generators as back-up for the occasions when power rationing in Dongguan deteriorates further from the current one day to two or more days of outages per week.

As a result, during the period under review, the gross profit margin dropped by approximately 4 per cent. from approximately 21.4 per cent. to approximately 17.4 per cent.. Demand in Europe and the United States of America remained strong in line with its economic growth but prices were subdued.

Given all our hard work in the past years, the Group has maintained its dominant position in the branded electronic calculators manufacturing sector. Operating profit derived from the electronic calculators and organisers segment rose by approximately HK\$1,728,000 to HK\$12,654,000 (six months ended 30 June 2003: approximately HK\$10,926,000).

Looking ahead, the Directors believe that it is expected that the turnover will continue to increase in the second half of the year and the profitability will substantially be improved.

Conductive silicon rubber keypads

The conductive silicon rubber keypads had also benefited from the electronic industry recovery as well as the Group's strategic focus on high value-added plastic plus rubber ("P+R") telephone keypads products.

The Group established a subsidiary, On Shing Holdings Company Limited (the "On Shing Holdings", which together with its subsidiaries, collectively the "On Shing Group") in May 2003 in which the Group owned 51 per cent. of the equity interest in On Shing Holdings.

After the establishment of On Shing Holdings, the Group has upgraded its technical capabilities to develop more sophisticated telephone keypads and a more diversified conductive silicon rubber keypads product range.

For the six months ended 30 June 2004, the turnover of conductive silicon rubber keypads significantly increased by 52.6 per cent. to approximately HK\$75,513,000 (six months ended 30 June 2003: approximately HK\$49,481,000) representing approximately 21.1 per cent. of the turnover of the Group.

During the period under review, the business strategy on conductive silicon rubber keypads segment was adopted to consolidate its key client base and the stringent cost control. The Group's effort in this direction had resulted in an improved gross profit margin by approximately 3.6 per cent. to approximately 15.2 per cent. from approximately 11.6 per cent. of the corresponding period under review.

For the six months ended 30 June 2004, the Group explored new business opportunities to expand its customers base and serve a broad range of well known customers in Japan and the People's Republic of China ("PRC"). The effort was rewarded as the contribution to operating profit grew by approximately 3,778.8 per cent. to approximately HK\$2,017,000 (six months ended 30 June 2003: approximately HK\$52,000).

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

On 27 August 2004, the Group had signed an agreement to acquire a property located in the PRC with a total land use right area of approximately 4,768 sq.m. and a total building area of approximately 9,034 sq.m. (the "Property") for a consideration of an aggregate amount of RMB11,180,000 (equivalent to approximately HK\$10,547,170). The Group acquired the Property mainly to cope with its expansion in the conductive silicone rubber keypads business as the Directors believe that such acquisition can secure the place of production and thus provide a platform to secure orders from its customers.

Given that the recovery is under way, the Directors believe that, through the acquisition of the Property, the Group will acquire an opportunity to better develop the manufacture of conductive silicon rubber keypads' business and the acquisition will contribute positively to the future revenue growth of the Group in the coming year.

Printed Circuit Boards ("PCB")

The PCB segments also achieved a prominent results during the period under review. For the six months ended 30 June 2004, turnover derived from PCB segment reported persistent growth by approximately 7.3 per cent. to approximately HK\$67,109,000 (six months ended 30 June 2003: approximately HK\$62,545,000), representing approximately 18.7 per cent. of the turnover of the Group. The increase in turnover was due to the continued demand from multi-layer manufacturing operations.

Raw materials supply is expected to remain cyclical and prices will further trend upward in the short term 3-6 months. During the period under review, the management adopted a business strategy to consolidate of its key client base and the stringent cost control on raw materials and components. The Group's effort in this direction have resulted in maintaining the gross profit margin at approximately 13.8 per cent. for the six months ended 30 June 2004.

In order to meet its increased orders, the Group assigned some complex work to outside subcontractors and the subcontracting fees amounted to approximately HK\$10,918,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$8,345,000).

During the period under review, the PCB segment recorded an operating profit before taxation of approximately HK\$4,077,000 (six months ended 30 June 2003: approximately HK\$5,227,000).

Along with the substantiate growth in PCB business, the Group has acquired the remaining 15 per cent. equity interest in Jet Master Limited from the existing minority shareholders for a total consideration of approximately HK\$4,500,000 in June 2004.

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Due to the increasing demand of PCB in the global market and the restricted production floors in the two existing factory complex, the Group is conducting a feasibility study on the existing factory environment to build up a new factory complex to cope with the increased orders in the coming years.

The Directors believe that the future performance and prospects of the PCB business are optimistic.

Other operations

Turnover derived from other operations is mainly contributed by electronic toys products, such as infant toys and electronic learning products. For the six months ended 30 June 2004, turnover from electronic toys segments recorded approximately HK\$13,917,000 (six months ended 30 June 2003: approximately HK\$11,503,000).

During the period under review, the electronic toys segment recorded an operating loss from operations of approximately HK\$3,700,000 (six months ended 30 June 2003: loss from operations of approximately HK\$806,000).

Share of results of an associate, the Ascalade Group

The Ascalade Group continued to deliver sound results with strong revenue growth, encouraging margin expansion and improvement in the net profit attributable to the shareholders.

It was another successful first half year for the Ascalade Group in 2004. The turnover derived from the telecommunications businesses and products, such as parafone, 1.8 GHz, 2.4 GHz, 5.8 GHz cordless phones and wireless conference phones grew approximately 62 per cent. to approximately HK\$281,130,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$173,554,000).

During the period under review, the Ascalade Group incurred development cost amounted to approximately HK\$14,067,000 for the development of Digital Enhanced Cordless Telephones ("DECT") phones and telecommunication products.

The Group had been rewarded with the share of positive contribution to the Group's operating profit to the Group's operating profit before taxation amounted to approximately HK\$6,693,000 (six months ended 30 June 2003: approximately HK\$1,134,000).

Overall

For the six months ended 30 June 2004, turnover of the Group rose by approximately 34.7 per cent. to approximately HK\$358,166,000 (six months ended 30 June 2003: approximately HK\$265,945,000). Under the competitive business environment, the overall gross profit margin of the Group slightly decreased by approximately 1.1 per cent. to approximately 17.3 per cent. (six months ended 30 June 2003: approximately 18.4 per cent.).

Operating profit before taxation and minority interests increased by approximately 110.8 per cent. to approximately HK\$19,192,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$9,103,000).

Net profit attributable to shareholders had also increased by approximately 202.3 per cent. to approximately HK\$16,900,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$5,590,000). In addition, the basic earnings per share increased from approximately HK1.01 cents for the six months ended 30 June 2003 to approximately HK3.07 cents for the six months ended 30 June 2004.

INTERIM DIVIDEND

The Directors do not recommend of any interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK\$344,159,000 as at 30 June 2004 from approximately HK\$330,045,000 as at 31 December 2003. As at 30 June 2004, the short term and long term interest bearing debts to shareholders' equity was approximately 37.2 per cent. (as at 31 December 2003: approximately 39.3 per cent.).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled us to maintain a strong financial position. As at 30 June 2004, the Group has fixed deposits and cash balances aggregated to approximately HK\$67,357,000 (as at 31 December 2003: approximately HK\$66,346,000).

As at 30 June 2004, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$333,102,000 (as at 31 December 2003: approximately HK\$231,721,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$259,800,000 (as at 31 December 2003: approximately HK\$170,400,000) in Hong Kong granted to the Group, approximately HK\$22,888,000 (as at 31 December 2003: approximately HK\$46,022,000) had been utilized as at 30 June 2004.

In February 2004, the Group obtained a three-year term loan which is denominated in Hong Kong Dollar amounting to HK\$45,000,000 (as at 31 December 2003: Nil). Out of the term loan facility, amounting of approximately HK\$33,000,000 were used to repay part of the term loan facility in the PRC and the remaining amount of approximately HK\$12,000,000 was used as working capital of the Group.

As a result, the term loan banking facilities in the PRC reduced to an amount of approximately HK\$28,302,000 (as at 31 December 2003: approximately HK\$61,321,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2004, total indebtedness including bank borrowings and obligations under finance lease contracts amounted to approximately HK\$128,080,000 (as at 31 December 2003: approximately HK\$129,838,000), representing approximately 37.2 per cent. of the total shareholders' equity (as at 31 December 2003: approximately 39.3 per cent.).

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

FUTURE PLANS AND PROSPECTS

Going forward, the Group will focus on its core manufacturing business. The Group will continue to strive to enhance the production volume of consumer electronic products and operational efficiency backed by its expanded vertical production line.

Given that the Group's enormous production volume of consumer electronic products, as well as the concerted efforts in developing value-added consumer electronic products and tapping into prospectively high-growth markets, the Group is set to capture the tremendous global market potential and cement its leading position in the manufacture of consumer electronic products.

Although recent economic indices indicate that the global economy is generally healthy, there are risks of higher oil prices and increase in interest rates which will impact global growth adversely.

To maintain our resilience, we will continue to manage our business growth prudently but will still make rational and market-driven investments in order to maintain our prowess and leadership in actual production capabilities.

The Directors believe that with its strong management team, product diversification, closed and established customer relations and effective strategic planning, the Group is confident in maintaining its positive direction and will achieve success for the Group in the future. Barring unforeseeable circumstances, the Directors are confident of improved performances in the coming financial year as the Group's growth platform has been refined and strengthened.

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EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group employed approximately 9,038 full time employees, out of which 103 were based in Hong Kong and 8,935 were based in the PRC. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which include provident fund, medical insurance and training are provided. In addition, share options may also be granted in accordance to the terms of the Group's approved share option scheme.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of securities on The Stock Exchange of Hong Kong Limited, save and except that all non-executive Directors are not appointed for any specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Audit Committee (the "Committee") has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the unaudited consolidated interim results for the six months ended 30 June 2004.

The members of the Committee included the three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Tsao Kwang Yung, Peter and Mr. Goh Gen Cheung.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2004.

PUBLICATION OF OTHER FINANCIAL INFORMATION

Other financial information containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004, under the transitional arrangements, will be published on The Stock Exchange of Hong Kong Limited's website in due course.

By Order of the Board

Tong Shek Lun

Chairman and Managing Director

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

Hong Kong, 14 September 2004

* *for identification only*

Please also refer to the published version of this announcement in The Standard dated 15 September 2004.