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 PERIOD ENDED 30 JUNE 2013

INTERIM RESULTS

The board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company") announced that the interim consolidated results of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2013, together with the comparative figures of the corresponding period in 2012 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2013

		Six-month period ended 30 June	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
			(Unaudited)
Revenue		**1,262**	4,853
Cost of goods sold		**(1,252)**	(4,835)
Gross profit		**10**	18
Other revenue		**285**	243
Other gains and losses		**319**	80
Gain on derecognition of promissory notes	*4*	**87,500**	–
Gain on derecognition of convertible bonds	*5*	**271,909**	–
Administrative expenses		**(5,960)**	(4,316)
Finance costs	*6*	**(10,184)**	(16,009)
Profit/(loss) before taxation		**343,879**	(19,984)
Income tax credit	*7*	**6,316**	2,641
Profit/(loss) for the period, attributable to owners of the Company	*8*	**350,195**	(17,343)

* *For identification purposes only*

		Six-month period ended 30 June	
		2013	2012
	Note	***HK$'000***	*HK$'000*
			(Unaudited)
(Decrease)/increase in fair value of available-for-sale investments, which may be reclassified subsequently to profit or loss, representing other comprehensive income for the period, net of tax		**(272)**	462
Total comprehensive income for the period, attributable to owners of the Company		**349,923**	(16,881)
Earnings/(loss) per share	*10*		
– Basic		**HK cents 49.64**	HK cents (2.47)
– Diluted		**HK cents 7.32**	HK cents (2.47)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Note	**30 June 2013** **HK$'000**	31 December 2012 *HK$'000*
Non-current assets			
Equipment		**17**	21
Intangible asset		**–**	–
Goodwill		**–**	–
Available-for-sale investments		**6,440**	6,712
		6,457	6,733
Current assets			
Trade receivables	*11*	**–**	622
Prepayments and other receivables		**640**	966
Bank balances and cash		**34,338**	9,917
		34,978	11,505
Current liabilities			
Accruals and other payables		**1,425**	1,694
Promissory notes		**–**	87,500
		1,425	89,194
Net current assets/(liabilities)		**33,553**	(77,689)
Total assets less current liabilities		**40,010**	(70,956)
Non-current liabilities			
Amount due to a shareholder		**1,653**	1,653
Convertible bonds		**–**	261,725
Deferred tax liabilities		**–**	6,316
		1,653	269,694
Net assets/(liabilities)		**38,357**	(340,650)
Capital and reserves attributable to owners of the Company			
Share capital		**84,283**	70,236
Reserves		**(45,926)**	(410,886)
Total equity/(deficit)		**38,357**	(340,650)

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In preparing the consolidated interim financial statements, the directors of the Company have given careful consideration to the favourable financial effects arising from the Termination Transactions with TMDC (upon the completion of which Precise Media Limited, intangible assets representing the patents and the part of Trande 1 Bonds issued to TMDC were disposed of and derecognised), the High Court Judgment (upon the hand down of which the promissory notes and the part of Trande 1 Bonds issued to China Eagle and Fairtime were derecognised), current financial position of the Group and the ability of the Group to realise its assets into cash in the ordinary course of business, future short-term and long-term liquidity and operating and capital commitments of the Group. The directors are of the opinion that it is appropriate to prepare the consolidated interim financial statements on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs effective in the current period

In the current period, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to the Group's operations.

Amendments to HKFRSs	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures

The application of the new and revised HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior period and/or on the disclosures set out in these consolidated interim financial statements.

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 reportable segment, namely conductive silicon rubber keypads, which engages in the business of trading of conductive silicon rubber keypads and associated products.

Segment revenue and results

The reconciliation between the segment revenue and results and the respective consolidated balances is as follows:

For the six-month period ended 30 June 2013

	Conductive silicon rubber keypads and segment total and consolidated total
	HK$'000
Revenue – External sales	**1,262**
Segment profit	**10**
Unallocated income/(expenses) items:	
Central administration costs and directors' salaries	**(5,960)**
Other revenue	**285**
Other gains and losses	**319**
Gain on derecognition of promissory notes	**87,500**
Gain on derecognition of convertible bonds	**271,909**
Finance costs	**(10,184)**
Profit before taxation	**343,879**

For the six–month period ended 30 June 2012 (Unaudited)

	Conductive silicon rubber keypads and segment total and consolidated total
	HK$'000
Revenue – External sales	4,853
Segment profit	18
Unallocated income/(expenses) items:	
Central administration costs and directors' salaries	(4,316)
Other revenue	243
Other gains and losses	80
Finance costs	(16,009)
Loss before taxation	(19,984)

The accounting policies of the operating segment are the same as the Group's accounting policies described in note 5 to the consolidated interim financial statements. Segment profit represents profit earned by the segment without absorption of unallocated income/(expenses) items, details of which are set out above. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The reconciliation between the segment assets and liabilities and the respective consolidated balances is as follows:

	Conductive silicon rubber keypads and segment total	
	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
Assets		
Segment assets	**–**	622
Bank balances and cash	**34,338**	9,917
Other unallocated assets	**7,097**	7,699
Consolidated assets	**41,435**	18,238
Liabilities		
Segment liabilities	**–**	115
Unallocated liabilities	**3,078**	358,773
Consolidated liabilities	**3,078**	358,888

For the purposes of monitoring segment performance and allocating resources:

- all assets are allocated to operating segments other than equipment, available-for-sale investments, prepayments and bank balances and cash; and

- all liabilities are allocated to operating segments other than accruals and other payables, amount due to a shareholder, promissory notes, convertible bonds and deferred tax liabilities.

Other segment information

For the six-month period ended 30 June 2013

	Conductive silicon rubber keypads and segment total *HK$'000*	**Unallocated** *HK$'000*	**Consolidated** *HK$'000*
Amounts included in the measure of segment profit:			
Reversal of impairment loss recognised on trade receivables	**–**	**–**	**–**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:			
Depreciation of equipment	**–**	**(4)**	**(4)**
Finance costs	**–**	**(10,184)**	**(10,184)**
Gain on derecognition of promissory notes	**–**	**87,500**	**87,500**
Gain on derecognition of convertible bonds	**–**	**271,909**	**271,909**

For the six-month period ended 30 June 2012 (Unaudited)

	Conductive silicon rubber keypads and segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit:			
Reversal of impairment loss recognised on trade receivables	(79)	–	(79)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:			
Depreciation of equipment	–	(3)	(3)
Finance costs	–	(16,009)	(16,009)

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
		(Unaudited)
Customer A	**–**	3,017
Customer B	**–**	943
Customer C	**1,262**	893
	1,262	4,853

All of the above amounts are contributed from conductive silicon rubber keypads.

Geographical information

The Group's operations are mainly located in Hong Kong.

The following table provides an analysis of revenue from external customers derived from Hong Kong, which is the country of domicile of the Group for the purpose of HKFRS 8, irrespective of the origin of the goods, and information about its non-current assets by geographical location of the assets.

	Revenue from external customers six-month ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
		(Unaudited)
Sales of conductive silicon rubber keypads		
Hong Kong	**1,262**	4,853

	Non-current assets	
	30 June	31 December
	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**17**	21

Note: Non-current assets exclude financial instruments.

4. GAIN ON DERECOGNITION OF PROMISSORY NOTES

As summarised in note 3(vii)(b) to the consolidated interim financial statements, the High Court handed down a judgment on 19 June 2013 that the Group was entitled to, among the others, the return of the outstanding promissory notes by China Eagle. Upon then, the Group was discharged from its obligation of the promissory notes. Accordingly, the promissory notes at amortised cost of HK$87,500,000 was derecognised and the resulting gain of the same amount was recognised in the current period profit or loss.

5. GAIN ON DERECOGNITION OF CONVERTIBLE BONDS

As a result of the completion of the part of the Termination Transactions with TMDC, the Group cancelled the part of Tranche 1 Bonds issued to TMDC with the principal amount of HK$187,200,000, and a resulting gain of HK$167,218,000 representing the carrying amount at amortised cost on 28 February 2013 was recognised in the current period profit or loss.

In addition, as a result of the hand down of the High Court Judgment on 19 June 2013, Group cancelled the part of the Tranche 1 Bonds issued to the Vendors with the principal amount of HK$112,800,000, and a gain of HK$104,691,000 representing the carrying amount at amortised cost on 19 June 2013 was recognised in the current period profit or loss.

6. FINANCE COSTS

	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
		(Unaudited)
Effective interests on borrowings wholly repayable within five years:		
Convertible bonds	**10,184**	15,545
Promissory notes	**–**	464
	10,184	16,009

7. INCOME TAX CREDIT

	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
		(Unaudited)
Deferred tax credit – current period	**6,316**	2,641

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made in the consolidated interim financial statements since the group entities had no assessable profits in Hong Kong for both periods.

8. PROFIT/(LOSS) FOR THE PERIOD

	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
		(Unaudited)
Profit/(loss) for the period has been arrived at after charging/(crediting):		
Directors' remuneration	**434**	508
Other staff costs		
– Salaries and other benefits	**423**	420
– Retirement benefits scheme contribution	**21**	19
	444	439
Total staff costs	**878**	947
Depreciation of equipment	**4**	3
Cost of inventories recognised as expense	**1,252**	4,835
Management fee (included in administrative expenses, note)	**480**	404
Reversal of impairment loss recognised in respect of trade receivables (included in other gains and losses), net	**–**	(79)

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 for an office premise, including in which an amount of HK$384,000 (2012: HK$312,000) representing the share of the rental expenses for the period under an operating lease.

9. DIVIDENDS

No interim dividend has been paid or declared during each of the periods ended 30 June 2013 and 2012.

10. EARNINGS/(LOSS) PER SHARE

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

	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
		(Unaudited)
Profit/(loss)		
Profit/(loss) for the purpose of basic earnings/(loss) per share	**350,195**	(17,343)
Effects of dilutive potential ordinary shares:		
Gain on derecognition of convertible bonds	**(271,909)**	–
Release of deferred tax liabilities arising from convertible bonds upon derecognition	**(4,635)**	–
Interest on convertible bonds (net of tax)	**8,503**	–
Profit/(loss) for the purpose of diluted earnings/(loss) per share	**82,154**	(17,343)

	30 June 2013	30 June 2012
	'000	*'000*
		(Unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic earnings/(loss) per share	**705,460**	702,356
Number of ordinary shares for the purpose of diluted earnings/(loss) per share	**1,122,875**	702,356

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in decrease in loss per share for the period ended 30 June 2012.

11. TRADE RECEIVABLES

The Group generally allows credit periods of 30 to 90 days to its trade customers. An aging analysis of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*
0 – 60 days	**–**	622

SUMMARY OF THE INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion on the profit and cash flows

(a) Limitation of Scope – Deconsolidation of a Subsidiary during the Year Ended 31 December 2009

As set out in note 3(i) to the consolidated interim financial statements, the Group completed the acquisition of Pacific Choice Holdings Limited ("Pacific Choice") and its subsidiaries (collectively referred to as the "Pacific Choice Group") on 15 January 2009 for a total consideration of HK$604,616,000 which mainly comprised cash, promissory notes issued by the Group and convertible bonds issued by the Company.

As further set out in note 3(ii) to the consolidated interim financial statements, the directors of the Company were unable to obtain and access to the books and records of 聯合光電（蘇州）有限公司 United Opto-Electronics (Suzhou) Co., Ltd. (the "PRC Subsidiary"), being the directly and indirectly wholly owned subsidiary of Precise Media Limited ("Precise Media") and Pacific Choice respectively, after 30 November 2009 and resolved that the Group no longer had the power to govern the financial and operating policies of the PRC Subsidiary, and accordingly the control over the PRC Subsidiary was lost on that date.

The PRC Subsidiary has therefore been deconsolidated and recognised as an available-for-sale investment from 1 December 2009 onwards. Besides, since the assets of the PRC Subsidiary and the planned operations thereof predominantly accounted for the reason for which the Group acquired Pacific Choice Group, the loss of control over the PRC Subsidiary effectively impaired any practical value of the entire Pacific Choice Group, if any, and therefore, the directors of the Company considered that assets of the entities comprising Pacific Choice Group other than the PRC Subsidiary (the "Pacific Choice Remaining Group") should be fully impaired on the same date the Group lost control over the PRC Subsidiary.

As a result of the circumstances described above, the directors of the Company have been unable to provide us with a complete set of accounting books and records of the PRC Subsidiary. As a result, we were therefore unable to carry out audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether:

(i) the accumulated losses of the Group as at 31 December 2012, which included the losses (i) on deconsolidation of the PRC Subsidiary and (ii) incurred by the PRC Subsidiary for the period from 15 January 2009 (date of acquisition) to 30 November 2009 (date of deconsolidation) was free from material misstatement; and

(ii) the Group had lost its control over the PRC Subsidiary and whether it was appropriate to deconsolidate the assets and liabilities and cease to record results of operations of the PRC Subsidiary from the consolidated financial statements of the Group and be recognised as an available-for-sale investment until the date of disposal of Precise Media as stated below.

These matters caused us to disclaim our audit opinion on the consolidated financial statements for the year ended 31 December 2012.

As detailed in note 3(vii)(a)(i) to the consolidated interim financial statements, the Group disposed of Precise Media as part of the Termination Transactions with TMDC on 28 February 2013. Accordingly, the Group retained no further equity interests in Precise Media and the PRC Subsidiary which is its wholly owned subsidiary. As the PRC Subsidiary was deconsolidated on 30 November 2009 and was recognised as an available-for-sale investment with full impairment loss recognised on the same date, no gain or loss on disposal of the PRC Subsidiary was recognised in the profit or loss for the period ended 30 June 2013. Due to the limitations stated above, we were unable to satisfy ourselves as to whether any results of operation and gain or loss on disposal of the PRC Subsidiary for the period ended 30 June 2013 would have been recognised had it not been deconsolidated on 30 November 2009.

We were therefore unable to determine whether any adjustments were necessary to be made to the accumulated losses as at 31 December 2012 and the results of operations for the period ended 30 June 2013 that might have a significant effect on the state of the Group's affairs as at 31 December 2012 and on its profit for the period ended 30 June 2013.

(b) Limitation of Scope – Fair Value and Carrying Amounts of Convertible Bonds, Interest Charge and Gain on Derecognition of Convertible Bonds for the period ended 30 June 2013

As set out in note 3(i) to the consolidated interim financial statements, on 15 January 2009, the Company issued zero-coupon convertible bonds due in 2014 with a principal amount of HK$300,000,000, subject to a downward adjustment, as part of the consideration for acquisition of Pacific Choice Group. As set out in note 22 to the consolidated interim financial statements, the directors of the Company appointed an independent valuer to perform a valuation of the fair value of the convertible bonds issued at the date of issue of 15 January 2009. However, in our audit of the consolidated financial statements for the year ended 31 December 2012, we were not provided with the explanation that we considered necessary for the assessment of the valuation of the convertible bonds and there were no alterative audit procedures that we could perform to obtain sufficient audit evidence to satisfy ourselves as to whether the valuation was properly prepared and accordingly, we were unable to satisfy ourselves as to whether:

(i) the fair value of the liability component of the convertible bonds on initial recognition was reliably measured in accordance with the relevant requirements of Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA ("HKAS 39") and whether their carrying values of HK$261,725,000 as at 31 December 2012 was free from material misstatement;

(ii) convertible bonds reserve of HK$120,398,000 as at 31 December 2012 representing equity component of the convertible bonds (net of related deferred tax liabilities arising from the issue of the convertible bonds) recognised directly in equity and the deferred tax liabilities arising from the issue of the convertible bonds of HK$6,316,000 as at 31 December 2012 was free from material misstatement;

(iii) any other embedded derivatives of the convertible bonds issued for the acquisition of Pacific Choice Group would have been recognised in accordance with HKAS 39 as at 31 December 2012;

(iv) goodwill of HK$77,685,000 arising from the acquisition of Pacific Choice Group as at 15 January 2009 (date of acquisition) as disclosed in note 17 to the consolidated interim financial statements was reliably measured in accordance with the relevant requirements of Hong Kong Financial Reporting Standard 3 “Business Combinations” issued by the HKICPA and whether the impairment loss on this goodwill of HK$77,685,000 recognised in the profit or loss for the year ended 31 December 2009 and included in the accumulated losses as at 31 December 2012 were free from material misstatement;

These matters caused us to disclaim our audit opinion on the consolidated financial statements for the year ended 31 December 2012.

As set out in note 3(vii) to the consolidated interim financial statements, following the completion of the Termination Transactions with TMDC on 28 February 2013 and 5 March 2013 and the High Court Judgment against the Vendors (as defined in note 3 to the consolidated interim financial statements) held on 19 June 2013, the convertible bonds with the total principal amount of HK$300,000,000 were returned and cancelled. As a result of these, gains on derecognition of the liability component of the convertible bonds of HK$271,909,000 and the resulting release of deferred tax liabilities of HK$4,635,000 were recognised in the profit or loss for period ended 30 June 2013. However, due to the limitation on the carrying amounts of the convertible bonds and related deferred tax liabilities as at 28 February 2013 and 19 June 2013, as applicable, stated above, we were unable to satisfy ourselves as to whether:

(v) the gain on derecognition of the liability component of the convertible bonds of HK$271,909,000 and the resulting release of deferred tax liabilities of HK$4,635,000 recognised in the profit or loss for the period ended 30 June 2013 were free from material misstatement;

(vi) any gain or loss on derecognition of any other embedded derivatives of the convertible bonds would have been recognised in the profit or loss for the period ended 30 June 2013, had they been recognised in accordance with HKAS 39 as at 31 December 2012, was free from material misstatement; and

(vii) the interest charge of HK$10,184,000 in respect of the liability component of the convertible bonds as set out in note 22 to the consolidated interim financial statements and the resulting release of deferred tax liabilities of HK$1,681,000 recognised in the profit or loss for the period ended 30 June 2013 were free from material misstatement.

We were therefore unable to determine whether any adjustments were necessary to be made to the accumulated losses as at 31 December 2012 and the results of operations for the period ended 30 June 2013 that might have a significant effect on the state of the Group's affairs as at 31 December 2012 and on its profit for the period ended 30 June 2013.

(c) Limitation of Scope – Carrying Amounts of Promissory Notes and its Gain on Derecognition of Promissory Notes for the period ended 30 June 2013

As set out in note 3(i) to the consolidated interim financial statements, on 15 January 2009, the Group issued zero-coupon promissory notes due in 2011 with a principal amount of HK$375,000,000 as part of the consideration for the acquisition of Pacific Choice Group of which HK$250,000,000 was early settled in 2009 with the subsequent extension of maturity of the remaining balance of HK$87,500,000 (after the cancellation of a principal amount of HK$37,500,000 as detailed in note 21 to the consolidated interim financial statements) to January 2012. Neither the Group settled nor the noteholder or its representative demanded payment of the matured balance.

In our audit of the consolidated financial statements for the year ended 31 December 2012, we circulated direct confirmations to the noteholder but did not receive a reply and there were no alternative audit procedures that we could perform to obtain sufficient audit evidence to satisfy ourselves as to whether the promissory notes of HK$87,500,000 included in the consolidated statement of financial position as at 31 December 2012 was free from material misstatement.

This matter caused us to disclaim our audit opinion on the consolidated financial statements for the year ended 31 December 2012.

As set out in note 3(vii)(b) to the consolidated interim financial statements, the High Court Judgment was handed down on 19 June 2013 which entitled the Group to the return of the promissory notes. As a result of this, the Group was legally released from the obligations arising from the promissory notes and a gain on derecognition of HK$87,500,000 was recognised in the profit or loss for the period ended 30 June 2013.

Due to the limitation on the carrying amount of the promissory notes as at 19 June 2013, we were unable to satisfy ourselves as to whether the gain on derecognition of the promissory notes of HK$87,500,000 recognised in the profit or loss for the period ended 30 June 2013 was free from material misstatement.

Any adjustment that might have been found to be necessary in respect of the above may have a significant effect on the state of the Group's affairs as at 31 December 2012 and on its profit for the period ended 30 June 2013.

(d) Limitation of Scope – Carrying Amount of Intangible Asset and Loss on Disposal of Intangible Asset during the Period Ended 30 June 2013

The Group acquired an intangible asset costing HK$668,000,000 in the acquisition of Pacific Choice Group in 2009. The carrying amount of this intangible asset was fully impaired in the year ended 31 December 2009 and included in the accumulated losses as at 31 December 2012 (see limitation of scope (a) above).

We were not provided with an assessment of recoverable amount of the intangible asset as at 31 December 2012 prepared in accordance with HKAS 36 "Impairment of Assets", we were therefore unable to satisfy ourselves as to whether:

(i) the accumulated impairment losses of HK$668,000,000 included in the accumulated losses as at 31 December 2012 was properly determined in accordance with the requirements of HKAS 36; and

(ii) the carrying values of the intangible asset has been properly stated in accordance with HKAS 38 "Intangible Assets" as at 31 December 2012.

These matters caused us to disclaim our audit opinion on the consolidated financial statements for the year ended 31 December 2012.

As further detailed in notes 3(vii)(a) to the consolidated interim financial statements, the intangible asset was returned to TMDC as part of the Termination Transactions with TMDC on 5 March 2013. As the carrying value of the intangible asset was fully impaired in prior years, no gain or loss on disposal of the intangible asset was recognised in the period ended 30 June 2013. Due to this limitation on the opening carrying amount of the intangible asset, we were therefore unable to satisfy ourselves as to whether any gain or loss on disposal of the intangible asset would have been recognised in the profit or loss for the period ended 30 June 2013 had the carrying values of the intangible asset been properly stated in accordance with HKAS 38 as at 5 March 2013.

Any adjustment that might have been found to be necessary in respect of the above may have a significant effect on the state of the Group's affairs as at 31 December 2012 and on its profit for the period ended 30 June 2013.

DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on the Profit and Cash Flows paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on profit and cash flows. Accordingly, we do not express an opinion on the consolidated statement of comprehensive income and the consolidated statement of cash flows for the six-month period ended 30 June 2013.

OPINION ON THE FINANCIAL POSITION

In our opinion, the consolidated statement of financial position gives a true and fair view of the state of the Group's affairs as at 30 June 2013 in accordance with Hong Kong Financial Reporting Standards.

OTHER MATTER

The comparatives in the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the explanatory information relating to these statements have not been reviewed or audited.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

For the first half of 2013, the Group succeeded in making a turnaround in its operating results and shareholders' equity. The Group reported a profit attributable to owners of the Company of approximately HK$350,195,000 for the six months ended 30 June 2013 as compared with a loss of approximately HK$17,343,000 for the same period in 2012, and a net asset value of approximately HK$38,357,000 as opposed to net liabilities of approximately HK$340,650,000 as at 31 December 2012. Basic earnings per share for the period under review amounted to approximately 49.64 HK cents (2012 corresponding period: basic loss per share was 2.47 HK cents.)

The significant improvement was a result of the Group's success in unwinding the acquisition ("Acquisition") of the LCoS television business and the convertible bonds and promissory notes issued thereof. In June 2013, the High Court in Hong Kong handed down a judgement in favour of the Group, declaring that the Group was entitled to terminate the Acquisition agreement and the return of cash paid and convertible bonds and promissory notes issued in relation to the Acquisition.

SEGMENTAL ANALYSIS

Conductive Silicon Rubber Keypads

During the period under review, the market for conductive silicon rubber keypads continued to shrink amid increasing popularity and use of touch-screen keyboards. The Group's principal business – conductive silicon rubber keypads trading was severely affected by the difficult operating environment. Despite the Group's effort to expand its product portfolio, its sales volume of conductive silicon rubber keypads and related products dropped considerably.

Stagnant demand for conductive silicon rubber keypads combined with ferocious market competition had led to significant reduction in the Group's revenue. The Group's revenue decreased by 74% year-on-year to HK$1,262,000 for the six months ended 30 June 2013, with a gross profit of HK$10,000 as compared to a gross profit of approximately HK$18,000 in the same period of 2012.

LCoS Television

In the first half of 2013, the Group made a breakthrough in terminating the Acquisition with the vendors ("Vendors") of the LCoS television business.

The Group had made tremendous efforts to unwind the Acquisition since it lost control over the acquired PRC company ("PRC Subsidiary") responsible for carrying out the LCoS television operations and subsequently deconsolidated the PRC Subsidiary from its financial statements in 2009.

In March 2013, the Group succeeded in completing the disposal ("Disposal") of the patents related to the LCoS television production to Taiwan Micro Display Corp. ("TMDC"), the original vendor who sold the LCoS television business to the Vendors. The Group also terminated several TMDC agreements ("Termination Deeds") in relation to the Acquisition. Upon completion of the Termination Deeds in February 2013, TMDC had returned HK$187,200,000 convertible bonds to the Group for cancellation.

Meanwhile, the Group had applied to the High Court for a default judgment to declare the Acquisition agreement null and void, after the Vendors failed to file their acknowledgement of service or defence before the deadlines. On 20 June 2013, the High Court passed down a judgement in favour of the Group, declaring that the Group was entitled to terminate the Acquisition agreement for total failure of consideration; the return to the Group of convertible bonds of HK$112,800,000 and promissory notes of HK$87,500,000, and cash of HK$275,000,000 from the Vendors, plus relevant interests thereof.

Following the completion of the Disposal and the High Court judgement, the Group cancelled the convertible bonds of HK$187,200,000 issued to TMDC, as well as the convertible bonds of HK$112,800,000 and promissory notes of HK$87,500,000 issued to the Vendors. For accounting treatment of such cancellations, certain assets and liabilities of the Group were derecognised, resulting in a profit attributable to owners of the Company of HK$350,195,000 for the six-month period and net asset value of HK$38,357,000 as of 30 June 2013.

MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group completed the Termination Deeds and the transfer of patents in relation to the production of LCoS televisions, which together constituted a very substantial disposal. Upon the completion of the Termination Deeds, convertible bonds in a total principal amount of HK$187,200,000 previously issued to TMDC were returned to the Group for cancellation.

FUTURE PLANS AND PROSPECTS

Looking into the second half of the year, the global market prospects will continue to be shrouded in uncertainty, as concerns over the sluggish recovery in the US and Europe, still linger. Meanwhile, slowdown in growth in the PRC economy in recent quarters has also raised market concerns.

In the face of uncertain economic prospects and adverse market conditions, the Group will try to consolidate its conductive silicon rubber keypads trading business by exploring various sales channel and possible related products for trading.

The completion of the Disposal and the High Court judgement signified the Group's success in unwinding the Acquisition of the LCoS television business. With the cancellation of the convertible bonds and promissory notes issued in relation to the Acquisition, the Group has tremendously improved its profits and balance sheet. The Group's net asset value as of 30 June 2013 was HK$38,357,000. The healthy balance sheet together with the net proceeds of HK$29,084,000 raised from a recent placement of 140,468,000 shares immediately put the Group in a solid financial position, which will provide a strong foundation for the Group's future business development.

Given the difficult conductive silicon rubber keypads market environment, the Group will identify other possible investment opportunities to diversify its business and revenue base. However, taking into account the uncertain economic conditions, the Group will adopt a prudent approach in investment to safeguard shareholders' interest.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$38,357,000 from a deficiency of approximately HK$340,650,000 as at 31 December 2012. As at 30 June 2013, the short term and long term interest bearing debts to shareholders' equity was nil (31 December 2012: 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 2013, the Group's cash balances increased to approximately HK$34,338,000 (31 December 2012: approximately HK$9,917,000).

As at 30 June 2013, the current ratio was approximately 24.5 (31 December 2012: approximately 0.13) based on current assets of approximately HK$34,978,000 and current liabilities of approximately HK$1,425,000 and the quick ratio was approximately 24.5 (31 December 2012: approximately 0.13).

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 2013, the Group employed approximately 5 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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Directors consider that the Company has compiled with all applicable provisions of the Corporate Governance Code (formerly the "Code on Corporate Governance Practices") contained in Appendix 14 (the "Code") of the Listing Rules throughout the period ended 30 June 2013, except for deviation as stated below:

Code Provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Company should be clearly established and set out in writing. The roles of the chairman and the CEO of the Company were not separated and were performed by the same individual, Mr. Sun Ying Chung throughout the period under review.

The Directors meet regularly to consider major matters affecting the operations of the Group. As such, 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.

Code Provision A.6.7

Under code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of the shareholders. Due to other pre-arranged commitments, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey were unable to attend the general meetings held during the period under review.

Code Provision E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other pre-arranged commitments, Mr. Sun Ying Chung was unable to attend the annual general meeting held during the period under review.

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 2013.

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 audited interim results for the six months ended 30 June 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2013, 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 under "Latest Listed Companies Information" and the website of the Company at www.aplushk.com/clients/1159 in due course.

By Order of the Board
Karce International Holdings Company Limited
Chau Chit
Chairman

Hong Kong, 15 August 2013

As at the date of this announcement, the Board consists of three Executive Directors, Mr. Chau Chit, Mr. Chan Sung Wai and Mr. Tang Hao; 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. Mak Ka Wing, Patrick and Mr. Shum Kai Wing.