

## Chairman's Statement

On behalf of the board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company" which, together with its subsidiaries (the "Group")), I am pleased to present the annual report and the audited consolidated results of the Group for the financial year ended 31 December 2000.



### RESULTS OF THE YEAR

As noted in our interim report, the worldwide electronic industry continued to steer through a difficult business environment in the past year amidst generally electronic components shortage, weak market and consumption sentiments. Despite of this, the Group had recorded steady performances. For the year ended 31 December 2000, the Group's turnover decreased slightly by approximately 1.3 per cent. to approximately HK\$460 million.

Net profit attributable to shareholders has dropped to approximately HK\$1,698,000 (1999: HK\$15,596,000) due to industry-wide drop in market prices for traditional items such as calculators, depreciation charge and the related finance costs increase for the new factory complex and a provision for slow-moving inventories.

As a prudent measure to safeguard the Group's interests in a turbulent environment, the Directors have decided not to recommend a final dividend for the year ended 31 December 2000.

### BUSINESS REVIEW

Although facing with a highly challenging and extremely competitive market for electronic products manufacturers, the Group still maintained its continued prudent management and application of its strategy in developing a high value and wide range of electronic products to branded customers.

#### Worldwide electronic components shortage

Starting from the beginning of year 2000, the worldwide electronic components supply situation has become critical. In the past few months in 2001, the Directors do not foresee a continued increase in the electronic components prices. The Directors will, however, closely monitor production costs in order to continue to maintain a reasonable profit margin.



During the year under review, certain types of raw materials and finished goods amounted to HK\$5,793,000 were held over one year by the Group. As a prudence's sake, the Directors made a full provision of approximately HK\$5,793,000 for these stocks.

### Expansion of production capacity

Two phases of construction of a new factory complex located in Dongguan, Guangdong province, the People's Republic of China (the "PRC"), the PRC for the production of electronic calculators and organizers were wholly completed in 2000, with a total gross floor area of approximately 95,000 square meters. The new factory complex is estimated to have a



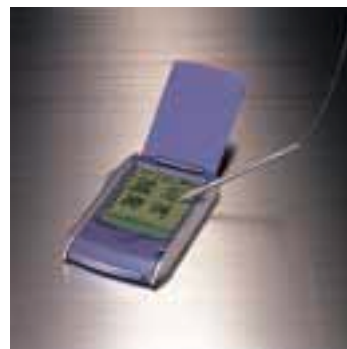
production capacity of approximately 3,000,000 units of electronic calculators and organizers per month and the new factory complex was only in approximately 70 per cent. utilization of its production capacity in 2000. For the year ended 31 December 2000, the depreciation charge and the related

interest costs on the bank borrowings on the new factory complex increased by approximately 32 per cent. and approximately 65 per cent. to approximately HK\$27 million and approximately HK\$6 million respectively.

With the support of a new factory complex, the Group has demonstrated its ability to produce high-value electronic products and continues to obtain new top-named branded customers in Europe and increased orders at the beginning of 2001. The Directors believe that the increased production capacities lay an excellent platform for future long-term growth by providing the Group with access to the additional orders and benefit from economies of scale in the coming year.

### Product development

As an Origin Design Manufacturing ("ODM") manufacturer, the Group's research and development capabilities have given it a competitive edge. During the year under review, the Group established a cooperative joint venture relationship with Tianjin Jinke Electronics Company Limited ("Tianjin Jinke"). Through a strategic partnership with Tianjin Jinke, the Group has upgraded its technical capabilities to develop more sophisticated electronic products. For the year ended 31 December 2000, the Group spent approximately HK\$2,987,000 in research and development. (1999: HK\$1,595,000).



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The Board is also committed to continue enhancing further resources in the Group's product development capability by strengthening its research and development setups in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") and the PRC. The Board believes that these expenditure lay the groundwork for future long-term growth by providing the Group with access to the much needed technology and marketing channels and brand names.

During the year under review, the Group also upgraded its computer system that facilitates the data interface between the design and production units, the communication and quick response between an office located in Hong Kong and the major factory in Dongguan, Guangdong province, the PRC.

### FUTURE PLANS AND PROSPECTS

The Group will continue to focus on its core businesses and reinforce its leadership position by capitalizing on its research and development strengths and international sales and marketing network. In order to continue our steady growth and development, the following objectives have been set out :

#### **Recruitment of Industry experts**

The Directors believe that human resources is the foundation of growth for the Group and the differentiation among enterprises. In view of this, the Group constantly enhances internal control on human resources by frequent discussion on enterprises management and product innovation. Apart from providing internal training to its staff and making internal promotion, the Group also recruits industry experts.

#### **Constant innovations**

The Directors are confident that the Group will maintain its competitive advantage through constant innovations. Product innovations and flexibility have enabled the Group to maintain stable profitability and steady revenue growth.

#### **Re-engineer the production process**

The Group is considering to re-engineer its production processes as to increase cost efficiency, and to reposition the Group for the future. Based on a solid industry standing built in the past, the Group's management will lead its strong team with a vision – to be better, stronger, more competitive and profitable.

#### **Material cost control**

In order to secure a stable supply of components at reasonable prices, the Group will seek for opportunities on strategic alliances with major suppliers in Japan and Taiwan by leveraging our position as one of the Asia's leading electronics manufacturers in the coming year.

## Market exploration

The Directors believe that there is a great potential for the Group to develop an extensive distribution network to export and develop premium gift market with good quality. The Group will strengthen the market promotion effort and try to improve the brand name awareness of the Group's own brandnames "KARCE" and "COCO & JAN". The establishment of a strong distribution network will provide an excellent platform for further development of the Group's business.



## Utilization of information technology

The deployment of information technology, such as Enterprises Resources Planning (ERP) in better integrating the Group's business and manufacturing processes in Hong Kong as well as the production facilities in Dongguan, Guangdong province, the PRC in enhancing its production flow, from products development to mass production, is crucial to its continued success. The Board will continue to computerise the Group's operations in order to achieve lower inventories. This will also lead to shorten production lead times which will bring about improved time-to-market.

The Board is confident that it will continue to achieve good results for the Group and its shareholders with the aim that the Group will continue to be one of the leading manufacturers of electronic calculators, electronic organisers and other electronic products for the branded customers in the United States, European and Japanese markets.



In 2001, 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. The Directors are also confident that the Group is well prepared for both the opportunities and challenges that will come with the PRC's accession to the World Trade Organization.

## ACKNOWLEDGEMENTS

Finally, on behalf of the Directors, I wish to express my sincere appreciation to all the staff of the Group for their continuing dedication and support. I would also like to thank our shareholders, our suppliers, our bankers and our customers for their continued support.

**Tong Shek Lun**  
*Chairman*

20 April 2001