



Dear Shareholders,

As an old Chinese saying goes, "Be not afraid of growing slowly, be only afraid of standing still". At Karce, we never stand still. We are constantly striving to stay ahead, keeping up-to-date with the latest developments in the electronics industry to maintain our competitiveness and meet our customers' changing needs.

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 2001.

RESULTS OF THE YEAR

The performance of the Group in the year under review was more than satisfactory. The Group attained a new high in turnover for the year ended 31 December 2001 at HK\$526 million, representing an increase of 14 per cent. over the same period in 2000.



Net profit attributable to shareholders increased by 263 per cent. from approximately HK\$1,698,000 in 2000 to approximately HK\$6,168,000 in 2001.

For the year ended 31 December 2001, earnings per share amounted to approximately Hong Kong 1.14 cents (2000: HK0.35 cent), with net assets value per share amounting to approximately Hong Kong 58 cents as compared to Hong Kong 55 cents as at 31 December 2000.

As our appreciation to our shareholders throughout the year, on behalf of the Directors, I am pleased to recommend the payment of a final dividend of HK1 cent per share payable on or before 28 June 2002 to shareholders whose names appear on the register of members of the Company on 29 May 2002 and is subject to the approval by the shareholders in the annual general meeting.

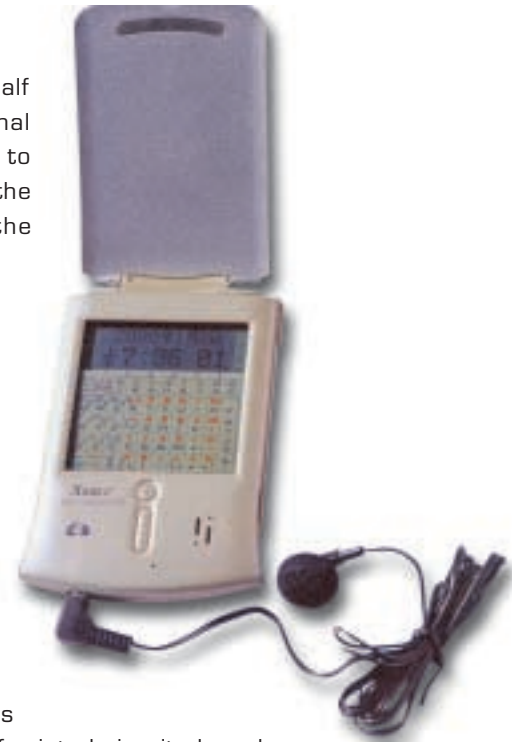
BUSINESS REVIEW

The continuous growth in 2001 bear witness to the success of the Directors in maximizing productivity, improving profit margins, consolidating key customers' base and expanding different product lines for ever-changing market demands.

As a step-up in streamlining production procedures, the Group has spent approximately HK\$34 million for the acquisition of certain machineries, of which approximately HK\$12 million for the production of electronic calculators and organizers, approximately HK\$10 million for the production of Digital Enhanced Cordless Telephones ("DECT phones"), and approximately HK\$12 million for the production of printed circuits boards. This modification allows the Group to increase the productivity and streamline the production capacity which are a crucial element in competing in the electronic calculators and organizers market. Accordingly, the inventory turnover was significantly improved from 93 days in 2000 to 66 days in 2001.

In addition to the continuous re-engineering of our existing products to improve their efficiencies whilst lowering the production costs, we also embarked on the development of a number of new products during the year. To ride on the wave of success of the Group's euro-converter program, the Group launched a series of over 30 models of euro-converters to the European countries with success in 2001 and it accounted for 11 per cent. of the Group's overall turnover for the year under review.

During the year under review, the Group continues to consolidate its key client base and serve a board range of well known customers. In the past year, the Group established itself as one of the leading manufacturers of electronic calculators and organizers with a diversified customer base of over 300 customers based around the world including Japanese, European, United States, Taiwan, Middle East, Hong Kong, the PRC and other Asian countries. The turnover of electronic calculators and organisers has significantly increased by 13 per cent. from approximately HK\$340 million in 2000 to approximately HK\$384 million in 2001.



The turnover of Printed Circuit Boards ("PCB") segments kept continuous growing and further increased by 26 per cent. from approximately HK\$70 million in 2000 to approximately HK\$88 million in 2001, representing approximately 17 per cent. of the turnover of the Group. During the year under review, the Group reengineered its sales mix and achieved a higher profit margin by increasing the complexity of PCB from single layer or double layers to high density multi-layer PCB.

During the year under review, the turnover of the conductive silicon rubber keypads decreased by 16 per cent. from approximately HK\$49 million in 2000 to approximately HK\$41 million in 2001, representing approximately 8 per cent. of the turnover of the Group. By providing synergetic effect to the Group's core business, the conductive silicon rubber keypads business will further be strengthened by the acquisition of the entire interest of Dongguan Tehsutec Electronic Company Limited (the "Acquisition"). Upon completion of the Acquisition in 2002, the turnover and operating profit of the conductive silicon rubber keypads are expected to further increase in the coming year.

Investing in growth

In order to broaden the business scope of the Group, the Group is constantly looking for new development opportunities that offer good potential to generate long term benefits for shareholders.

In January 2001, the Group had entered into partnership with Arkon Technologies Inc. ("Arkon"), one of the leading technology companies in Richmond, British Columbia, Canada and sales offices in Asia and Europe specializing in research and development of high-end telecommunications products. Arkon is a leading product development company that develops, licenses and distributes hardware and software designs in wireless telecommunications and networking products for a global clientele of manufacturers, telecom service providers and electronic brand names. Through a strategic partnership with Arkon, the Group has upgraded its technical capabilities to develop more sophisticated electronic, wireless telecommunications and networking products.

On 22 February 2001, the Group established a wholly-owned subsidiary company, Karce Communications Limited, to manufacture DECT phone and telecommunication products. For the year ended 31 December 2001, the Group spent approximately HK\$9.4 million in research and development of DECT phones and telecommunication products. (2000: HK\$Nil).

Turnover derived from the above new businesses and products, such as Parafone and 1.8 GHz DECT phones, recorded approximately HK\$12 million in the fourth quarter of 2001. As these product lines are still at the initial investment stage, their contribution remains insignificant in the financial year of 2001. But these investments are poised to realize their potential and with the temporary problems now starting to ease, we expect promising improvement in performance in the coming year.



Strategic alliance

The Group's conductive silicon rubber keypads are mainly made for use in mobile phones, cordless phones, electronic calculators, databanks, electronic organizers and remote controls. Looking ahead, we expect the demand for conductive silicon rubber keypads remain strong.

On 15 October 2001, Tachibana Limited, a wholly owned subsidiary of the Company, entered into a sales and purchases agreement with Prove Limited wherein Tachibana Limited acquired the entire interests in Dongguan Tehsutec Electronic Company Limited at a consideration of approximately HK\$10 million, settled by the allotment and issue of 20,000,000 shares ("Subscription Shares") of HK\$0.10 each in the capital of the Company at a price of HK\$0.40 per Subscription Share by the Company and the payment of cash of HK\$2 million to Prove Limited.

Upon completion of the Acquisition, the turnover and operating profit of the conductive silicon rubber keypads are expected to further increase in the coming year.

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.

The Directors are optimistic of the growth prospects of the electronics organizers and calculators. Along with the substantial growth in the core business, the Group will consider spending approximately HK\$10 million to acquire advanced machineries in order to increase the production efficiency and improve the products quality with emphasis on environmental protection in the coming year.

The Group's responsiveness to customers can be seen by our commitment to technology and research and development, partnering with our customers to develop the latest designs and mold technology that lead market trends and provide the best products to our customers.

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 continuous success. The Directors will continue to computerise the Group's operations in order to achieve lower inventories. This will also lead to shortened production lead time which will bring about improved time-to-market.

Looking forward, the deregulation of the global telecommunications industry presented the Group with numerous business opportunities. Digital technology will play a major role in the development of new generation of cordless phones, following the deregulation of the global telecommunications industry. Sales will be boosted by growth in sales of our DECT phones in Europe.

To capitalize on the new era in mobile telecommunications, the Group will roll out other products in the coming years, including 2.4 GHz cordless phones and DECT phones with Short Message Service (SMS). The Directors will consider setting up a research and development team either in North America or in Europe in order to develop new and featured rich products with reduced material costs, particularly the DECT phones products.

The Directors believe 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.

Further, our investment in new products and business lines has clearly impacted the earnings this year, the Directors believe that they are sound investments in exciting new areas of growth that will sustain returns to shareholders in the coming years, as earnings from new businesses come in.

In 2002, the outlook for the electronic industry remains uncertain. The Directors are cautiously aware of possible setbacks during the course of such recovery. The Directors expect that their efforts in developing new products, enhancing the research and development resources and capabilities, keeping a tight grip on quality control of the production lines, optimizing the inventory level and all cost including overheads, as well as the expansion of our customer base will go towards mitigating the adverse external factors. Barring unforeseen circumstances, the Directors expect the Group to remain profitable in the coming financial year.

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 continuous support.

Tong Shek Lun

Chairman

24 April 2002