

KARCE[®]

Interim Report

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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)

Interim Report for the six months ended 30 June 2002

FINANCIAL HIGHLIGHTS

The Group's turnover increased by 18 per cent. to approximately HK\$286 million

Profit attributable to shareholders increased by 8 per cent. to approximately HK\$4.7 million

Bank balances and cash increased by HK\$5 million to approximately HK\$86 million

Total net assets increased by 2.3 per cent. to approximately HK\$316 million

Basic earnings per share was HK 0.85 cents

INTERIM RESULTS

On behalf of the board of directors (the “Directors”) of Karcze International Holdings Company Limited (the “Company” which, together with its subsidiaries (the “Group”)), I am pleased to present the unaudited consolidated interim results of the Group for the financial six months ended 30 June 2002, together with the comparative unaudited figures for the corresponding period of 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

		Six months ended 30 June	
	Notes	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Turnover	3	285,967	241,641
Cost of sales		(233,080)	(204,682)
Gross profit		52,887	36,959
Other revenue	4	2,474	3,545
Distribution costs		(5,485)	(5,705)
Administrative expenses		(41,889)	(27,171)
Profit from operations	5	7,987	7,628
Finance costs	6	(1,771)	(1,873)
Profit before taxation		6,216	5,755
Taxation	7	(1,181)	(970)
Profit before minority interests		5,035	4,785
Minority interests		(300)	(403)
Net profit attributable to shareholders		4,735	4,382
Earnings per share	8		
Basic		0.85 cents	0.81 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2002

	Notes	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	279,236	275,119
Intangible assets		13,397	8,190
		<u>292,633</u>	<u>283,309</u>
Current assets			
Inventories		75,918	80,227
Trade and other receivables	10	91,847	71,669
Bills receivable		9,259	6,021
Tax recoverable		556	450
Bank balances and cash		85,784	80,984
		<u>263,364</u>	<u>239,351</u>
Current liabilities			
Trade and other payables	11	144,527	117,917
Tax payable		20,384	21,369
Dividend payable		1	1
Obligations under finance leases and hire purchase contracts – due within one year		3,760	4,463
Bank borrowings – due within one year	12	12,548	11,166
		<u>181,220</u>	<u>154,916</u>
Net current assets		<u>82,144</u>	<u>84,435</u>
Total assets less current liabilities		<u>374,777</u>	<u>367,744</u>
Non-current liabilities			
Obligations under finance leases and hire purchase contracts – due after one year		7,218	6,714
Bank borrowings – due after one year	12	45,794	46,729
		<u>53,012</u>	<u>53,443</u>
Minority interests		<u>5,468</u>	<u>5,166</u>
		<u>316,297</u>	<u>309,135</u>
Capital and reserves			
Share capital	13	55,714	53,714
Reserves		260,583	255,421
		<u>316,297</u>	<u>309,135</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Share premium HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Statutory reserves HK\$'000	Asset revaluation reserve HK\$'000	Exchange reserve HK\$'000	Goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Group										
As 1 January 2001	79,648	35,597	19,487	6,246	44,867	(1,847)	(31,539)	-	91,225	243,684
On repurchase of shares	-	-	-	-	-	-	-	24	(73)	(49)
Profit for the period	-	-	-	-	-	-	-	-	4,382	4,382
As 30 June 2001	<u>79,648</u>	<u>35,597</u>	<u>19,487</u>	<u>6,246</u>	<u>44,867</u>	<u>(1,847)</u>	<u>(31,539)</u>	<u>24</u>	<u>95,534</u>	<u>248,017</u>
On repurchase of share	(626)	-	-	-	-	-	-	262	(213)	(577)
Revaluation surplus	-	-	-	-	6,247	-	-	-	-	6,247
Minority share of post-acquisition reserve	-	-	-	-	(52)	-	-	-	-	(52)
Profit for the period	-	-	-	-	-	-	-	-	1,786	1,786
Transfer	-	-	-	307	-	-	-	-	(307)	-
As 31 December 2001	<u>79,022</u>	<u>35,597</u>	<u>19,487</u>	<u>6,553</u>	<u>51,062</u>	<u>(1,847)</u>	<u>(31,539)</u>	<u>286</u>	<u>96,800</u>	<u>255,421</u>
On issue of shares	6,000	-	-	-	-	-	-	-	-	6,000
Dividend paid	-	-	-	-	-	-	-	-	(5,573)	(5,573)
Profit for the period	-	-	-	-	-	-	-	-	4,735	4,735
As 30 June 2002	<u><u>85,022</u></u>	<u><u>35,597</u></u>	<u><u>19,487</u></u>	<u><u>6,553</u></u>	<u><u>51,062</u></u>	<u><u>(1,847)</u></u>	<u><u>(31,539)</u></u>	<u><u>286</u></u>	<u><u>95,962</u></u>	<u><u>260,583</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Unaudited Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000 (restated)
Net cash from operating activities	35,565	17,649
Net cash used in investing activities	(23,676)	(10,896)
Net cash (used in) from financing activities	(5,085)	13,678
	<hr/>	<hr/>
Increase in cash and cash equivalents	6,804	20,431
Cash and cash equivalents at 1 January	78,980	44,606
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>85,784</u>	<u>65,037</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	85,784	65,039
Bank overdrafts	—	(2)
	<hr/>	<hr/>
	<u>85,784</u>	<u>65,037</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) 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.

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 2001 except as described below.

During the current period, the Group has adopted, for the first time, the following revised or new SSAPs issued by the HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

Business segments:

For management purposes, 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:

	Unaudited For the six months ended 30 June							
	2002				2001			
	External sales	Inter-segment sales	Segment sales	Segment results	External sales	Inter-segment sales	Segment sales	Segment results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(restated)</i>							
OPERATING RESULTS								
By segments:								
Electronic calculators and organisers	174,284	3,780	178,064	7,315	177,415	3,236	180,651	4,843
Conductive silicon rubber keypads	46,881	4,796	51,677	6,130	19,848	3,629	23,477	4,368
Printed circuit boards	39,076	7,335	46,411	2,458	44,069	7,373	51,442	2,771
Other operations	25,726	-	25,726	(9,707)	309	-	309	(1,392)
Sub-total	285,967	15,911	301,878	6,196	241,641	14,238	255,879	10,590
Elimination	-	(15,911)	(15,911)	-	-	(14,238)	(14,238)	-
Consolidated	<u>285,967</u>	<u>-</u>	<u>285,967</u>	<u>6,196</u>	<u>241,641</u>	<u>-</u>	<u>241,641</u>	<u>10,590</u>
Other revenue				2,474				3,545
Unallocated corporate expenses				(683)				(6,507)
Profit from operations				7,987				7,628
Finance costs				(1,771)				(1,873)
Profit before taxation				6,216				5,755
Taxation				(1,181)				(970)
Profit before minority interests				5,035				4,785
Minority interests				(300)				(403)
Profit for the period				<u>4,735</u>				<u>4,382</u>

3. SEGMENT INFORMATION (Continued)

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	
	For the six months ended 30 June			
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Japan (note a)	67,970	66,723	1,473	3,016
Hong Kong (note b)	53,577	51,188	1,161	2,270
Europe	56,624	29,528	1,227	1,294
America	43,856	30,211	950	1,359
PRC, other than				
Hong Kong	26,202	25,646	568	1,045
Other Asian countries	29,278	31,284	635	1,331
Others	8,460	7,061	182	275
	<u>285,967</u>	<u>241,641</u>	<u>6,196</u>	<u>10,590</u>
Other revenue			2,474	3,545
Unallocated corporate expenses			(683)	(6,507)
Profit from operations			<u>7,987</u>	<u>7,628</u>

Notes:

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

4. OTHER REVENUE

	Six months ended 30 June	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Other revenue includes:		
Interest income	406	973
Net rental income	<u>70</u>	<u>117</u>

5. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	20,721	13,977
Property, plant and equipment written off	1,272	–
Allowance for doubtful debts	1,164	1,085
Operating lease rentals in respect of rented premises	252	141
Staff costs	<u>47,084</u>	<u>35,962</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	1,577	1,725
Obligations under finance leases and hire purchase contracts	<u>194</u>	<u>148</u>
	<u>1,771</u>	<u>1,873</u>

7. TAXATION

	Six months ended 30 June	
	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
The charge comprises:		
Hong Kong Profits Tax		
Current period	102	–
PRC enterprise income tax	1,079	970
	<u>1,181</u>	<u>970</u>

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax calculated at the rates prevailing.

No provision for deferred taxation has been made as the effect of all timing differences is minimal.

8. EARNINGS PER SHARE

The calculation of the earnings per share is based on the unaudited net profit attributable to shareholders for the six months ended 30 June 2002 of approximately HK\$4,735,000 (six months ended 30 June 2001: approximately HK\$4,382,000) and the weighted average number of 557,144,000 ordinary shares (six months ended 30 June 2001: 539,937,945 ordinary shares) in issue during the period.

No fully diluted earnings per share is presented as the dilution effect is immaterial.

9. PROPERTY, PLANT AND EQUIPMENT

SSAP 25 does not require an enterprise to arrange for a revaluation to be made by professional qualified valuers on revalued assets held at the interim period end. Accordingly, no professional valuation has been performed in respect of the Group's land and buildings as at 30 June 2002. However, the directors consider that the values of the land and buildings as at 30 June 2002 would not differ materially from the professional valuation made as at 31 December 2001 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

For the six months ended 30 June 2002, the Group has spent approximately HK\$13 million (six months ended 30 June 2001: approximately 13 million) for the acquisition of certain machineries and equipment, of which approximately 6 million (six months ended 30 June 2001: approximately HK\$8 million) was utilized for the production of electronic calculators and organizers, approximately 4 million (six months ended 30 June 2001: nil) for the other operations for the manufacturing of Digital Enhanced Cordless Telephones ("DECT phones") and electronic toys products and approximately 3 million (six months ended 30 June 2001: approximately HK\$5 million) for the production of printed circuits boards.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

An aged analysis of trade receivables is as follows:

	As at	
	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Not yet due or overdue within 30 days	68,385	52,521
Overdue for 31 – 60 days	14,777	9,415
Overdue for 61 – 90 days	4,636	1,452
Overdue for more than 90 days	–	4,092
	<hr/>	<hr/>
Other receivables	87,798 4,049	67,480 4,189
	<hr/>	<hr/>
	<u>91,847</u>	<u>71,669</u>

11. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	As at	
	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Not yet due or overdue within 30 days	60,937	46,521
Overdue for 31 – 60 days	12,102	12,847
Overdue for 61 – 90 days	24,187	5,248
Overdue for more than 90 days	6,441	6,440
	<hr/>	<hr/>
Other payables	103,667 40,860	71,056 46,861
	<hr/>	<hr/>
	<u>144,527</u>	<u>117,917</u>

12. BANK BORROWINGS

	As at	
	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Bank borrowings comprise:		
Bank loans	55,140	53,271
Trust receipts loans	3,202	4,624
	<u>58,342</u>	<u>57,895</u>
Analysed as:		
Secured	55,140	53,271
Unsecured	3,202	4,624
	<u>58,342</u>	<u>57,895</u>
The bank borrowings are repayable as follows:		
Within one year	12,548	11,166
Between one to two years	–	935
Between two to five years	45,794	45,794
	<u>58,342</u>	<u>57,895</u>
Less: Amount due within one year shown under current liabilities	<u>(12,548)</u>	<u>(11,166)</u>
Amount due after one year	<u>45,794</u>	<u>46,729</u>

13. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2002 (unaudited)	31 December 2001 (audited)	30 June 2002 HK\$'000 (unaudited)	31 December 2001 HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of the period	2,000,000,000	2,000,000,000	200,000	200,000
Issued and fully paid:				
At beginning of the period	537,144,000	540,000,000	53,714	54,000
Issue of shares	20,000,000		2,000	-
Shares repurchased and cancelled	-	(2,856,000)	-	(286)
At end of the period	557,144,000	537,144,000	55,714	53,714

Pursuant to the sales and purchases agreement with Prove Limited and Tachibana Limited, a wholly owned subsidiary of the Company, on 15 October 2001, the Company issued and allotted 20,000,000 ordinary shares of HK\$0.10 each at HK\$0.40 per share on 2 January 2002 (the "New Shares") and the payment of HK\$2 million to Prove Limited for acquisition of the entire interest of Dongguan Tehsutec Electronic Company Limited. The New Shares are credited as fully paid and rank pari passu with the existing shares in issue in all respects.

14. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, Dragon Spirit Enterprise Limited, a wholly owned subsidiary of the Company, entered into an agreement to establish a new company with independent third parties (the "Newco"). The Newco is engaged in the design, manufacture and distribution of cordless phones and other telecommunication products.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

During the period under review, it was an exceptionally challenging one for the Group. The management's ability in accommodating unforeseen changes and minimizing negative impact clearly demonstrates their capable expertise.

For the six months ended 30 June 2002, the Group recorded a turnover of approximately HK\$286 million, representing an increase of approximately 18 per cent. as compared with approximately HK\$242 million of the corresponding period in 2001.

Net profit attributable to shareholders had also increased by 8 per cent. to approximately HK\$4.7 million (six months ended 30 June 2001: approximately HK\$4.4 million).

Electronic calculators and organisers

During the period under review, the Group continued to focus on the sales of electronic calculators and organizers under the branded customers located throughout Japan, Europe and the United States of America. The Group has moved forward with a strategy that combined proven excellence in product development and cost-effective manufacturing with a new customer-centric approach.

For the six months ended 30 June 2002, the turnover of electronic calculators and organisers has slightly decreased by 2 per cent. to approximately HK\$174 million (six months ended 30 June 2001: approximately HK\$177 million). In the first quarter, the market was extremely tough. Price competition was fierce as traders and suppliers lowered the selling prices of the products in order to speed up their sales.

The management focused on tight cost control, mainly contributed by the raw materials and components, was substantially offset by the slight decrease in turnover during the period under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 58 per cent. from approximately 12 per cent. to approximately 19 per cent.. Demand in Europe and the United States of America remained strong in line with its economic growth but prices were subdued. Given that the recovery is under way, it is expected that turnover will continue in the second half of the year and profitability will continue to improve.

In the coming year, the Group will continue to adopt its business strategy for customers diversification, high value added production, effective cost control and quality management.

Conductive silicon rubber keypads

For the six months ended 30 June 2002, the turnover of conductive silicon rubber keypads significantly increased by 135 per cent. to approximately HK\$47 million (six months ended 30 June 2001: approximately HK\$20 million) representing approximately 16 per cent. of the turnover of the Group. This was due to the success of the Group's strategy of the acquisition of Dongguan Tehsutec Electronic Company Limited in October 2001.

Through the strategic alliance, 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 amounted to approximately HK\$6 million (six months ended 30 June 2001: approximately HK\$4.4 million).

The Group's conductive silicon rubber keypads are mainly made for use in electronic calculators, databanks, electronic organizers, mobile phones and remote controls. Looking ahead, the Directors believe that the acquisition of Dongguan Tehsutec Electronic Company Limited will continue to give the Group the opportunity to better develop the manufacturing 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")

For the six months ended 30 June 2002, the turnover of PCB dropped to approximately HK\$39 million (six months ended 30 June 2001: approximately HK\$44 million) representing approximately 14 per cent. of the turnover of the Group.

During the period under review, business strategy was adopted by the Group to consolidate its key client base and stringent cost control was imposed. The Group's effort in this direction had resulted in an improved gross profit margin to approximately 15 per cent. from approximately 13 per cent. of the corresponding period under review.

Along with the substantiate growth in PCB business, the Group will further spend approximately HK\$3 million to acquire machineries in the coming period and the Directors believe that the future performance and prospects of PCB business are optimistic.

Other operations

For the six months ended 30 June 2002, the Group spent approximately HK\$10 million on development costs for the manufacturing of Digital Enhanced Cordless Telephone (“DECT phones”) and telecommunication products (six months ended 30 June 2001: nil).

Turnover derived from the above new businesses and products, such as Parafone and 1.8 GHz DECT phones, amounted to approximately HK\$21 million for the six months ended 30 June 2002. As these product lines are still at the initial development stage, their contribution was insignificant in the first half year of 2002, inevitably affecting our bottom line. For the six months ended 30 June 2002, the cordless telephone segments recorded an operating loss before taxation of approximately HK\$10 million. (six months ended 30 June 2001: loss from operations of approximately HK\$1.4 million)

Although the investment in new products and business lines had clearly impacted the Group’s earnings this year, the Directors believe that it is a sound investment in exciting new areas of growth that will sustain returns to shareholders in the coming years, as earnings from new businesses come in.

For the six months ended 30 June 2002, the overall gross profit margin of the Group increased by approximately 3 per cent. to approximately 18 per cent. (six months ended 30 June 2001: approximately 15 per cent.).

Nevertheless, the unaudited consolidated net profit attributable to shareholders for the six months ended 30 June 2002 amounted to approximately HK\$4.7 million, representing an increase of approximately 8 per cent. over the corresponding period in 2001.

Shareholders’ equity increased to approximately HK\$316 million as at 30 June 2002 from approximately HK\$309 million as at 31 December 2001.

INTERIM DIVIDEND

As a prudent measure to safeguard the Group's interests in a turbulent economic environment, the Directors have decided not to recommend an interim dividend for the six months ended 30 June 2002 (six months ended 30 June 2001: nil).

POST BALANCE SHEET DATE DEVELOPMENT

The Directors also takes pleasure to announce that the Group had a strategic alliance with Arkon Technologies Inc. ("Arkon").

Arkon is 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 also a leading product development company that develops, licenses and distributes hardware and software designs in wireless telecommunications and networking products and has a global clientele comprises manufacturers and telecom service providers. On 14 August 2002, the Group has established an associate company, Ascalade Communications Holdings Limited ("Ascalade Holdings") with the Arkon's major shareholders and each owns 49 per cent of the equity interest in Ascalade Holdings. Through this strategic alliance, the Group has upgraded its technical capabilities to develop more sophisticated electronic, wireless telecommunications and networking products. More importantly, the Directors believe that, through the setting up of Ascalade Holdings, the long-term ultimate strategy to enhance the competitiveness of the Group's products can be achieved.

Ascalade Holdings will be engaged in the design, manufacture and distribution of cordless phones and other telecommunication products for the markets in Hong Kong, Europe and North America. The Directors expect that the initial production capabilities of Ascalade Holdings will be able to achieve 3 to 4 million pieces of cordless phones per year.

In order to sustain its growth momentum, the Group has agreed to provide a loan amounted to approximately HK\$39 million to Ascalade Holdings as its working capital. This loan amount is expected to be used by Ascalade Holdings for paying a monthly fee of USD300,000 as development costs and for acquiring machineries and equipments amounting to approximately HK\$8 million in the second half of the year.

The Directors believe that Ascalade Holdings will provide a strong growth in turnover and contribute to the future growth of the Group.

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 2002, the Group has cash in hand of approximately HK\$86 million (as at 31 December 2001: approximately HK\$81 million).

The Group currently has aggregated banking facilities amounting to approximately HK\$167 million (as at 31 December 2001: approximately HK\$160 million). The trade and overdraft banking facilities of approximately HK\$104 million (as at 31 December 2001: HK\$102 million) in Hong Kong and the term loan banking facilities of approximately HK\$58 million (as at 31 December 2001: HK\$53 million) in the PRC. All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2002, total indebtedness included bank borrowings and obligations under finance leases and hire purchase contracts amounted to approximately HK\$69 million (as at 31 December 2001: approximately HK\$69 million).

The total indebtedness as at 30 June 2002 represented approximately 22 per cent. of the total shareholders' equity (as at 31 December 2001: approximately 22 per cent.).

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

APPLICATION FOR THE PROCEEDS OF PRIVATE PLACEMENT

The Group had raised approximately HK\$39 million net of related expenses from the issue of 90 million new shares of HK\$0.10 each in the capital of the Company at a price of HK\$0.45 per share to independent professional and institutional investors on 25 August 2000.

The net proceeds from the private placing were subsequently applied up to the date of this report as follows:

- approximately HK\$16 million for developing new products including Personal Digital Assistants (“PDA”), web cameras, electronic books, DECT phones and other electronic toys products;
- approximately HK\$12 million for the promotion of the electronic organisers and other electrical products; and
- the remaining balance of approximately HK\$11 million has been utilized for developing new products including 2.4 GHz cordless phones and electronic toys products.

The Directors believe that the proceeds of the private placing had been fully utilized as planned and in the best interests of the Group and its shareholders taken as a whole.

FUTURE PLANS AND PROSPECTS

The Directors view the second half of the year with cautious optimism. The Directors will continue to develop existing business and pursue new growth areas, while keeping tight control over costs and stringent risk management, against mounting instability in the world economy.

As profit margins for traditional products such as electronic calculators and organizers are likely to continue to be squeezed, the Group has adopted a strategy of carefully planned, customer driven expansion. The Group’s manufacturing facility in Dongguan has only been utilized up to approximately 80 per cent. when compared to the overall production capacity. Operation efficiency has continued to improve and the production has continued to grow as customers are satisfied with both the Group’s products and deliveries. The Group continues to remain positive on growth opportunities in the manufacturing of DECT phones and other telecommunication products.

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.

Looking forward, the Group has maintained positive momentum. Nevertheless, the Directors anticipate a much more difficult business environment ahead originating from the political and financial instability of the global economy and accordingly, the Directors will continue to strive for a healthy balance sheet and low debt ratio.

The Directors also 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 in the future. Barring unforeseeable circumstances, the Directors are confident that performances in the coming financial year can be impaired as the Group's growth platform has been refined and strengthened.

DIRECTORS' INTERESTS IN SECURITIES

SHARES

As at the date of this report, the interests of the directors and their associates, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules"), in the shares of the Company or any associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Type of interests	Number of shares
Mr. Tong Shek Lun	Corporate	231,180,000
Mr. Li Ka Fai, Fred	Corporate	231,180,000
Ms. Ko Lai King, Kinny	Corporate	231,180,000
Ms. Chung Wai Yu, Regina	Corporate	231,180,000

The above shares are held by Sapphire Profits Limited, the ultimate holding company of the Company. Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina each owns 90.41%, 3.46%, 3.46% and 2.67% of the issued share capital of Sapphire Profits Limited, respectively.

Save as disclosed above, as at 30 June 2002, none of the Directors, chief executive or their respective associates had any beneficial interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

SHARE OPTIONS

Under the terms of the Share Option Scheme which became effective on 14 February 1998 ("Old Share Option Scheme"), the board of Directors may offer to any director and full-time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Details of movements during the period in the Company's share options which were granted on 24 July 2000 pursuant to the Old Share Option Scheme at an exercise price of HK\$0.528 per share are as follows:

Capacity	Name of directors	Number of share to be issued upon exercise of the share options			Exercisable period		
		Balance at 31.12.2001	Lapsed during the period	Balance at 30.6.2002	24.7.2000 to 23.7.2003	24.7.2001 to 23.7.2003	24.7.2002 to 23.7.2003
Director	Mr. Tong Shek Lun	1,532,000	-	1,532,000	612,800	459,600	459,600
Director	Mr. Li Ka Fai, Fred	1,100,000	-	1,100,000	440,000	330,000	330,000
Director	Ms. Ko Lai King, Kinny	764,000	-	764,000	305,600	229,200	229,200
Director	Ms. Chung Wai Yu, Regina	928,000	-	928,000	371,200	278,400	278,400
Ex-director	Mr. Tam Lung Shor	696,000	(696,000)	-	-	-	-
Ex-director	Mr. Wu Yong Yei	850,000	(850,000)	-	-	-	-
		<u>5,870,000</u>	<u>(1,546,000)</u>	<u>4,324,000</u>	<u>1,729,600</u>	<u>1,297,200</u>	<u>1,297,200</u>
Employees		<u>3,824,000</u>	<u>-</u>	<u>3,824,000</u>	<u>1,459,200</u>	<u>1,152,400</u>	<u>1,212,400</u>
		<u><u>9,694,000</u></u>	<u><u>(1,546,000)</u></u>	<u><u>8,148,000</u></u>	<u><u>3,188,800</u></u>	<u><u>2,449,600</u></u>	<u><u>2,509,600</u></u>

No options were granted or exercised during the period.

Pursuant to the annual general meeting held by the Company on 29 May 2002, the Old Share Option Scheme was terminated and a new share option scheme which complied with the amended rules of Chapter 17 of the Rule Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Share Option Scheme”) was adopted. Except that no further options may be granted under the Old Share Option Scheme consequent upon its termination, all the other provisions of the Old Share Option Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the Old Share Option Scheme prior to 1 September 2001 and all such options will remain valid and exercisable in accordance with the terms of the Old Share Option Scheme.

Save as the abovementioned, no option was granted to the Directors under the Share Option Scheme or the Old Share Option Scheme during the six months ended 30 June 2002.

Apart from the foregoing, at no time during the six months ended 30 June 2002 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the date of this report, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interest disclosed under the section headed “Directors’ Interests in Securities” above, the following shareholder had an interest of 10% or more in the share capital of the Company.

Name	Number of shares	% of interest
Perfect Treasure Investment Limited	88,100,000	15.8

Other than as disclosed above, the Company had not been notified of any interest representing 10% or more of the issued share capital of the Company as at the date of this report.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or, was not during the six months ended 30 June 2002 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 2002.

The members of the Committee included the two independent non-executive Directors of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED 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 2002.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2002, the Group employed approximately 7,386 full time employees, of which 93 were based in Hong Kong and 7,293 were based in the PRC. The Group remunerated its employees on the basis of industry’s practice and performance of the individual employee.

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.

By Order of the Board
Tong Shek Lun
Chairman and Managing Director

Hong Kong, 16 September 2002