

Chairman's Statement

Dear Shareholders,

I am pleased to report that 2002 was a year of progress for Karce International Holdings Company Limited (the "Company" which, together with its subsidiaries (the "Group")) and significant growth was achieved. A bigger and stronger Karce emerged as a result of several initiatives including the successful acquisition of Dongguan Tehsutec Electronic Company Limited ("Dongguan Tehsutec"), effective business alliance with Arkon Technologies Inc. ("Arkon") and major operational improvements during the course of the year. In particular, the Group's efforts to expand the Digital Enhanced Cordless Telephones ("DECT phones") business is yielding the expected benefits.

RESULTS OF THE YEAR

It is my pleasure to report that the Group has achieved a credible performance for the financial year ended 31 December 2002. The Group obtained an encouraging result for the year with a record high in turnover and improving net profit attributable to shareholders.

For the year ended 31 December 2002, turnover of the Group rose by approximately 5.5 per cent. to approximately HK\$554,548,000. In spite of the competitive business environment, the Group was able to improve the gross profit margin by approximately 2.3 per cent. to approximately 18 per cent. (2001: approximately 15.7 per cent.).

Operating profit before taxation and minority interests increased by approximately 23.4 per cent. from the previous year to approximately HK\$10,219,000.

Net profit attributable to shareholders has also increased by 31.1 per cent. to approximately HK\$8,087,000 for the year ended 31 December 2002 (2001: approximately HK\$6,168,000). In addition, the earnings per share increased from approximately HK\$1.14 cents for the year ended 31 December 2001 to approximately HK\$1.46 cents for the year ended 31 December 2002

DIVIDEND

In appreciation of shareholders' support for the Group, the directors of the Company ("Directors") are pleased to recommend a final dividend of HK0.5 cent per share payable on or before 30 June 2003 to shareholders whose names appear on the register of members of the Company on 28 May 2003 and is subject to the approval by the shareholders in the forthcoming annual general meeting. The total dividend paid out to our shareholders represents about 34.1 per cent. payout ratio on the Group's profit attributable to shareholders. This generous dividend payout ratio is in line with our aim to create shareholders' value.

BUSINESS REVIEW

The year of 2002 was an exceptionally challenging year for the Group. The global economy faced uncertainties arising from the events of September 11, which adversely slow down the economic recovery. The management's ability in accommodating unforeseen changes and minimizing negative impact clearly demonstrates their capable expertise.

The Directors believe that the key to growing in this highly competitive market is to stay focused on our core business as a leading manufacturer of electronic products, conductive silicon rubber keypads and printed circuit boards for the branded customers in the European, American and Japanese markets.

Demand for our core business areas remains positive. To stay ahead in this highly competitive industry, the Group will continue to introduce new products as well as to upgrade models with enhanced features for the more traditional products.

To benefit from new investment opportunities, both the acquisition of Dongguan Tehsutec and the establishment of Ascalade Communications Holdings Limited (the "Ascalade Holdings"), the associate of the Group, which together with its subsidiaries (the "Ascalade Group"), gave positive contribution to the Group.

Successful acquisition

For the year ended 31 December 2002, through the acquisition of Dongguan Tehsutec, the turnover derived from the sales of the conductive silicon rubber keypads significantly increased by approximately 158.5 per cent. to approximately HK\$105,682,000 (2001: approximately HK\$40,881,000) representing approximately 19.1 per cent. of the turnover of the Group.

With the successful acquisition and integration of the conductive silicon rubber keypads segment, the Group is more diversified in terms of product mix, geographical coverage and customer base, and enjoys economies of scale.



The Group will continue with its diversification strategy in order to open up new customer segments and opportunities that, in turn, allow for the turnover to grow.

Effective business alliance with Arkon

The Group always gives considerable weight to product Research and Development ("R&D"), believing that investment in this area can engineer, unwind and realise the capacity potential the Group accumulated during years of experience in vertically integrating the manufacturing operations.

In the past two years, the Group had entered into partnership with Arkon, one of the leading technology companies in Richmond, Canada, specializing in R&D of high-end telecommunication products. Through a strategic partnership with Arkon, the Group has

upgraded its technical capabilities to develop more sophisticated electronic, wireless telecommunication and networking products.

The Directors firmly believe that this alliance lay the groundwork for the future long-term growth by providing the Group with access to the very demanding technology and competitive marketing channels and brand names. This could be evidenced by the establishment of an associate for the manufacture and distribution of DECT phones.

Establishment of an associate for DECT phones

As noted in our interim report, an associate, Ascalade Holdings, has been established in August 2002 in which the Group holds 49 per cent. equity interests, to engage in the design, manufacture and distribution of cordless phones and other telecommunication products for the markets in Hong Kong, Europe and North America.

Ascalade Holdings designs and manufactures a wide range of wireless telecommunication products, such as cordless telephones ranging from 900 MHz analog cordless telephones to high frequency digital cordless telephones. In addition, Ascalade Holdings is planning to produce 5.8 GHz cordless telephones and other telecommunication products like Family Radio Service ("FRS") radios in the coming year.



Chairman's Statement

The turnover derived from the above businesses and new products, such as Parafone, 1.8 GHz and 2.4 GHz cordless phones, recorded approximately HK\$99,423,000 in the second half of the year 2002, contributing to an operating profit amounted to approximately HK\$124,000.

Supported by a capable and dedicated management team, Ascalade Holdings is well positioned to take on further challenges and opportunities in full confidence and the Directors believe that the future performance and prospects of the telecommunication business are optimistic.



warehouse, the Group is dedicated to lay an excellent platform for the increased production capacities in relation to the long-term growth. The new warehouse is expected to benefit the Group from access to the additional orders and economies of scale in the coming year.

Product development

In order to broaden the business scope of the Group, the Group is constantly looking for new development opportunities that offer great potential to generate long term benefits for shareholders. To this end, the Group has established a subsidiary, Karce Electronics Toys Limited, to engage in the manufacturing of electronic toys products, such as infant products and electronic learning products ("ELP"), for distribution in the European markets.



During the year under review, the turnover of the electronic toys products included in other operations under the heading of business segments recorded approximately HK\$20,530,000, representing approximately 3.7 per cent. of the turnover of the

Construction of staff quarters and warehouse

In order to cope with the expanding telecommunication business, the Group entered into an agreement to construct a new staff dormitory, with a gross floor area of approximately 14,000 square meters and a new warehouse, with a gross floor area of approximately 8,000 square meters, for the existing factory complex located in Dongguan, Guangdong province, the People's Republic of China (the "PRC").

A new staff dormitory is expected to be completed by the end of June 2003 and the Directors expected to recruit more staff to meet its increasing orders from customers in Europe and America for the telecommunication business.

A new warehouse is expected to be completed in the fourth quarter of 2003. With the support of a new

Group. For the year ended 31 December 2002, the electronic toys segment recorded an operating loss before taxation of approximately HK\$2,298,000.

Although the investment in new products and business lines has clearly affected 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.

The Directors believe that the electronic learning markets in both Europe and America are expected to expand continuously over the next few years.

Investing in growth

The Group will continue its diversification strategy in order to expand its new customer base and explore new business opportunities so as to enhance the growth of turnover.

The management of the Group are considering to form a joint venture company with a technology partner based in Korea for the manufacture and distribution of telephone keypads products. Through the strategic partnership, the Group can upgrade its technical capabilities to develop more sophisticated telephone keypads products.



The Directors will update the shareholders on any further progress in due course.

FUTURE PLANS AND PROSPECTS

The Middle East conflict could have a dampening effect on consumer sentiment, and business activity may be affected across the globe. Given these difficult circumstances, the Group will actively try to minimize any resultant negative impact.

Conflict aside, major opportunities continue to exist in the European and American markets. Although the electronic industry expects another challenging year ahead, our business outlook is positive.

The Group believes that there are still many opportunities for growth that can be leveraged from new markets and new products, which are being launched in the new financial year.

The Group is investing for the future and is expanding its production and R & D resources. It is also planning to implement in the second quarter of 2003 the "Oracle" Enterprises Resources Planning (ERP) systems to improve the operational efficiency and knowledge sharing within the Group.

The Directors believe that the acquisition of Dongguan Tehsutec will continue to provide opportunities for the Group to widen its customer base of conductive silicon rubber keypads business in Mainland China and the acquisition will contribute positively to the future revenue growth of the Group.

To maintain positive momentum in its newly developed lines of telecommunication products for branded customers in Europe and America, the Group is planning to acquire additional Surface Mounting Technology ("SMT") machines and to establish additional production lines accordingly in order to increase the production capacity and efficiency to meet the increasing orders in the year of 2003.

Chairman's Statement

Although the Group is proud to present a set of satisfactory results for the year under review despite of very difficult business environment, it will continue to use its best endeavour to further improve its operating performance. On the sales and distribution front, the Group will focus on increasing the number of regional distributors for "Karce" branded products. At the same time, the Group will continue to explore new opportunities, new markets and new technologies. On the cost front, the Group will further strengthen its proactive stance in making operational changes and implementing aggressive cost efficiency measures.

Looking forward, the Group foresees the next few years as extremely challenging and the Directors are cautiously optimistic based on their experience and strong management direction.

Barring unforeseeable circumstances, the management is confident of further improving performances in the coming financial year as the Group's growth platform has been refined and strengthened.

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

16 April 2003



