



**KARCE**<sup>®</sup> 2003  
Interim Report



**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 2003

### FINANCIAL HIGHLIGHTS

The Group's turnover decreased by approximately 7% to approximately HK\$265,945,000

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") increased by approximately 16.1% to approximately HK\$32,981,000

Profit attributable to shareholders increased by approximately 18.1% to approximately HK\$5,590,000

Bank balances and cash was approximately HK\$57,526,000

Basic earnings per share was HK1.01 cents

## INTERIM RESULTS

The board of Directors (the “Directors”) of Karce International Holdings Company Limited (the “Company” together with its subsidiaries the “Group”) announced the unaudited consolidated interim results of the Group for the six months ended 30 June 2003. The Group’s audit committee has reviewed the interim results.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Turnover	3	265,945	285,967
Cost of sales		(217,111)	(233,080)
Gross profit		48,834	52,887
Other operating income	4	4,010	2,474
Distribution costs		(5,538)	(5,485)
Administrative expenses		(37,322)	(41,889)
Profit from operations	5	9,984	7,987
Finance costs	6	(2,015)	(1,771)
Share of result of an associate		1,134	–
Profit before taxation		9,103	6,216
Taxation	7	(2,808)	(1,181)
Profit before minority interests		6,295	5,035
Minority interests		(705)	(300)
Net profit attributable to shareholders		5,590	4,735
Earnings per share	8		
Basic		HK1.01 cents	HK0.85 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

	Note	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	285,290	277,475
Intangible assets		3,510	8,190
Negative goodwill		(1,308)	(1,494)
Interest in an associate	10	39,910	28,601
		<u>327,402</u>	<u>312,772</u>
<b>Current assets</b>			
Inventories		70,422	60,127
Trade and other receivables	11	115,993	94,381
Bills receivable		3,163	135
Amount due from an associate		20,445	28,028
Tax recoverable		145	145
Bank balances and cash		57,526	68,718
		<u>267,694</u>	<u>251,534</u>
<b>Current liabilities</b>			
Trade and other payables	12	158,599	131,158
Bills payable		974	334
Tax payable		23,334	21,081
Dividend payable		2	2
Obligations under finance leases – due within one year		5,888	8,393
Bank borrowings – due within one year	13	22,706	8,221
		<u>211,503</u>	<u>169,189</u>
<b>Net current assets</b>		<u>56,191</u>	<u>82,345</u>
<b>Total assets less current liabilities</b>		<u>383,593</u>	<u>395,117</u>
<b>Non-current liabilities</b>			
Obligations under finance leases – due after one year		4,914	12,166
Bank borrowings – due after one year	13	45,794	56,075
		<u>50,708</u>	<u>68,241</u>
<b>Minority interests</b>		<u>8,898</u>	<u>5,693</u>
		<u>323,987</u>	<u>321,183</u>
<b>Capital and reserves</b>			
Share capital	14	55,078	55,078
Reserves	15	268,909	266,105
		<u>323,987</u>	<u>321,183</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
As at 1 January	321,183	255,421
Profit for the period	5,590	4,735
Final dividend paid	(2,786)	(5,571)
Shares issued at premium	—	3,600
As at 30 June	<u>323,987</u>	<u>258,185</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Net cash from operating activities	23,411	35,565
Net cash used in investing activities	(29,835)	(23,676)
Net cash used in financing activities	(4,768)	(5,085)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(11,192)	6,804
Cash and cash equivalents at 1 January	68,718	78,980
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	57,526	85,784
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	57,526	85,784
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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2003*

### 1. BASIS OF PREPARATION

The condensed consolidated 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 consolidated financial statements have been prepared under the historical cost convention.

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 2002 except that the Group has adopted the revised SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting period commencing on or after 1 January 2003.

The change to the Group’s accounting policies and the effect of adopting the revised standard is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy and had no material impact on the Group’s accounts in prior periods/years.

### 3. SEGMENT INFORMATION

#### Business segments:

For management purpose, 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					Consolidated HK\$'000
	For the six months ended 30 June 2003					
	Electronic calculators and organisers HK\$'000	Conductive silicon rubber keypads HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	
<b>OPERATING RESULTS</b>						
<b>REVENUE</b>						
External sales	142,416	49,481	62,545	11,503	-	265,945
Inter-segment sales	1,665	4,772	7,544	-	(13,981)	-
Total revenue	<u>144,081</u>	<u>54,253</u>	<u>70,089</u>	<u>11,503</u>	<u>(13,981)</u>	<u>265,945</u>
<b>RESULT</b>						
Segment result	<u>10,926</u>	<u>52</u>	<u>5,227</u>	<u>(5,785)</u>	<u>-</u>	10,420
Other operating income						147
Unallocated corporate expenses						(583)
Profit from operations						9,984
Finance costs						(2,015)
Share of result of an associate				1,134		1,134
Profit before taxation						9,103
Taxation						(2,808)
Profit before minority interests						6,295
Minority interests						(705)
Profit for the period						<u>5,590</u>



## 3. SEGMENT INFORMATION (Continued)

## Business segments: (Continued)

	Unaudited					Consolidated
	For the six months ended 30 June 2002					
	Electronic calculators and organisers HK\$'000	Conductive silicon rubber keypads HK\$'000	Printed circuit boards HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	HK\$'000
<b>OPERATING RESULTS</b>						
<b>REVENUE</b>						
External sales	174,284	46,881	39,076	25,726	-	285,967
Inter-segment sales	3,780	4,796	7,335	-	(15,911)	-
Total revenue	<u>178,064</u>	<u>51,677</u>	<u>46,411</u>	<u>25,726</u>	<u>(15,911)</u>	<u>285,967</u>
<b>RESULT</b>						
Segment result	<u>7,315</u>	<u>6,130</u>	<u>2,458</u>	<u>(9,707)</u>	<u>-</u>	6,196
Other operating income						2,474
Unallocated corporate expenses						<u>(683)</u>
Profit from operations						7,987
Finance costs						<u>(1,771)</u>
Share of result of an associate						<u>-</u>
Profit before taxation						6,216
Taxation						<u>(1,181)</u>
Profit before minority interests						5,035
Minority interests						<u>(300)</u>
Profit for the period						<u>4,735</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			
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Japan (note a)	72,599	67,970	2,845	1,473
Hong Kong (note b)	52,290	53,577	2,049	1,161
Europe	38,903	56,624	1,524	1,227
America	24,076	43,856	943	950
PRC, other than				
Hong Kong	39,890	26,202	1,563	568
Other Asian countries	26,212	29,278	1,027	635
Others	11,975	8,460	469	182
	<u>265,945</u>	<u>285,967</u>	<u>10,420</u>	<u>6,196</u>
Other revenue			147	2,474
Unallocated corporate expenses			(583)	(683)
Profit from operations			<u>9,984</u>	<u>7,987</u>

#### Notes:

- The directors believe that a substantial portion of the Group's sales attributable to the Japanese market was subsequently resold to the European and American markets.
- 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 OPERATING INCOME

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Other operating income mainly includes:		
Interest income	1,253	406
Negative goodwill released	187	-
Net rental income	<u>436</u>	<u>70</u>

## 5. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Property, plant and equipment	17,858	15,666
Intangible assets – development costs	4,710	5,055
Property, plant and equipment written off	189	1,272
Allowance for doubtful debts	336	1,164
Operating lease rentals in respect of rented premises	308	252
Research and development costs expensed	972	353
Staff costs	46,790	47,084

## 6. FINANCE COSTS

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	1,804	1,577
Obligations under finance leases	211	194
	<u>2,015</u>	<u>1,771</u>

## 7. TAXATION

	Six months ended 30 June	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
The charge comprises:		
Hong Kong Profits Tax	468	102
PRC enterprise income tax	1,216	1,079
	<u>1,684</u>	<u>1,181</u>
Share of taxation attributable to associated company		
Profit tax	–	–
Deferred taxation	1,124	–
	<u>1,124</u>	<u>–</u>
Total taxation charge	<u>2,808</u>	<u>1,181</u>

## 7. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax is calculated at the rates prevailing.

## 8. EARNINGS PER SHARE

The calculation of the earnings per share is based on the Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2003 of approximately HK\$5,590,000 (six months ended 30 June 2002: approximately HK\$4,735,000) and the weighted average number of 550,776,000 ordinary shares in the Company (six months ended 30 June 2002: 557,144,000 ordinary shares) in issue during the period.

No fully diluted earnings per share has been presented because the exercise price of the Company's outstanding share options was higher than the average market price for shares in both periods.

## 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 2003. However, the directors consider that the values of the land and buildings as at 30 June 2003 would not differ materially from the professional valuation made as at 31 December 2002 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

For the six months ended 30 June 2003, the Group has spent approximately HK\$26,347,000 (six months ended 30 June 2002 approximately HK\$12,769,000) for the acquisition of certain properties, machineries and equipment.

## 10. INTEREST IN AN ASSOCIATE

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Share of net assets	1,096	143
Loan to an associate	38,814	28,458
	<u>39,910</u>	<u>28,601</u>

## 11. 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 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Not yet due or overdue within 30 days	83,574	64,914
Overdue for 31 – 60 days	9,972	13,437
Overdue for 61 – 90 days	4,616	3,802
Overdue for more than 90 days	12,560	9,198
	<u>110,722</u>	<u>91,351</u>
Other receivables	5,271	3,030
	<u>115,993</u>	<u>94,381</u>

## 12. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Not yet due or overdue within 30 days	71,354	50,740
Overdue for 31 – 60 days	19,621	11,750
Overdue for 61 – 90 days	9,978	6,110
Overdue for more than 90 days	5,818	11,408
	<u>106,771</u>	<u>80,008</u>
Other payables	51,828	51,150
	<u>158,599</u>	<u>131,158</u>

## 13. BANK BORROWINGS

	As at	
	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Bank borrowings comprise:		
Bank loans	60,747	58,879
Trust receipts loans	7,753	5,417
	<u>68,500</u>	<u>64,296</u>

## 14. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2003 (unaudited)	31 December 2002 (audited)	30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At the end of the period/year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning of the period	550,776,000	537,144,000	55,078	53,714
Issue of shares	–	20,000,000	–	2,000
Shares repurchased and cancelled	–	(6,368,000)	–	(636)
At end of the period/year	<u>550,776,000</u>	<u>550,776,000</u>	<u>55,078</u>	<u>55,078</u>

## 15. RESERVES

	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 at 1 January 2002	79,022	35,597	19,487	6,553	51,062	(1,847)	(31,539)	286	96,800	255,421
On repurchase of shares	(258)	-	-	-	-	-	-	636	(636)	(258)
On issue of shares	3,600	-	-	-	-	-	-	-	-	3,600
Revaluation surplus on land and buildings	-	-	-	-	4,865	-	-	-	-	4,865
Minority share of post-acquisition reserve	-	-	-	-	(39)	-	-	-	-	(39)
Final dividend for 2001 paid	-	-	-	-	-	-	-	-	(5,571)	(5,571)
Profit for the year	-	-	-	-	-	-	-	-	8,087	8,087
As at 31 December 2002	82,364	35,597	19,487	6,553	55,888	(1,847)	(31,539)	922	98,680	266,105
Final dividend for 2002 paid	-	-	-	-	-	-	-	-	(2,786)	(2,786)
Profit for the period	-	-	-	-	-	-	-	-	5,590	5,590
As at 30 June 2003	82,364	35,597	19,487	6,553	55,888	(1,847)	(31,539)	922	101,484	268,909

## 16. CAPITAL COMMITMENTS

	As at 30 June 2003 HK\$'000 (unaudited)	31 December 2002 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>2,569</u>	<u>7,984</u>

The Company did not have any significant capital commitment.

## 17. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with the associate:

Nature of transaction	For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Sales by the Group ( <i>note a</i> )	11,156	–
Interest charged by the Group ( <i>note b</i> )	1,106	–
Subcontracting fee income charged by the Group ( <i>note c</i> )	9,006	–
Rental income charged by the Group ( <i>note c</i> )	359	–
	<u>11,627</u>	<u>–</u>

The above transactions were entered into on the following bases:

- Sales transactions were carried out at market price.
- Interest was charged at LIBOR or prime rate on the amounts owed by the associate.
- Subcontracting fee income and rental income were carried out at rates agreed by the parties involved.

## 18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with changes in presentation in the current period.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business and Operational Review*

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) in Hong Kong and countries among Asian countries, the Iraqi War and the worldwide economic downturn had slight impact on the Group’s turnover in the second quarter of this year. However, the Group still recorded a satisfactory result in its overall performance in the first half year.

For the six months ended 30 June 2003, the Group recorded a turnover of approximately HK\$265,945,000, representing a decrease of approximately 7.0% as compared with approximately HK\$285,967,000 of the corresponding period in 2002.

Whilst the global economy, particularly the economy of the United States, was experiencing slow recovery, the Group through its strength of strong management and efficient operations was able to navigate the outbreak of SARS and the aftermath of the Iraqi War without affecting the Group’s bottom line.

The Group also attained EBITDA of approximately HK\$32,981,000 for the six months ended 30 June 2003 (six months ended 30 June 2002: approximately HK\$28,408,000).

Net profit attributable to shareholders had also increased by approximately 18.1% to approximately HK\$5,590,000 (six months ended 30 June 2002: approximately HK\$4,735,000).

### *Electronic calculators and organisers*

During the period under review, an unprecedented combination of unfavorable factors prevailed. The war in Iraq, together with the SARS epidemic, affected the confidence of consumers and retailers. Despite these challenging economic conditions, there was little impact on the segment result, which testified our highly competitive position in the electronic manufacturing industry and the resilient nature of the market itself.

The Group continued to focus on the market of electronic calculators and organizers under the branded customers located throughout Japan, Europe and the America during the period under review.

In the first six months of 2003, price competition was fierce as traders and suppliers slashed prices to liquidate their inventories. During the period under review, the business strategy continued to address on the consolidation of its key client base and to provide service which served a broad range of well known chain stores customers in America.

For the six months ended 30 June 2003, the turnover of electronic calculators and organisers decreased by approximately 18.3% to approximately HK\$142,416,000 (six months ended 30 June 2002 : approximately HK\$174,284,000).

Accordingly, the management succeeded in achieving tight cost control, attributed by competitive prices on the raw materials and components, which was substantially offset by the decrease in turnover during the period under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 2.4% from approximately 19.0% to approximately 21.4%.

The Group strived for a combined proven excellence in product development and cost-effective manufacturing strategy with a new customer-centric approach. Nonetheless, the Group shifted the launch dates of several new products to the second half of the year, which has pathed the Group for even stronger growth in revenue in the coming period.

Given that the recovery is under way, it is expected that the turnover will continue to increase in the second half of the year and the profitability will substantially be improved.

#### *Conductive silicon rubber keypads*

For the six months ended 30 June 2003, the turnover of conductive silicon rubber keypads segment further increased by approximately 5.5% to approximately HK\$49,481,000 (six months ended 30 June 2002: approximately HK\$46,881,000), representing an approximately 18.6% of the turnover of the Group. This was due to the success of the Group's strategy to acquire Dongguan Tehsutec Electronic Company Limited in 2002.

However, in the first six months of 2003, the market was extremely tough. Facing similar unfavorable economic environment as that of the electronic calculators and organisers segment, along with the intensive price competition, the conductive silicon rubber keypads segment for the six months ended 30 June 2003, recorded an operating profit from operations of approximately HK\$52,000 (six months ended 30 June 2002: approximately HK\$6,130,000).

The Group's conductive silicon rubber keypads are mainly 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 present the Group with great opportunity to better develop the manufacture of conductive silicon rubber keypads' business and the acquisition will contribute positively to the future revenue of the Group in the coming year.

#### *Telephone keypads products*

The Group will persist on its diversification strategy to explore new business opportunities so as to enhance its growth of turnover. On 9 May 2003, the Group established a subsidiary, On Shing Holdings Company Limited (the "On Shing Holdings", which together with its subsidiaries, collectively the "On Shing Group") with a technology partner based in Korea for the manufacture and distribution of telephone keypads products. The Group owns 51% of the equity interest in On Shing Holdings.

On Shing Holdings is engaged in the design, manufacture and distribution of telephone keypads and other conductive silicon rubber keypads products for the markets in Korea and Japan.

Through this strategic alliance, the Group has upgraded its technical capabilities to develop more sophisticated telephone and a more diversified conductive silicon rubber keypads product range.

In the coming year, the business strategy of the conductive silicon rubber keypads segment will continue to focus on customers and products diversification, effective cost control and quality management.

#### *Printed Circuit Boards (“PCB”)*

For the six months ended 30 June 2003, the PCB segment reported persistent growth in turnover to approximately HK\$62,545,000 (six months ended 30 June 2002: approximately HK\$39,076,000), representing an approximately 23.5% of the turnover of the Group. This was mainly due to its extensive sourcing network and its capability to provide customers with quick response and product alternatives.

The management focus on stringent cost management, which was mainly contributed by the competitive raw materials and components. In order to meet its increased orders, the Group assigned some complex work to outside subcontractors and the subcontracting fees amounted to approximately HK\$8,345,000 for the period under review. For the six months ended 30 June 2003, the gross profit margin was maintained at approximately 14.4%.

Along with the substantial growth in PCB business, the Group is planning to spend approximately HK\$5,000,000 to acquire machineries in the coming period as the Directors believe that the future performance and prospects of the PCB business are optimistic.

#### *Other operations*

##### *Electronic toys products*

Turnover derived from the electronic toys products, such as infant toys and electronic learning products, recorded approximately HK\$11,503,000 (six months ended 30 June 2002: approximately HK\$5,015,000) for the six months ended 30 June 2003.

During the period under review, the electronic toys segment recorded an operating loss from operations of approximately HK\$806,000 (six months ended 30 June 2002: profit from operations of approximately HK\$442,000).

Although the investment in new products and business lines has clearly impacted the Group's earnings for the first half of this year, the Directors believe that it is a sound investment which will bring in new businesses and sustain returns to shareholders in the coming years.

##### *Cordless telephone*

The Group established an associate, Ascalade Communications Holdings Limited (the “Ascalade Holdings”, which together with its subsidiaries, collectively the “Ascalade Group”) in August 2002 in which the Group owned 49% of the equity interest in Ascalade Holdings.

After the establishment of Ascalade Holdings, the Group's telecommunication business was consolidated in Ascalade Group. Accordingly, the cordless telephone segment recorded an amortisation expense on the incurred development cost amounting to approximately HK\$4,680,000 for the period under review.

As a result, for the six months ended 30 June 2003, the cordless telephone segments recorded an operating loss from operations of approximately HK\$4,979,000 (six months ended 30 June 2002: loss from operations of approximately HK\$10,149,000).

#### *Share of result of an associate, Ascalade Group*

Through the establishment of Ascalade Group, the turnover derived from the telecommunication businesses and products, such as Parafone, 1.8 GHz, 2.4 GHz, 5.8 GHz cordless phones and wireless conference phones recorded approximately HK\$173,554,000 for the six months ended 30 June 2003. The Group was rewarded with the share of positive contribution to the Group's operating profit amounted to approximately HK\$1,134,000 (six months ended 30 June 2002: Nil).

Cordless phones will continue to be an important sales driver of the Ascalade Group, as there is a significant demand for telephone products, in particular the Digital Enhanced Cordless Telephones ("DECT") models, in the European market.

The customer base of Ascalade Group comprises prime telecom operating companies and telecom product distributors in the European market. Supported by a capable and dedicated management team, Ascalade Group is well positioned to take on further challenges and opportunities in full confidence and the Directors believe that the future performance and prospects of telecommunication business are optimistic.

#### *Overall*

For the six months ended 30 June 2003, the overall gross profit margin of the Group was maintained at approximately 18.4% (six months ended 30 June 2002: approximately 18.5%), whereas the unaudited consolidated net profit attributable to shareholders for the six months ended 30 June 2003 was amounted to approximately HK\$5,590,000, representing an increase of approximately 18.1% over the corresponding period in 2002.

Shareholders' equity increased to approximately HK\$323,987,000 as at 30 June 2003 from approximately HK\$321,183,000 as at 31 December 2002.

## **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 2003 (six months ended 30 June 2002: nil).

## **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 2003, the Group had fixed deposits and cash balances aggregated to approximately HK\$57,526,000 (as at 31 December 2002: approximately HK\$68,718,000).

The Group currently has composite banking facilities amounted to an aggregate sum of approximately HK\$211,948,000 (as at 31 December 2002: approximately HK\$209,948,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$151,200,000 (as at 31 December 2002: HK\$151,069,000) in Hong Kong granted to the Group, approximately HK\$7,753,000 (as at 31 December 2002: approximately HK\$5,417,000) has been utilized as at 30 June 2003. The term loan banking facilities in the PRC was amounted to approximately HK\$60,748,000 (as at 31 December 2002: approximately HK\$58,879,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2003, total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK\$79,302,000 (as at 31 December 2002: approximately HK\$84,855,000), representing an approximately 24.5% of the total shareholders' equity (as at 31 December 2002: approximately 26.4%).

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

## FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenues and expenditures are either in Hong Kong dollars or the United States dollars. Therefore, the Directors consider that the exposure risk to foreign currency fluctuations is minimal.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2003, the Group employed approximately 7,435 full time employees, of which 93 were based in Hong Kong and 7,342 were based in the People's Republic of China (the "PRC"). The Group remunerated its employees on the basis of industry's practice and performance of the individual employee. Employees may also participate in the share option scheme of the Company.

## CONTINGENT LIABILITIES

As at 30 June 2003, the Group had approximately HK\$8,015,000 (as at 31 December 2002: approximately HK\$11,890,000) bills discounted with recourse not provided for in the financial statements.

## PLEDGE OF ASSETS

As at 30 June 2003, the Group has pledged certain of its land and buildings of approximately HK\$173,040,000 (as at 31 December 2002: approximately HK\$173,040,000) and construction in progress of approximately HK\$3,191,000 (as at 31 December 2002: 3,191,000) in the PRC to banks to secure general banking facilities granted to the Group.

## FUTURE PLANS AND PROSPECTS

The results of the first half of the year reflected challenging economic conditions attributed by the SARS outbreak, the Iraqi war and poor consumer sentiment. Despite these conditions, all of the Group's businesses performed soundly and grew steadily from the investments undertaken in prior years.

The Directors are encouraged by the successful investment in an associate, Ascalade Group and are confident that the telecommunications industry will grow rapidly in the fall and Christmas period and create long term value for our shareholders. For the remainder of the year, the Group will continue to build up the telecommunication businesses in the European markets and will launch cordless telephones and other communication products in the American markets as well. At the same time, the Group will continue to develop and expand its existing core businesses while sustaining a healthy financial position.

The Directors are confident that diversifying the product mix as well as the customer base will place the Group in a good stand to prudently garner a better performance in 2003.

In October 2003, a series of promotional activities, including the participation in the coming Hong Kong Electronics Fair 2003, will be undertaken to establish a broad and solid overseas customer base for the "KARCE" branded products, including SIM card reader organisers, digital LCD Mini TV, integrated corded telephone system and walkie talkie.

The Group is also planning to upgrade its industry standard from ISO9002 to ISO14000 in order to serve a number of new customers with good sales potential. This establishment will provide the Group with an entry into a higher margin product mix. Whilst the Group is actively pursuing new ventures, the Directors will continue to focus on its core businesses and reinforce its industry leadership position by capitalizing on its research and development strengths and intensifying its international sales and marketing network.

The recently concluded Closer Economic Partnership Arrangement ("CEPA") agreement between Hong Kong and the PRC will allow Hong Kong based service sectors to integrate rapidly with the Pearl River Delta and the rest of the PRC. Barring unforeseeable circumstances on the global economy, the Directors remain confident of its leading market position and its proven track record and are devoted to refine and strengthen its growth platform.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31 December 2002.

## DIRECTORS' INTEREST IN SECURITIES

As at 30 June 2003, the interests of the Directors and the chief executives of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities
Mr. Tong Shek Lun	Company	Interest of a controlled corporation	231,180,000 ordinary shares Long position (Note 1)
		Personal	1,532,000 ordinary shares Long position (Note 2)
Mr. Li Ka Fai, Fred	Company	Interest of a controlled corporation	231,180,000 ordinary shares Long position (Note 1)
		Personal	1,100,000 ordinary shares Long position (Note 2)
Ms. Ko Lai King, Kinny	Company	Interest of a controlled corporation	231,180,000 ordinary shares Long position (Note 1)
		Personal	764,000 ordinary shares Long position (Note 2)
Ms. Chung Wai Yu, Regina	Company	Interest of a controlled corporation	231,180,000 ordinary shares Long position (Note 1)
		Personal	928,000 ordinary shares Long position (Note 2)

### Notes:

- The shares are held by Sapphire Profits Limited, a substantial shareholder 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.
- Share options to subscribe for 1,532,000 shares, 1,100,000 shares, 764,000 shares and 928,000 shares of the Company were granted to Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina respectively pursuant to the Old Share Option Scheme (as defined below).

Save as disclosed above, as at 30 June 2003, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Details of movements during the period in the Company's share options which were granted pursuant to the share option scheme (the "Old Share Option Scheme") adopted on 14 February 1998 are as follows:

Capacity	Name of directors	Number of share to be issued upon exercise of the share options			Exercisable period		
		Balance at 31.12.2002	Lapsed during the period	Balance at 30.6.2003	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
		4,324,000	–	4,324,000	1,729,600	1,297,200	1,297,200
Employees		3,824,000	–	3,824,000	1,459,200	1,152,400	1,212,400
		<u>8,148,000</u>	<u>–</u>	<u>8,148,000</u>	<u>3,188,800</u>	<u>2,449,600</u>	<u>2,509,600</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.

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 2003.

Apart from the foregoing, at no time during the six months ended 30 June 2003 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 30 June 2003, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group:

Name	Capacity	Class and number of securities	Approximate percentage of shareholding
Sapphire Profits Limited	Beneficial owner	231,180,000 ordinary shares Long position	42%
Perfect Treasure Investment Limited	Beneficial owner	88,100,000 ordinary shares Long position	16%

Save as disclosed above, as at 30 June 2003, so far is known to the Directors, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or any options in respect of such capital.

## DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

As at 31 July 2003, the Group had provided the following financial assistances to Ascalade Holdings, which in aggregate, exceeded 25% of the consolidated net tangible asset of the Group as at 31 December 2002:

1. HK\$39,000,000 pursuant to a loan agreement (the "Loan Agreement") dated 14 August 2002 entered into between the Group and Ascalade Holdings and the Group has lent Ascalade Holdings an aggregate amount of approximately HK\$38,800,000 pursuant to the Loan Agreement (the "Loan");
2. HK\$25,000,000 as advances for Ascalade Holdings' general working capital purpose (the "Advances");
3. Facilities which may be utilised collectively by the Group and Ascalade Holdings were offered by two banks with a limit of HK\$80,000,000 and HK\$32,707,000 has been utilised by Ascalade Holdings (the "Corporate Guarantee").

Ascalade Holdings is a company of which 49% of its issued share capital is owned by the Group. The remaining 51% of Ascalade Holdings is owned by independent third parties not connected with any of the Directors, chief executives, substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange).

The Loan is unsecured, bears interest at the London Interbank Offer Rate and is repayable by monthly instalments of US\$280,000 (equivalent to HK\$2,184,000 based on the exchange rate of US\$1.00 = HK\$7.8) upon first written demand by the Group to be served on Ascalade Holdings at any time on or after 15 January 2004.

The Advances are unsecured, bear interest at prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited at the end of each month and has no fixed terms of repayment.

The Loan and Advances to Ascalade Holdings were funded by internal resources and by bank borrowings of the Group for its general working capital purposes. As at 31 July 2003, the aggregate of the Loan and Advances to Ascalade Holdings and facilities utilised by Ascalade Holdings under the Corporate Guarantee amounted to approximately HK\$96,507,000, representing approximately 30% of the Group's audited net tangible asset value as at 31 December 2002. Taking into account of the remaining balance of the Loan of approximately HK\$200,000 available to Ascalade Holdings pursuant to the Loan Agreement and the facilities which may be utilised by Ascalade Holdings under the Corporate Guarantee, the total estimated loans, advances and facilities under the Corporate Guarantee to Ascalade Holdings, may be increased to approximately HK\$144,000,000, which will represent approximately 44.8% of the Group's audited net tangible asset value as at 31 December 2002.

Details of the financial assistance has been disclosed in the announcement of the Company dated 6 August 2003.

The balance sheet of the Ascalade Holdings, which is extracted from its unaudited management accounts, at 31 July 2003 is as follows:

	HK\$'000
Non-current assets	48,948
Current assets	137,940
Current liabilities	(124,045)
Non-current liabilities	(57,996)
Net assets	<u>4,847</u>
Group's attributable interests	<u>2,375</u>

## 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 2003 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 2003.

The members of the Committee included the two independent non-executive Directors of the Company, Mr. Tsao Kwang Yung, Peter and Mr. Goh Gen Cheung.

## PURCHASE, REDEMPTION OR SALE OF 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 2003.

## 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, 22 September 2003