

**KARCE**<sup>®</sup>



## Interim Report

中 期 報 告



**KARCE** INTERNATIONAL HOLDINGS COMPANY LIMITED

泰 盛 實 業 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

## FINANCIAL HIGHLIGHTS

The Group's turnover increased by approximately 34.7% to approximately HK\$358,166,000

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") increased by approximately 26.4% to approximately HK\$40,104,000

Profit attributable to shareholders increased by approximately 202.3% to approximately HK\$16,900,000

Bank balances and cash increased by approximately 1.5% to approximately HK\$67,357,000

Net assets increased by approximately 4.3% to approximately HK\$344,159,000

Basic earnings per share increased by approximately 204% to approximately HK3.07 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 2004. The Group's audit committee has reviewed the interim results.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	3	<b>358,166</b>	265,945
Cost of sales		<b>(296,337)</b>	(217,111)
Gross profit		<b>61,829</b>	48,834
Other operating income	4	<b>3,903</b>	4,010
Distribution costs		<b>(7,946)</b>	(5,538)
Administrative expenses		<b>(43,521)</b>	(37,322)
Profit from operations	5	<b>14,265</b>	9,984
Finance costs	6	<b>(1,766)</b>	(2,015)
Share of result of an associate		<b>6,693</b>	1,134
Profit before taxation		<b>19,192</b>	9,103
Taxation	7	<b>(4,519)</b>	(2,808)
Profit before minority interests		<b>14,673</b>	6,295
Minority interests		<b>2,227</b>	(705)
Net profit attributable to shareholders		<b>16,900</b>	5,590
Earnings per share	8		
Basic		<b>HK3.07 cents</b>	HK1.01 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2004

		<b>30 June</b>	31 December
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
	Note	<b>(unaudited)</b>	(audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>305,182</b>	297,107
Negative goodwill		<b>(3,755)</b>	(1,120)
Interest in an associate	10	<b>57,186</b>	52,206
		<b>358,613</b>	348,193
<b>CURRENT ASSETS</b>			
Inventories		<b>107,001</b>	74,251
Trade and other receivables	11	<b>138,999</b>	116,402
Bills receivable		<b>2,913</b>	2,270
Loan to an associate			
– due within one year	10	<b>25,896</b>	26,208
Amount due from an associate		<b>12,730</b>	40,379
Tax recoverable		<b>12</b>	12
Bank balances and cash		<b>67,357</b>	66,346
		<b>354,908</b>	325,868
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	<b>200,591</b>	157,902
Bills payable		–	7,406
Dividend payable		<b>2</b>	2
Tax payable		<b>23,545</b>	22,176
Obligations under finance leases			
– due within one year		<b>15,107</b>	14,355
Bank borrowings – due within one year	13	<b>37,982</b>	83,899
		<b>277,227</b>	285,740
<b>NET CURRENT ASSETS</b>		<b>77,681</b>	40,128
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>436,294</b>	388,321

		<b>30 June</b> <b>2004</b> <b>HK\$'000</b>	31 December 2003 HK\$'000
	Note	<b>(unaudited)</b>	(audited)
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases			
– due after one year		<b>16,783</b>	15,546
Bank borrowings – due after one year	13	<b>58,208</b>	16,038
Deferred tax liabilities		<b>16,264</b>	16,264
Loan from a minority shareholder		<b>880</b>	3,784
		<b>92,135</b>	51,632
<b>MINORITY INTERESTS</b>			
		–	6,644
		<b>344,159</b>	330,045
<b>CAPITAL AND RESERVES</b>			
Share capital	14	<b>55,078</b>	55,078
Reserves	15	<b>289,081</b>	274,967
		<b>344,159</b>	330,045

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		restated
As at 1 January	330,045	305,415
Profit for the period	16,900	5,590
Final dividend paid	(2,786)	(2,786)
As at 30 June	344,159	308,219

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	38,438	23,411
Net cash used in investing activities	(21,261)	(29,835)
Net cash used in financing activities	(16,166)	(4,768)
Net increase/(decrease) in cash and cash equivalents	1,011	(11,192)
Cash and cash equivalents at 1 January	66,346	68,718
Cash and cash equivalents at 30 June	67,357	57,526
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	67,357	57,526

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 1. BASIS OF PREPARATION

These unaudited 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 Institute of Certified Public Accountants ("HKICPA") 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, 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 2003.

### 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:

2004	Unaudited					Consolidated
	For the six months ended 30 June					
	Conductive				Eliminations	Consolidated
	Electronic calculators and organisers	silicon rubber keypads	Printed circuit boards	Other operations		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>OPERATING RESULTS</b>						
TURNOVER						
External sales	201,627	75,513	67,109	13,917	-	358,166
Inter-segment sales	5,826	5,903	13,272	-	(25,001)	-
Total	207,453	81,416	80,381	13,917	(25,001)	358,166
<b>RESULT</b>						
Segment result	12,654	2,017	4,077	(4,001)	-	14,747
Other operating income						126
Unallocated corporate expenses						(608)
Profit from operations						14,265
Finance costs						(1,766)
Share of result of an associate						6,693
Profit before taxation						19,192
Taxation						(4,519)
Profit before minority interests						14,673
Minority interests						2,227
Profit for the period						16,900



Unaudited  
For the six months ended 30 June

2003

	Conductive				Eliminations	Consolidated
	Electronic calculators and organisers	silicon rubber keypads	Printed circuit boards	Other operations		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

**OPERATING RESULTS**

## TURNOVER

External sales	142,416	49,481	62,545	11,503	-	265,945
Inter-segment sales	1,665	4,772	7,544	-	(13,981)	-
Total	144,081	54,253	70,089	11,503	(13,981)	265,945

**RESULT**

Segment result	10,926	52	5,227	(5,785)	-	10,420
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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
Profit before taxation						9,103
Taxation						(2,808)
Profit before minority interests						6,295
Minority interests						(705)
Profit for the period						5,590

### 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			
	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Hong Kong (note a)	98,478	52,290	4,055	2,049
Japan (note b)	92,678	72,599	3,816	2,845
Europe	50,820	38,903	2,092	1,524
America	21,208	24,076	873	943
People's Republic of China ("PRC"), other than				
Hong Kong	27,182	39,890	1,119	1,563
Other Asian countries	64,814	26,212	2,669	1,027
Others	2,986	11,975	123	469
	<b>358,166</b>	265,945	<b>14,747</b>	10,420
Other revenue			126	147
Unallocated corporate expenses			(608)	(583)
Profit from operations			<b>14,265</b>	9,984

#### Notes:

- (a) The Directors believe that a portion of the Group's sales attributable to the Hong Kong market was subsequently resold to other markets.
- (b) 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.

#### 4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Other operating income mainly includes:		
Interest income	<b>1,044</b>	1,253
Negative goodwill released	<b>187</b>	187
Net rental income	<b>1,175</b>	436

#### 5. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit from operations has been arrived at after charging:		
Depreciation and amortisation:		
Property, plant and equipment	<b>17,960</b>	17,858
Intangible assets – development costs	–	4,710
Loss on disposal of property, plant and equipment	<b>137</b>	276
Allowance for doubtful debts	<b>6,337</b>	336
Operating lease rentals in respect of rented premises	<b>357</b>	308
Research and development costs expensed	<b>183</b>	972
Staff costs	<b>54,834</b>	46,790

## 6. FINANCE COSTS

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings wholly repayable		
within five years	1,506	1,804
Obligations under finance leases	260	211
	<b>1,766</b>	2,015

## 7. TAXATION

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Hong Kong Profits Tax	1,796	468
PRC enterprise income tax	1,355	1,216
	<b>3,151</b>	1,684
Share of taxation attributable to an associate	1,368	1,124
Total taxation charge	<b>4,519</b>	2,808

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2003: 17.5%) 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 2004 of approximately HK\$16,900,000 (six months ended 30 June 2003: approximately HK\$5,590,000) and the weighted average number of 550,776,000 ordinary shares (six months ended 30 June 2003: 550,776,000 ordinary shares) in issue during the period.

No fully diluted earnings per share has been presented because all the outstanding share options were lapsed in prior year.

## **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 2004. However, the directors consider that the values of the land and buildings as at 30 June 2004 would not differ materially from the professional valuation made as at 31 December 2003 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

For the six months ended 30 June 2004, the Group has spent approximately HK\$29,539,000 (six months ended 30 June 2003 approximately HK\$26,347,000) for the acquisition of certain properties, machineries and equipment.

**10. INTEREST IN AN ASSOCIATE**

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Share of net assets	<b>14,089</b>	8,763
Loan to an associate		
Within one year	<b>25,896</b>	26,208
More than one year	–	12,792
	<b>25,896</b>	39,000
Advance to an associate	<b>43,097</b>	30,651
Less: Amount due within one year shown under current assets	<b>(25,896)</b>	(26,208)
	<b>43,097</b>	43,443
	<b>57,186</b>	52,206

As at 30 June 2004, the Group held 49% in the issued share capital of Ascalade Communications Holdings Limited, a company incorporated in the British Virgin Islands which, together with its subsidiaries, are engaged in the design, manufacture and sale of electronic, wireless telecommunication products.

The loan to an associate is unsecured, bears interest at the London Interbank Offer Rate ("LIBOR").

The advances to an associate are unsecured, bear interest at prime rates as quoted by The Hongkong and Shanghai Banking Corporation Limited at the end of each month and have no fixed terms of repayment. The Directors consider that no part of the advances will be repaid within the next twelve months.

The following details have been extracted from the consolidated financial statements of the associate and its subsidiaries:

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Results for the period		
Turnover	<b>281,130</b>	173,554
Profit before taxation	<b>13,660</b>	2,314
Profit before taxation attributable to the Group	<b>6,693</b>	1,134
As at		
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Financial position		
Non-current assets	<b>90,169</b>	68,597
Current assets	<b>316,790</b>	204,044
Current liabilities	<b>(293,064)</b>	(177,328)
Non-current liabilities	<b>(85,142)</b>	(77,428)
Net assets	<b>28,753</b>	17,885
Net assets attributable to the Group	<b>14,089</b>	8,763

## 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:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Not yet due or overdue within 30 days	<b>101,020</b>	70,427
Overdue for 31 – 60 days	<b>12,882</b>	22,089
Overdue for 61 – 90 days	<b>9,176</b>	9,722
Overdue for more than 90 days	<b>4,577</b>	10,769
	<b>127,655</b>	113,007
Other receivables	<b>11,344</b>	3,395
	<b>138,999</b>	116,402



## 12. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Not yet due or overdue within 30 days	<b>95,981</b>	59,459
Overdue for 31 – 60 days	<b>23,807</b>	12,359
Overdue for 61 – 90 days	<b>11,533</b>	13,515
Overdue for more than 90 days	<b>13,965</b>	18,172
	<b>145,286</b>	103,505
Other payables	<b>55,305</b>	54,397
	<b>200,591</b>	157,902

## 13. BANK BORROWINGS

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Bank borrowings comprise:		
Bank loans	<b>73,302</b>	61,321
Trust receipt loans	<b>22,888</b>	38,616
	<b>96,190</b>	99,937

## 14. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2004 (unaudited)	31 December 2003 (audited)	30 June 2004 (unaudited) HK\$'000	31 December 2003 (audited) HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of the period/year	<b>2,000,000,000</b>	2,000,000,000	<b>200,000</b>	200,000
Issued and fully paid:				
At beginning and end of the period/year	<b>550,776,000</b>	550,776,000	<b>55,078</b>	55,078

## 15. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Asset			Capital		Retained profits HK\$'000	Total HK\$'000
				Statutory reserves HK\$'000	revaluation reserve HK\$'000	Exchange reserve HK\$'000	Goodwill reserve HK\$'000	redemption reserve HK\$'000		
<b>THE GROUP</b>										
As at 1 January 2003										
- as originally stated	82,364	35,597	19,487	6,553	55,888	(1,847)	(31,539)	922	98,680	266,105
- prior period adjustment on adoption of SSAP12 (Revised)	-	-	-	-	(15,089)	-	-	-	(679)	(15,768)
- as restated	82,364	35,597	19,487	6,553	40,799	(1,847)	(31,539)	922	98,001	250,337
Revaluation surplus on land and buildings	-	-	-	-	2,362	-	-	-	-	2,362
Exchange differences on translation of overseas operations	-	-	-	-	-	2,760	-	-	-	2,760
Minority share of post-acquisition reserve	-	-	-	-	(22)	-	-	-	-	(22)
Deferred tax liabilities arising on revaluation of land and buildings	-	-	-	-	(774)	-	-	-	-	(774)
Minority share of deferred tax liabilities arising on revaluation of land and buildings	-	-	-	-	8	-	-	-	-	8
Final dividend for 2002 paid	-	-	-	-	-	-	-	-	(2,754)	(2,754)
Profit for the year	-	-	-	-	-	-	-	-	23,050	23,050
As at 31 December 2003	82,364	35,597	19,487	6,553	42,373	913	(31,539)	922	118,297	274,967
Final dividend for 2003 paid	-	-	-	-	-	-	-	-	(2,786)	(2,786)
Profit for the period	-	-	-	-	-	-	-	-	16,900	16,900
As at 30 June 2004	82,364	35,597	19,487	6,553	42,373	913	(31,539)	922	132,411	289,081

## 16. CONTINGENT LIABILITIES

	As at	
	30 June 2004 HK\$'000 (unaudited)	31 December 2003 HK\$'000 (audited)
Guarantees given to banks in respect of banking facilities utilised by an associate	80,037	32,436
Bills discounted with recourse	1,470	–
	<b>81,507</b>	32,436

## 17. CAPITAL COMMITMENTS

	As at	
	30 June 2004 HK\$'000 (unaudited)	31 December 2003 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	19,818	3,356

## 18. PLEDGE OF ASSETS

As at 30 June 2004, the Group has pledged certain of its land and buildings of approximately HK\$98,760,000 (as at 31 December 2003: approximately HK\$157,730,000) in the PRC to banks to secure general banking facilities granted to the Group.

## 19. RELATED PARTY TRANSACTIONS

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

	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Nature of transaction		
Sales by the Group (note a)	<b>14,943</b>	11,156
Interest charged by the Group (note b)	<b>918</b>	1,106
Subcontracting fee income charged		
by the Group (note c)	<b>251</b>	198
Rental income charged by the Group (note c)	<b>1,151</b>	359

The above transactions were entered into on the following bases:

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

## 20. COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Operational Review

During the period under review, the Group achieved highly satisfactory results despite a volatile market and pressure on material prices. The management's ability in accommodating unforeseen changes and minimizing negative impact clearly demonstrated their capable expertise.

For the six months ended 30 June 2004, the Group recorded a turnover of approximately HK\$358,166,000, representing an increase of approximately 34.7% as compared with approximately HK\$265,945,000 of the corresponding period in 2003.

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") from the Group's established businesses grew by approximately 26.4% to approximately HK\$40,104,000 (six months ended 30 June 2003: approximately HK\$31,728,000). The Group will continue to develop and expand its core business while maintaining its healthy financial position.

During the period under review, the Directors were encouraged by the successful investment in an associate, Ascalade Communications Holdings Company Limited ("Ascalade Holdings, which together with its subsidiaries, the "Ascalade Group") in which the Group owned 49% of its equity interest.

Due to strong performance of the Ascalade Group, the net profit attributable to shareholders grew impressively by approximately 202.3% to approximately HK\$16,900,000 (six months ended 30 June 2003: approximately HK\$5,590,000).

### *Electronic calculators and organisers*

During the period under review, the electronic calculators and organisers segment continued to record remarkable performance. Given the Group's growth momentum in the second half of 2003, in addition to the increased production volume, the expanded vertical production line and the diversification into a wide array of value-added consumer electronic products.

The Group continued to focus on the sales of electronic calculators and organisers under the branded customers located throughout Japan, Europe and the United States of America. For the six months ended 30 June 2004, the turnover of electronic calculators and organisers remained as the core revenue generator of the Group, increased by approximately 41.6% to approximately HK\$201,627,000 (six months ended 30 June 2003: approximately HK\$142,416,000). It accounted for 56.3% of the Group's total turnover.

During the period under review, to keep pace with customer expectations and to address global concerns on the protection of environment and labour rights, the Group had enhanced both the production facilities and working environment, including the upgrading of leisure facilities for staff. In accordance with international standards, the Group had implemented strict adherence to overtime restrictions and minimum-wage requirements. New environmental control facilities had also been installed. These enhancements will ensure our long-term competitiveness but have inevitably caused one-off investment and overhead increases. The resulting rise in operating expenses was partly offset by the consistent efforts to control administrative and distribution costs, as well as our constant and operational efficiencies.

To deal with the problem of electricity shortage in the Southern China, the Group acquired four power generators as back-up for the occasions when power rationing in Dongguan deteriorates further from the current one day to two or more days of outages per week.

As a result, during the period under review, the gross profit margin dropped by approximately 4% from approximately 21.4% to approximately 17.4%. Demand in Europe and the United States of America remained strong in line with its economic growth but prices were subdued.

Given all our hard work in the past years, the Group has maintained its dominant position in the branded electronic calculators manufacturing sector. Operating profit derived from the electronic calculators and organisers segment rose by approximately HK\$1,728,000 to HK\$12,654,000 (six months ended 30 June 2003: approximately HK\$10,926,000).

Looking ahead, the Directors believe the turnover will continue to increase in the second half of the year and the profitability will substantially be improved.

#### *Conductive silicon rubber keypads*

The conductive silicon rubber keypads had also benefited from the electronic industry recovery as well as the Group's strategic focus on high value-added plastic plus rubber ("P+R") telephone keypads products.

The Group established a subsidiary, On Shing Holdings Company Limited (the "On Shing Holdings", which together with its subsidiaries, collectively the "On Shing Group") in May 2003 in which the Group owned 51% of the equity interest in On Shing Holdings.

After the establishment of On Shing Holdings, the Group had upgraded its technical capabilities to develop more sophisticated telephone and a more diversified conductive silicon rubber keypads product range.

For the six months ended 30 June 2004, the turnover contributed from the conductive silicon rubber keypads business significantly increased by 52.6% to approximately HK\$75,513,000 (six months ended 30 June 2003: approximately HK\$49,481,000) representing approximately 21.1% of the turnover of the Group.

During the period under review, the business strategy on conductive silicon rubber keypads segment was adopted to consolidate its key client base and stringent cost control. The Group's effort in this direction had resulted in an improved gross profit margin by approximately 3.6% to approximately 15.2% from approximately 11.6% of the corresponding period under review.



For the six months ended 30 June 2004, 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 grew by approximately 3,778.8% to approximately HK\$ 2,017,000 (six months ended 30 June 2003: approximately HK\$52,000).

The Group's conductive silicon rubber keypads are mainly made for use in electronic calculators, databanks, electronic organisers, mobile phones and remote controls.

On 27 August 2004, the Group had signed an agreement to acquired a property located in the PRC with a total land use right area of approximately 4,768 sq.m. and a total building area of approximately 9,034 sq.m. (the "Property") for a consideration of an aggregate amount of RMB11,180,000 (equivalent to approximately HK\$10,547,170). The Group acquired the Property mainly to cope with its expansion in the conductive silicone rubber keypads business as the Directors believe that such acquisition can secure the place of production and thus provide a platform to secure orders from its customers.

Given that the recovery is under way, the Directors believe that, through the acquisition of the Property, the Group will acquire an opportunity to better develop the manufacture 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")*

The PCB segments also achieved prominent results during the period under review. For the six months ended 30 June 2004, turnover derived from PCB segment reported persistent growth by approximately 7.3% to approximately HK\$67,109,000 (six months ended 30 June 2003: approximately HK\$62,545,000), representing approximately 18.7% of the turnover of the Group. The increase in turnover was due to the continued demand from multi-layer manufacturing operations.

Raw materials supply is expected to remain cyclical and prices will further trend upward in the short term 3-6 months. During the period under review, the management adopted a business strategy to consolidate its key client base and to implement stringent cost control on raw materials and components. The Group's effort in this direction had resulted in maintaining the gross profit margin at approximately 13.8% for the six months ended 30 June 2004.

In order to meet its increased orders, the Group assigned some complex work to outside subcontractors and the subcontracting fees amounted to approximately HK\$10,918,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$8,345,000).

During the period under review, the PCB segment recorded an operating profit before taxation of approximately HK\$4,077,000 (six months ended 30 June 2003: approximately HK\$5,227,000).

Along with the substantiate growth in PCB business, the Group had acquired the remaining 15% equity interest in Jet Master Limited from the existing minority shareholders for a total consideration of approximately HK\$4,500,000 in June 2004.

Due to the increasing demand of PCB in the global market and the restricted production floors in two existing factory complex, the Group is conducting a feasibility study on the existing factory environment to build up a new factory complex to cope with the increased orders in the coming years.

The Directors believe that the future performance and prospects of the PCB business are optimistic.

#### *Other operations*

Turnover derived from other operations is mainly contributed by the electronic toys products, such as infant toys and electronic learning products. For the six months ended 30 June 2004, turnover from the electronic toys segment recorded approximately HK\$13,917,000 (six months ended 30 June 2003: approximately HK\$11,503,000).

During the period under review, the electronic toys segment recorded an operating loss from operations of approximately HK\$3,700,000 (six months ended 30 June 2003: loss from operations of approximately HK\$806,000).

#### **Share of results of an associate, the Ascalade Group**

The Ascalade Group continued to deliver sound results with strong revenue growth, encouraging margin expansion and improvement in the net profit attributable to the shareholders.

It was another successful first half year for the Ascalade Group in 2004. The turnover derived from the telecommunications businesses and products, such as parafone, 1.8 GHz, 2.4 GHz, 5.8 GHz cordless phones and wireless conference phones grew approximately 62% to approximately HK\$281,130,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$173,554,000).

During the period under review, the Ascalade Group incurred development cost amounted to approximately HK\$14,067,000 for the development of Digital Enhanced Cordless Telephones ("DECT") phones and telecommunication products.

The Group had been rewarded with the share of positive contribution to the Group's operating profit before taxation amounted to approximately HK\$6,693,000 (six months ended 30 June 2003: approximately HK\$1,134,000).

#### *Overall*

For the six months ended 30 June 2004, turnover of the Group rose by approximately 34.7% to approximately HK\$358,166,000 (six months ended 30 June 2003: approximately HK\$265,945,000). Under the competitive business environment, the overall gross profit margin of the Group slightly decreased by approximately 1.1% to approximately 17.3% (six months ended 30 June 2003: approximately 18.4%).

Operating profit before taxation and minority interests increased by approximately 110.8% to approximately HK\$19,192,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$9,103,000).

Net profit attributable to shareholders had also increased by approximately 202.3% to approximately HK\$16,900,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$5,590,000). In addition, the basic earnings per share increased from approximately HK1.01 cents for the six months ended 30 June 2003 to approximately HK3.07 cents for the six months ended 30 June 2004.

## **INTERIM DIVIDEND**

The Directors do not recommend of any interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: nil).

## **CAPITAL STRUCTURE**

Shareholders' equity increased to approximately HK\$344,159,000 as at 30 June 2004 from approximately HK\$330,045,000 as at 31 December 2003. As at 30 June 2004, the short term and long term interest bearing debts to shareholders' equity was approximately 37.2%. (as at 31 December 2003: approximately 39.3%).

## **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 2004, the Group had fixed deposits and cash balances aggregated to approximately HK\$67,357,000 (as at 31 December 2003: approximately HK\$66,346,000).

As at 30 June 2004, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$333,102,000 (as at 31 December 2003: approximately HK\$231,721,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$259,800,000 (as at 31 December 2003: approximately HK\$170,400,000) in Hong Kong granted to the Group, approximately HK\$22,888,000 (as at 31 December 2003: approximately HK\$46,022,000) had been utilized as at 30 June 2004.

In February 2004, the Group obtained a three-year term loan which is denominated in Hong Kong Dollar amounting to HK\$45,000,000 (as at 31 December 2003: Nil). Out of the term loan facility, approximately HK\$33,000,000 was used to repay part of the term loan facility in the PRC and the remaining amount of approximately HK\$12,000,000 was used as working capital of the Group.

As a result, the term loan banking facilities in the PRC reduced to an amount of approximately HK\$28,302,000 (as at 31 December 2003: approximately HK\$61,321,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 30 June 2004, total indebtedness including bank borrowings and obligations under finance lease contracts amounted to approximately HK\$128,080,000 (as at 31 December 2003: approximately HK\$129,838,000), representing approximately 37.2% of the total shareholders' equity (as at 31 December 2003: approximately 39.3%).

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 2004, the Group employed approximately 9,038 full time employees, out of which 103 were based in Hong Kong and 8,935 were based in the PRC. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which included provident fund, medical insurance and training are also provided. In addition, share options may also be granted in accordance to the terms of the Group's approved share option scheme.

## FUTURE PLANS AND PROSPECTS

Going forward, the Group will focus on its core manufacturing business. The Group will continue to strive to enhance the production volume of consumer electronic products and operational efficiency backed by its expanded vertical production line.

Given that the Group's enormous production volume of consumer electronic products, as well as the concerted efforts in developing value-added consumer electronic products and tapping into prospectively high-growth markets, the Group is set to capture the tremendous global market potential and cement its leading position in the manufacture of consumer electronic products.

Although recent economic indices indicate that the global economy is generally healthy, there are risks of higher oil prices and increase in interest rates which will impact global growth adversely.

To maintain our resilience, we will continue to manage our business growth prudently but will still make rational and market-driven investments in order to maintain our prowess and leadership in actual production capabilities.

The Directors believe that with its strong management team, product diversification, closed and established customer relations and effective strategic planning, the Group is confident in maintaining its positive direction and will achieve success for the Group in the future. Barring unforeseeable circumstances, the Directors are confident of improved performances in the coming financial year as the Group's growth platform has been refined and strengthened.

## **DIRECTORS' INTEREST IN SECURITIES**

### **Interests and short positions of Directors in the share capital of the Company and its associated corporations**

As at 30 June 2004, save as disclosed below, none of the Directors had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Division 7 & 8 of Part XV of the SFO (including the interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, would be required to be notified to the Company and the Stock Exchange.

*Directors' interests in the Shares*

<b>Name of director</b>	<b>Type of interest</b>	<b>Number of ordinary shares held (Long position)</b>	<b>Percentage of issued share capital of the Company</b>
Mr. Tong Shek Lun	Corporate	231,180,000	42%
Mr. Li Ka Fai, Fred	Corporate	231,180,000	42%
Ms. Ko Lai King, Kinny	Corporate	231,180,000	42%
Ms. Chung Wai Yu, Regina	Corporate	231,180,000	42%

The above shares were 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 owned 90.41%, 3.46%, 3.46% and 2.67% of the issued share capital of Sapphire Profits Limited, respectively.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2004, 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:

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



Save as disclosed above, as at 30 June 2004, 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.

## **FINANCIAL ASSISTANCE AND GUARANTEES GIVEN TO/FOR AFFILIATED COMPANIES**

Pursuant to a loan agreement dated 14 August 2002, loan of an aggregate amount of US\$5,000,000 (equivalent to approximately HK\$39,000,000) (the "Loan") was granted by the Group to the Ascalade Group.

As at 30 June 2004, advances (the "Advances") of an aggregate amount of approximately HK\$55,827,000 (as at 31 December 2003: approximately HK\$71,030,000) were further granted by the Group to the Ascalade Group for its general working capital purpose. Such 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.

As at 30 June 2004, the guarantees given by the Group to banks in respect of facilities (mainly in the form of general trade facilities and finance lease facilities) (the "Guarantees") which may be utilised collectively by the Group and the Ascalade Group amounted to an aggregate amount of approximately HK\$184,800,000 (as at 31 December 2003: approximately HK\$100,000,000). As at 30 June 2004, the Group and the Ascalade Group had utilised such facilities of approximately HK\$22,888,000 (as at 31 December 2003: approximately HK\$46,022,000) and approximately HK\$80,037,000 (as at 31 December 2003: approximately HK\$32,436,000) respectively.

As at 30 June 2004, the aggregate of the outstanding amount of the Loan and Advances and facilities utilised by the Ascalade Group under the Guarantees amounted to approximately HK\$177,688,000 (as at 31 December 2003: approximately HK\$142,466,000) which represented approximately 53.8% (as at 31 December 2003: approximately 43.2%) of the net asset value of the Group as at 31 December 2003.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six months ended 30 June 2004 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") had 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 2004.

The members of the Committee included the three independent non-executive Directors, Mr. Sun Yaoquan 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 2004.

## **ACKNOWLEDGEMENTS**

Finally, on behalf of the Directors, I wish to express my sincere appreciation to all the staffs 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, 14 September 2004