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# KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED
# 泰盛實業集團有限公司*

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1159)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

## ANNUAL RESULTS

The board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company") announced that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009, together with the comparative figures for the year ended 31 December 2008 are as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

| | Notes | **2009** *HK$'000* | 2008 *HK$'000* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3 | **43,485** | 70,681 |
| Cost of sales | | **(54,043)** | (100,612) |
| Gross loss | | **(10,558)** | (29,931) |
| Other revenue and gain | 4 | **138** | 203 |
| Selling and distribution costs | | **(620)** | (1,545) |
| Administrative expenses | | **(17,183)** | (22,146) |
| Gain on cancellation of promissory notes | | **28,297** | – |
| Loss on early redemption of promissory notes | | **(61,351)** | – |
| Gain on disposal of subsidiaries, net | 14 | **109,846** | – |
| Net loss on deconsolidation of subsidiaries | 15 | **(602,806)** | – |
| Impairment loss on available-for-sale investment | | **–** | (23,268) |
| Finance costs | 5 | **(34,313)** | (291) |
| Loss before taxation | 6 | **(588,550)** | (76,978) |
| Taxation | 7 | **1,430** | (34) |

* *for identification purpose only*

| | Notes | **2009** | 2008 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Loss for the year from continuing operations | | **(587,120)** | (77,012) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year from discontinued operations | *12* | **1,450** | (92,716) |
| Loss for the year | | **(585,670)** | (169,728) |
| **Other comprehensive (expenses)/income** | | | |
| Exchange differences on translating foreign operations | | | |
| Exchange difference arising during the year | | **(1,487)** | 22,914 |
| Transfer to profit or loss on disposal of foreign operations | | **(45,130)** | (6,052) |
| | | **(46,617)** | 16,862 |
| Change in asset revaluation reserve | | | |
| Revaluation surplus on buildings | | **–** | 307 |
| Deferred tax on revaluation of buildings | | **–** | (77) |
| | | **–** | 230 |
| Loss on fair value change of available-for-sale investment | | **(2,030)** | (436) |
| Other comprehensive (expenses)/income for the year, net of tax | | **(48,647)** | 16,656 |
| **Total comprehensive expenses for the year** | | **(634,317)** | (153,072) |
| Loss attributable to: | | | |
| Owners of the Company | | **(585,670)** | (169,728) |
| Total comprehensive expenses attributable to: | | | |
| Owners of the Company | | **(634,317)** | (153,072) |
| **Loss per share** | *9* | | |
| From continuing and discontinued operations | | | |
| Basic and diluted *(HK cents per share)* | | **(83.71)** | (26.62) |
| From continuing operations | | | |
| Basic and diluted *(HK cents per share)* | | **(83.92)** | (12.08) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2009*

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | – | 53,676 |
| Prepaid lease payments | | – | 3,526 |
| Intangible asset | | – | – |
| Goodwill | | – | – |
| Available-for-sale investment | | – | 8,241 |
| Club debenture | | – | 600 |
| | | – | 66,043 |
| **Current assets** | | | |
| Inventories | | – | 7,074 |
| Trade and bills receivables | *10* | **8,238** | 29,782 |
| Prepayments, deposits and other receivables | | **89** | 28,899 |
| Amount due from a related company | | **7,171** | – |
| Bank balances and cash | | **25,544** | 1,609 |
| | | **41,042** | 67,364 |
| Assets classified as held for sale | | – | 382,490 |
| | | **41,042** | 449,854 |
| **Current liabilities** | | | |
| Trade and bills payables | *11* | **127** | 22,139 |
| Accruals and other payables | | **967** | 30,815 |
| Amount due to a shareholder | | **3,000** | 15,500 |
| Amount due to a related company | | **163** | – |
| Tax liabilities | | – | 20 |
| | | **4,257** | 68,474 |
| Liabilities associated with assets classified as held for sale | | – | 190,971 |
| | | **4,257** | 259,445 |
| **Net current assets** | | **36,785** | 190,409 |
| **Total assets less current liabilities** | | **36,785** | 256,452 |

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Amount due to a shareholder | | **18,430** | – |
| Convertible bonds | | **176,785** | – |
| Deferred tax liabilities | | **22,388** | 3,182 |
| Promissory notes | | **75,031** | – |
| | | **292,634** | 3,182 |
| Net (liabilities)/assets | | **(255,849)** | 253,270 |
| **Capital and reserves** | | | |
| Share capital | | **70,236** | 65,236 |
| Reserves | | **(326,085)** | 188,034 |
| | | **(255,849)** | 253,270 |

*Notes:*

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

**Going concern**

The financial statements have been prepared on a going concern basis. The Group had incurred accumulated losses of approximately HK$550,599,000 (2008: approximately HK$72,413,000) and had a deficiency in shareholder's fund of approximately HK$255,849,000 (2008: net assets of approximately HK$253,270,000). Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

A shareholder of the Company has confirmed that he will not demand repayment of the amount of HK$18,430,000 within twelve months from the end of the reporting period. Furthermore, the promissory note holder has confirmed that it will not demand for repayment of the principal amount of HK$87,500,000 until the extended maturity date on 14 January 2012.

**Subsidiaries deconsolidated**

Notwithstanding that the Group has acquired 100% equity interests in Pacific Choice Holdings Limited ("Pacific Choice") and its subsidiaries (collective referred as to "Pacific Choice Group") on 15 January 2009 (the "Acquisition") and held the respective interests as at 31 December 2009, the Pacific Choice Group was no longer regarded as subsidiaries of the Group as the directors of the Company are of the opinion that the control of the Pacific Choice Group had been lost during the year.

Since the end of November 2009, despite effort made, the Company was unable to obtain any books and records from 聯合光電（蘇州）有限公司 (transliterated as "United Opto-Electronics (Suzhou) Co., Ltd.) (the "PRC Subsidiary") . Neither could the Company obtain the use of the production machinery and solid cooperation from the management of the Pacific Choice/Pacific Choice Group/PRC Subsidiary particularly on the operation (if any) of the PRC Subsidiary. As a result, the directors of the Company were unable to access its complete set of underlying books and records together with the supporting documents since the end of November 2009.

The Directors of the Company considered that the PRC Subsidiary/Pacific Choice/Pacific Choice Group is not under control by the Company given (among others) (i) the machinery, equipment and technology for the production of LCoS TV have never been delivered to the Company for further development despite demand letters sent by or on behalf of the Group; and (ii) the management of the PRC Subsidiary have never complied with the request of the Company concerning its operation and production.

In the opinion of the Directors of the Company, the Group proposed to sell the Pacific Choice Group back to the vendors due to the issues as stated above. The directors of the Company resolved to deconsolidate the Pacific Choice Group with the effective date on 1 December 2009. The consolidated statement of comprehensive income presented a loss of HK$602,806,000 on deconsolidation of the Pacific Choice Group. Details of the deconsolidation of the Pacific Choice Group are stated in note 15.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 80 of HKAS 39 |

HKAS 1 (Revised) "Presentation of Financial Statements" has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating Segments" is a disclosure standard that has resulted in a change in presentation of the segment information *(see note 3)*.

The amendments to HKFRS 7 "Financial Instruments: Disclosures" expand and amend the disclosures required in relation to fair value measurements and liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Except as described above, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs – amendments to HKFRS 5[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Right Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedge Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-Time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |
| HKFRS 2 (Amendment) | Group Cash-settled Shared-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HKFRIC – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HKFRIC – Int 17 | Distribution of Non-cash Assets to Owners[1] |
| HKFRIC – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

[1] *Effective for annual periods beginning on or after 1 July 2009*

[2] *Effective for annual periods beginning on or after 1 January 2010, except for the amendments to HKAS 38, HKFRS 2, HKFRIC – Int 9 and HKFRIC – Int 16 which are effective for annual periods beginning on or after 1 July 2009*

[3] *Effective for annual periods beginning on or after 1 January 2010*

[4] *Effective for annual periods beginning on or after 1 February 2010*

[5] *Effective for annual periods beginning on or after 1 July 2010*

[6] *Effective for annual periods beginning on or after 1 January 2011*

[7] *Effective for annual periods beginning on or after 1 January 2013*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid land lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification of the Group's leasehold land.

The directors anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. SEGMENT INFORMATION

**Business segments**

***Segment revenues and results***

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting segment was business segments. The adoption of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group's reportable segments under HKFRS 8 do not differ materially from those previously disclosed under HKAS 14. In prior years, segment information reported externally was analysed on the basis of the types of goods supplied by the Group's operating divisions (i.e. conductive silicon rubber keypads, electronic products and printed circuits boards). The directors of the Company considered that the current segment presentation provides sufficient and appropriate information to the Group's key management for the allocation of resources to the segment and to assess its performance, as the current presentation has already focused specifically on the category of customers for different type of goods. The Group's reportable segments under HKFRS 8 are therefore as follows:

- Conductive silicon rubber keypads
- Electronic products – disposed of on 26 February 2009
- Printed circuit boards – disposed of during the year ended 31 December 2008
- LCoS television – acquired on 15 January 2009

The following is an analysis of the Group's revenue and results by reportable segment:

**2009**

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Conductive silicon rubber keypads *HK$'000* | LCoS *HK$'000* | Elimination *HK$'000* | Total *HK$'000* | Electronic products *HK$'000* | Elimination *HK$'000* | Total *HK$'000* | Consolidated *HK$'000* |
| **REVENUE** | | | | | | | | |
| External sales | 43,485 | – | – | 43,485 | 90,787 | – | 90,787 | 134,272 |
| Inter-segment sales | 1,443 | – | (1,443) | – | 673 | (673) | – | – |
| Total | 44,928 | – | (1,443) | 43,485 | 91,460 | (673) | 90,787 | 134,272 |
| **RESULT** | | | | | | | | |
| Segment results | (20,931) | (1,944) | (770) | (23,645) | 4,401 | 770 | 5,171 | (18,474) |
| Unallocated income | | | | 116 | | | 201 | 317 |
| Interest income | | | | 8 | | | 8 | 16 |
| Unallocated corporate expenses | | | | (4,702) | | | (3,703) | (8,405) |
| Finance costs | | | | (34,313) | | | (791) | (35,104) |
| Gain on disposal of subsidiaries, net | | | | 109,846 | | | – | 109,846 |
| Net loss on deconsolidation of subsidiaries | | | | (602,806) | | | – | (602,806) |
| Gain on fair value change of derivative financial instruments | | | | – | | | 564 | 564 |
| Gain on cancellation of promissory notes | | | | 28,297 | | | – | 28,297 |
| Loss on early redemption of promissory notes | | | | (61,351) | | | – | (61,351) |
| (Loss)/profit before taxation | | | | (588,550) | | | 1,450 | (587,100) |
| Taxation | | | | 1,430 | | | – | 1,430 |
| (Loss)/profit for the year | | | | (587,120) | | | 1,450 | (585,670) |

2008

| | Continuing operation | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|
| | Conductive silicon rubber keypads | Elimination | Total | Electronic products | Printed circuit boards | Elimination | Total | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | | | | | |
| External sales | 70,681 | – | 70,681 | 512,847 | 61,555 | – | 574,402 | 645,083 |
| Inter-segment sales | 16,239 | (16,239) | – | 5,041 | 18,824 | (23,865) | – | – |
| Total | 86,920 | (16,239) | 70,681 | 517,888 | 80,379 | (23,865) | 574,402 | 645,083 |
| **RESULT** | | | | | | | | |
| Segment results | (28,809) | (14,957) | (43,766) | (8,951) | (50,392) | 14,957 | (44,386) | (88,152) |
| Unallocated corporate expenses | | | (9,691) | | | | – | (9,691) |
| Finance costs | | | (291) | | | | (4,412) | (4,703) |
| Loss on disposal of subsidiaries | | | – | | | | (31,606) | (31,606) |
| Impairment loss on available-for-sale investment | | | (23,268) | | | | – | (23,268) |
| Gain/(loss) on fair value change of derivative financial instruments | | | 38 | | | | (5,917) | (5,879) |
| Loss before taxation | | | (76,978) | | | | (86,321) | (163,299) |
| Taxation | | | (34) | | | | (6,395) | (6,429) |
| Loss for the year | | | (77,012) | | | | (92,716) | (169,728) |

Segment results represents the profit earned by each segment without allocation of central administrative expenses, finance costs, gain/(loss) on disposal of subsidiaries, interest income, net loss on deconsolidation of subsidiaries, gain on fair value change of derivative financial instruments, gain on cancellation of promissory notes, loss on early redemption of promissory notes and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

***Segment assets and liabilities***

**2009**

| | Conductive silicon rubber keypads HK$'000 | Consolidated HK$'000 |
|---|---|---|
| **ASSETS** | | |
| Segment assets | **16,698** | **16,698** |
| Unallocated corporate assets | | **24,344** |
| Consolidated total assets | | **41,042** |
| **LIABILITIES** | | |
| Segment liabilities | **132** | **132** |
| Unallocated corporate liabilities | | **296,759** |
| Consolidated total liabilities | | **296,891** |

2008

| | Conductive silicon rubber keypads HK$'000 | Electronic products HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Segment assets | 90,886 | 382,490 | 473,376 |
| Unallocated corporate assets | | | 42,521 |
| Consolidated total assets | | | 515,897 |
| **LIABILITIES** | | | |
| Segment liabilities | 32,225 | 190,971 | 223,196 |
| Unallocated corporate liabilities | | | 39,431 |
| Consolidated total liabilities | | | 262,627 |

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all current assets with the exception of unallocated corporate assets. Segment liabilities include trade and bills payables, other payables and accruals and unallocated corporate liabilities.

***Other segment information***

**2009**

| | **Continuing operations** | | | **Discontinued operations** | | |
|---|---|---|---|---|---|---|
| | **Conductive silicon rubber keypads** | **LCoS television** | **Total** | **Electronic products** | **Unallocated** | **Consolidated** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Additions to property, plant and equipment | **1,237** | **–** | **1,237** | **360** | **1,307** | **2,904** |
| Depreciation of property, plant and equipment | **8,980** | **414** | **9,394** | **3,504** | **409** | **13,307** |
| Amortisation of prepaid lease payments | **98** | **–** | **98** | **62** | **–** | **160** |
| Written down of obsolete and slow moving inventories | **12** | **–** | **12** | **–** | **–** | **12** |
| Impairment loss recognised in respect of trade receivables | **614** | **–** | **614** | **–** | **1,542** | **2,156** |

2008

| | Continuing operation | Discontinued operations | | | | |
|---|---|---|---|---|---|---|
| | Conductive silicon rubber keypads | Electronic products | Printed circuit boards | Total | Unallocated | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to property, plant and equipment | 6,496 | 10,362 | 3,882 | 14,244 | – | 20,740 |
| Depreciation of property, plant and equipment | 8,006 | 21,159 | 7,478 | 28,637 | 980 | 37,623 |
| Amortisation of prepaid lease payments | 97 | 368 | 24 | 392 | – | 489 |
| (Reversal)/written down of obsolete and slow moving inventories | 1,065 | – | (2,499) | (2,499) | – | (1,434) |
| Impairment loss recognised in respect of trade receivables | 594 | 5,695 | 572 | 6,267 | – | 6,861 |

**Geographical segments**

The Group's customers are principally located in Hong Kong, the PRC (other than Hong Kong), Europe, Japan, other Asian countries and America.

The following table provides an analysis of the Group's sales by geographical market:

| | Revenue from external customers continuing operations | | Revenue from external customers discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **4,436** | 14,403 | **58,981** | 193,674 | **63,417** | 208,077 |
| PRC | **39,044** | 56,252 | **454** | 26,190 | **39,498** | 82,442 |
| Europe | **5** | 26 | **12,127** | 164,861 | **12,132** | 164,887 |
| Japan | **–** | – | **8,220** | 68,633 | **8,220** | 68,633 |
| Other Asian countries | **–** | – | **9,209** | 54,061 | **9,209** | 54,061 |
| America | **–** | – | **672** | 42,399 | **672** | 42,399 |
| Others | **–** | – | **1,124** | 24,584 | **1,124** | 24,584 |
| | **43,485** | 70,681 | **90,787** | 574,402 | **134,272** | 645,083 |

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Additions to property, plant and equipment | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **41,042** | 87,964 | **1,307** | 2,568 |
| PRC | **–** | 385,412 | **1,597** | 18,172 |
| | **41,042** | 473,376 | **2,904** | 20,740 |

**Revenue from major products and services**

The Group's revenue from continuing and discontinued operations from its products were as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Electronic products | **90,787** | 512,847 |
| Rubber keypad | **43,485** | 61,555 |
| Printed circuit board | **–** | 70,681 |
| | **134,272** | 645,083 |

## 4. OTHER REVENUE AND GAIN

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest income | **8** | 64 | **8** | 329 | **16** | 393 |
| Gain on disposal of property, plant and equipment | **–** | 67 | **–** | 149 | **–** | 216 |
| Reversal of impairment loss recognised in respect of trade receivables | **–** | 72 | **–** | 451 | **–** | 523 |
| Sundry income | **130** | – | **201** | – | **331** | – |
| Gain on fair value change on derivative financial instruments | | | | | | |
| – Realised gain | **–** | – | **510** | – | **510** | – |
| – Unrealised gain | **–** | – | **54** | – | **54** | – |
| Revaluation surplus on buildings | **–** | – | **–** | 612 | **–** | 612 |
| | **138** | 203 | **773** | 1,541 | **911** | 1,744 |

## 5. FINANCE COSTS

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on: | | | | | | |
| Bank loans wholly repayable within five years | **–** | 102 | **649** | 2,466 | **649** | 2,568 |
| Obligations under finance leases | **–** | – | **90** | 192 | **90** | 192 |
| Overdraft and other finance costs | **48** | 189 | **52** | 1,754 | **100** | 1,943 |
| Effective interest on convertible bonds | **20,974** | – | **–** | – | **20,974** | – |
| Effective interest on promissory notes | **13,291** | – | **–** | – | **13,291** | – |
| | **34,313** | 291 | **791** | 4,412 | **35,104** | 4,703 |

## 6. LOSS BEFORE TAXATION

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Loss before taxation has been arrived at after charging: | | | | | | |
| Auditors' remuneration | **530** | 309 | **197** | 511 | **727** | 820 |
| Depreciation: | | | | | | |
| – Owned assets | **9,394** | 8,339 | **3,468** | 28,067 | **12,862** | 36,406 |
| – Assets held under finance leases | **–** | 647 | **445** | 570 | **445** | 1,217 |
| Amortisation of prepaid lease payments | **98** | 97 | **62** | 392 | **160** | 489 |
| Impairment loss recognised in respect of trade receivables | **614** | 594 | **1,542** | 6,267 | **2,156** | 6,861 |
| Impairment loss recognised in respect of club debenture | **–** | 580 | **–** | – | **–** | 580 |
| Loss on disposal of available-for-sale investment | **–** | 258 | **–** | – | **–** | 258 |
| Foreign exchange loss, net | **–** | – | **446** | – | **446** | – |
| Cost of inventories recognised as expense | **19,776** | 99,520 | **58,543** | 528,001 | **78,319** | 627,521 |
| Written down/(reversal) of obsolete and slow moving inventories | **12** | 1,065 | **–** | (2,499) | **12** | (1,434) |
| Directors' remuneration | **472** | 530 | **–** | 4,823 | **472** | 5,353 |
| Staff costs | **18,314** | 33,998 | **15,214** | 130,019 | **33,528** | 164,017 |
| Retirement benefits scheme contribution | **470** | 671 | **(204)** | 2,724 | **266** | 3,395 |
| Total staff costs | **19,256** | 35,199 | **15,010** | 137,566 | **34,266** | 172,765 |
| Operating lease rentals | **1,556** | 81 | **55** | 418 | **1,611** | 499 |
| Loss on disposal of property, plant and equipment | **286** | 92 | **–** | 364 | **286** | 456 |
| Loss on fair value change of derivative financial instruments comprised of: | | | | | | |
| – Realised (gain)/loss | **–** | (38) | **(54)** | 5,202 | **(54)** | 5,164 |
| – Unrealised (gain)/loss | **–** | – | **(510)** | 715 | **(510)** | 715 |
| | **–** | (38) | **(564)** | 5,917 | **(564)** | 5,879 |
| and after crediting: | | | | | | |
| Gross rental income from investment properties | **–** | – | **–** | 185 | **–** | 185 |
| *Less:* Direct operating expenses from investment properties that generate rental income during the year | **–** | – | **–** | (36) | **–** | (36) |
| | **–** | – | **–** | 149 | **–** | 149 |
| Foreign exchange gains, net | **299** | – | **–** | 7,667 | **299** | 7,667 |

## 7. TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current tax: | | | | | | |
| Hong Kong Profits Tax | **–** | – | **–** | – | **–** | – |
| PRC Enterprise Income Tax | **–** | – | **–** | (5,185) | **–** | (5,185) |
| | **–** | – | **–** | (5,185) | **–** | (5,185) |
| Over/(under) provision of current tax in prior years: | | | | | | |
| Hong Kong Profits Tax | **34** | (34) | **–** | – | **34** | (34) |
| PRC Enterprise Income Tax | **(7)** | – | **–** | (1,098) | **(7)** | (1,098) |
| | **27** | (34) | **–** | (1,098) | **27** | (1,132) |
| Deferred tax | | | | | | |
| Current year | **1,403** | – | **–** | (112) | **1,403** | (112) |
| | **1,430** | (34) | **–** | (6,395) | **1,430** | (6,429) |

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

## 8. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: Nil).

## 9. LOSS PER SHARE

**From continuing and discontinued operations**

The calculation of the basic and diluted loss per share attributable to equity holders of the Company is based on the following data:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Loss* | | |
| Loss for the year attributable to the owners of the Company for the purpose of basic loss per share | **(585,670)** | (169,728) |
| Effect of dilutive potential ordinary shares: Interest on convertible bonds | **20,974** | – |
| Loss for the purpose of diluted loss per share | **(564,696)** | (169,728) |
| | ***'000*** | *'000* |
| *Number of ordinary shares* | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **699,616** | 637,602 |
| Effect of dilutive potential ordinary shares: Convertible bonds | **721,233** | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **1,420,849** | 637,602 |

Diluted loss per share from continuing and discontinued operations for the years ended 31 December 2009 and 2008 was the same as the basic loss per share. The Company's outstanding convertible bonds were not included in the calculation of diluted loss per share from continuing and discontinued operations because the effect of the Company's outstanding convertible bonds was anti-dilutive.

There was no diluting event existed during the year ended 31 December 2008.

**From continuing operations**

The calculation of the basic and diluted loss per share from continuing operations attributable to equity holders of the Company is based on the following data:

Loss figures are calculated as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year attributable to owners of the Company | **(587,120)** | (77,012) |
| Effect of dilutive potential ordinary shares: Interest on convertible bonds | **20,974** | – |
| Loss for the purpose of basic loss per shares from continuing operations | **(566,146)** | (77,012) |

The denominators used are the same as those detailed above for both basic and diluted loss per share.

Diluted loss per share from continuing operations for the years ended 31 December 2009 and 2008 was the same as the basic loss per share. The Company's outstanding convertible bonds were not included in the calculation of diluted loss per share from continuing operations because the effect of the Company's outstanding convertible bonds was anti-dilutive.

There was no diluting event existed during the year ended 31 December 2009.

**From discontinued operations**

Basic and diluted earnings per share for the year ended 31 December 2009 for the discontinued operations is HK0.21 cents per share and HK0.10 cents per share respectively. The numerators are based on the profit for the year ended 31 December 2009 from discontinued operations of approximately HK$1,450,000, while the denominators used are the same as those detailed above for both basic and diluted loss per share.

Basic loss per share for the year ended 31 December 2008 for the discontinued operations is HK14.54 cents per share based on the loss for the year from discontinued operations of approximately HK$92,716,000 and the denominators used are the same as those detailed above for both basic and diluted loss per share.

There was no diluting event existed during the year ended 31 December 2008.

## 10. TRADE AND BILLS RECEIVABLES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **9,526** | 31,036 |
| *Less:* Provision for impairment loss recognised in respect of trade receivables | **(1,288)** | (1,915) |
| | **8,238** | 29,121 |
| Bills receivables | **–** | 661 |
| | **8,238** | 29,782 |

The Group allows an average credit period of 60 days to its trade customers. An aged analysis of trade receivables and bills receivables, net of provision for impairment loss recognised in respect of trade receivables, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not yet due | **5,366** | 17,630 |
| Overdue within 30 days | **1,699** | 6,151 |
| Overdue for 31-60 days | **1,173** | 3,022 |
| Overdue for 61-90 days | **–** | 2,877 |
| Overdue for more than 90 days | **–** | 102 |
| | **8,238** | 29,782 |

## 11. TRADE AND BILLS PAYABLES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **127** | 22,139 |

An aged analysis of trade and bills payables, net of amount classified as part of disposal group held for sale is as follows:

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not yet due or overdue within 30 days | **–** | 12,886 |
| Overdue for 31-60 days | **–** | 3,376 |
| Overdue for 61-90 days | **–** | 2,066 |
| Overdue for more than 90 days | **127** | 3,811 |
| | **127** | 22,139 |

## 12. DISCONTINUED OPERATIONS

**Disposal of the electronic products business**

On 2 May 2008, the Group has entered into a conditional sale and purchase agreement with Extract Group Limited ("Extract Group"), under which the Group has agreed to sell and Extract Group has agreed to purchase the entire interest in and the shareholder's loans due from Habermann Limited, Joyham Jade Limited, Sabic Electronic Limited and Xinyu Electronics Limited. For further details, please refer to the circular dated 30 September 2008. The disposal was completed on 26 February 2009. Please refer to note 14 for details.

**Disposal of the printed circuit boards business**

On 12 September 2008, the Group has entered into a conditional sale and purchase agreement with KFE Hong Kong Co., Limited ("KFE Hong Kong"), as the purchaser and KFE Japan Co. Ltd. ("KFE Japan"), as the issuer of the subscription shares, under which the Group has agreed to sell and KFE Hong Kong has agreed to purchase (i) the entire issued share capital of Jet Master Limited ("Jet Master") and the entire registered capital of Dongguan Tai Shan Electronics Co., Ltd., ("Tai Shan") which was wholly owned by Jet Master and (ii) the factory land, production setup, properties with relevant licenses and the lease, machinery and sewage facilities at a consideration of US$3,000,000 (approximately HK$23,310,000).

Subsequently on 26 September 2008, the Group has entered into a supplementary agreement with KFE Hong Kong and KFE Japan, under which the Group has agreed to sell and KFE Hong Kong has agreed to purchase the entire inventory of Tai Shan as at 30 September 2008 at market value. For further details, please refer to the circular dated 17 October 2008. The disposal was completed on 30 September 2008.

The combined results and cash flows of the discontinued operations, the electronic products business (2008: the printed circuit boards and electronic products businesses) included in the consolidated statement of comprehensive income and the consolidated statement of cash flows are set out below.

| | 2009 | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit/(loss) for the year from discontinued operations** | | |
| Revenue | **90,787** | 574,402 |
| Expenses | **(89,337)** | (629,117) |
| Profit/(loss) before taxation | **1,450** | (54,715) |
| Income tax expense | **–** | (6,395) |
| | **1,450** | (61,110) |
| Loss on disposal of operations | **–** | (31,606) |
| Profit/(loss) for the year from discontinued operations | **1,450** | (92,716) |
| **Cash flows from discontinued operations** | | |
| Net cash flows from operating activities | **15,744** | (25,586) |
| Net cash flows from investing activities | **(306)** | (61) |
| Net cash flows from financing activities | **(1,471)** | (3,777) |
| Net cash flows | **13,967** | (29,424) |

The electronic products business has been classified and accounted for at 31 December 2008 as a disposal group held for sale.

## 13. ACQUISITION OF SUBSIDIARIES

On 15 January 2009, the Group acquired the entire issued share capital of Pacific Choice and the loan outstanding as at the completion of Acquisition due to China Eagle Development Limited ("China Eagle") and Fairtime International Limited ("Fairtime") (collectively referred as to the "Vendors") for total consideration of approximately HK$604,616,000.

The amount of goodwill arising as a result of the acquisition was approximately HK$77,685,000.

| | Acquiree's carrying amounts *HK$'000* | Fair value adjustment *HK$'000* | Fair value *HK$'000* |
|---|---|---|---|
| **Net assets acquired:** | | | |
| Intangible assets | **93,600** | **574,400** | **668,000** |
| Property, plant and equipment | **1,268** | **–** | **1,268** |
| Inventories | **2,730** | **–** | **2,730** |
| Deposits and prepayments | **1,974** | **–** | **1,974** |
| Amounts due from shareholders | **24,985** | **–** | **24,985** |
| Bank balances and cash | **46** | **–** | **46** |
| Accruals and other payables | **(3,487)** | **–** | **(3,487)** |
| Deferred tax liabilities | **–** | **(143,600)** | **(143,600)** |
| 100% equity interest in Pacific Choice | **121,116** | **430,800** | **551,916** |
| Waiver of shareholders' loan upon completion | | | **(24,985)** |
| Goodwill | | | **77,685** |
| | | | **604,616** |

| | *HK$'000* |
|---|---|
| **Total consideration satisfied by:** | |
| Cash consideration | **25,000** |
| Fair value of convertible bonds | **300,000** |
| Fair value of promissory notes | **278,686** |
| Cost of Acquisition | **930** |
| | **604,616** |

| | *HK$'000* |
|---|---|
| **Net cash outflow arising on acquisition:** | |
| Cash consideration paid | **(25,000)** |
| Cost of Acquisition | **(930)** |
| Bank balance and cash acquired | **46** |
| | **24,116** |

## 14. DISPOSAL OF SUBSIDIARIES

**For the year ended 31 December 2009**

On 26 February 2009, the Group disposed of its 100% equity interests in Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited (collectively referred to as the "Four BVI Companies") at a total consideration of approximately HK$250,000,000 and the net assets at the date of disposal were as follows:

| | ***HK$'000*** |
|---|---|
| **Net assets disposed of:** | |
| Investment properties | **77,402** |
| Property, plant and equipment | **137,354** |
| Prepaid lease payments | **14,304** |
| Inventories | **68,164** |
| Trade and bill receivables | **53,990** |
| Prepayments, deposits and other receivables | **2,606** |
| Bank balances and cash | **27,210** |
| Trade payables | **(71,341)** |
| Accruals and other payables | **(21,705)** |
| Derivative financial instruments | **(204)** |
| Tax liabilities | **(21,980)** |
| Bank loans | **(54,170)** |
| Obligation under finance lease | **(650)** |
| Deferred tax liabilities | **(17,352)** |
| | **193,628** |
| Release of translation reserve | **(34,456)** |
| Gain on disposal of subsidiaries | **90,828** |
| Total consideration | **250,000** |
| **Satisfied by:** | |
| Cash consideration | **250,000** |
| **Net cash inflow arising on disposal:** | |
| Cash consideration | **250,000** |
| Bank balances and cash on disposal | **(27,210)** |
| | **222,790** |

On 30 December 2009, the Group disposed of its 100% equity interest in Tachibana Limited and China Ample Investments Limited at a consideration of approximately HK$20,000,000. The net assets at the date of completion were as follows:

| | *HK$'000* |
|---|---|
| **Net assets disposed of:** | |
| Property, plant and equipment | **45,897** |
| Prepaid lease payments | **3,526** |
| Inventories | **4,191** |
| Available-for-sale investment | **6,211** |
| Club debenture | **600** |
| Trade receivables | **2,003** |
| Prepayments, deposits and other receivables | **542** |
| Bank balances and cash | **3,067** |
| Trade payables | **(10,595)** |
| Amounts due to related companies | **(24,635)** |
| Accruals and other payables | **(16,009)** |
| Tax liabilities | **(20)** |
| Deferred tax liabilities | **(3,122)** |
| | **11,656** |
| Release of translation reserve | **(10,674)** |
| Gain on disposal of subsidiaries | **19,018** |
| Total consideration | **20,000** |
| **Satisfied by:** | |
| Cash consideration | **20,000** |
| **Net cash inflow arising on disposal:** | |
| Cash consideration | **20,000** |
| Bank balances and cash on disposal | **(3,067)** |
| | **16,933** |

## 15. DECONSOLIDATION OF SUBSIDIARIES

Save as disclosed in note 1, the directors of the Company have resolved that the Pacific Choice Group shall be treated as having been de-consolidated from that of the Group with effect from 1 December 2009.

Net loss on deconsolidation of the Pacific Choice Group was calculated based on disposal of the net assets of the Pacific Choice Group.

Details of the net assets of the Pacific Choice Group as at 30 November 2009 are set out below.

| | ***HK$'000*** |
|---|---|
| Net assets disposed of: | |
| Goodwill | **77,685** |
| Intangible asset | **668,000** |
| Property, plant and equipment | **854** |
| Inventories | **2,730** |
| Prepayments, deposits and other receivables | **620** |
| Bank balances and cash | **4** |
| Accruals and other payables | **(3,487)** |
| Deferred tax liabilities | **(143,600)** |
| Net loss on deconsolidation of subsidiaries | **602,806** |
| Analysis of net outflow of cash and cash equivalents arising from deconsolidation of subsidiaries | **(4)** |

## 16. EVENTS AFTER THE REPORTING PERIOD

On 23 April 2010, the Company has announced the progress on the LCoS television business. The details are as follows:

As the original production plan has not been realised and certain terms/undertakings of the acquisition agreement to be performed on the part of the Vendors have not been performed, despite the Acquisition completion in January 2009, and despite continual requests by the Group's management seeking the Pacific Choice Group's assistance and fulfillment of the agreed terms, the Group on 5 March 2010 issued a demand letter to the Vendors and the warrantors requesting them to provide satisfactory explanations and to suggest remedial actions. Up to the date of this announcement, no reply has been received from the Vendors or the warrantors.

At the Board meeting on 20 April 2010, it was resolved that the Company would first negotiate with the Vendors and the warrantors for a proposal to sell the Pacific Choice back to the Vendors. Subject to the terms of the proposed disposal to be agreed, Convertible Bonds granted to the Vendors (or their nominee(s)) as part of the Acquisition consideration (to the extent not redeemed) may be required to be cancelled, while the promissory notes issued to the First Vendor (or its nominee(s)) as part of the Acquisition consideration (to the extent not yet redeemed) may be required to be tendered back to the Company for cancellation. For further details, please refer to the Company's circular dated on 23 April 2010.

## MODIFICATION TO THE AUDITORS' REPORT

The audit opinion for the consolidated financial statements of the Group for the year ended 31 December 2009 has been modified and is extracted as follows:

**Basis for disclaimer of opinion**

***Limitation of scope – 聯合光電（蘇州）有限公司(transliterated as "United Opto-Electronics (Suzhou) Co., Ltd.) (the "PRC Subsidiary")***

The Group has been unable to obtain the books and records and related supporting documents of the PRC Subsidiary for the period from 15 January 2009 (date of acquisition) to 30 November 2009 (date of deconsolidation). We were therefore unable to carry out audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to the nature, completeness, accuracy, existence, valuation, classification and disclosures in respect of all of the transactions undertaken by the PRC Subsidiary during the year ended 31 December 2009. We were also unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence of any significant contingent liabilities, commitments and events after the reporting period relating to the PRC Subsidiary. Any adjustments that might have been found to be necessary in respect of the above financial information would have a significant effect on the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009. The financial information of the PRC Subsidiary which has been included in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 is summarised as below:

***Income and expenses of the PRC Subsidiary for the period from 15 January 2009 to 30 November 2009 as included in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009***

| | *HK$'000* |
|---|---|
| Administrative expenses | (1,810) |
| Loss for the period | (1,810) |

***Net loss arising from deconsolidation of subsidiaries on 30 November 2009 as included in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009***

| | *HK$'000* |
|---|---|
| Goodwill | 77,685 |
| Intangible asset | 668,000 |
| Property, plant and equipment | 854 |
| Inventories | 2,730 |
| Prepayments, deposits and other receivables | 620 |
| Bank balances and cash | 4 |
| Accruals and other payables | (3,487) |
| Deferred tax liabilities | (143,600) |
| Net loss on deconsolidation of subsidiaries | 602,806 |

Included in "Net loss on deconsolidation of subsidiaries" as shown in the consolidated statement of comprehensive income for the year ended 31 December 2009, was loss of approximately HK$602,806,000 arising from the deconsolidation of Pacific Choice Holdings Limited and its subsidiaries (collectively referred to as the "Pacific Choice Group") on 1 December 2009. Due to the effect of the limitation described as above, the Group was unable to ascertain the valuation, existence and completeness of the assets and liabilities of the Pacific Choice Group as at the date of deconsolidation. The Group was also unable to reliably and accurately assess the valuation of the goodwill and intangible assets in accordance with HKFRS 3 and HKAS 38 respectively on the date of deconsolidation. We were therefore unable to carry out audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the loss on the deconsolidation of the Pacific Choice Group and the loss included in the consolidated financial statements up until the date of deconsolidation of the Pacific Choice Group, as well as the related disclosures set out in the notes to the consolidated financial statements are free from material misstatement. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 and its cash flows for the year then ended.

Included in notes 21 and 41 was the goodwill with the carrying amount of approximately HK$77,685,000 arising from the acquisition of the Pacific Choice Group (the "Acquisition"). The assets and liabilities of the PRC Subsidiary are significant to the Pacific Choice Group on the date of acquisition. For reasons as explained above, we were unable to carry out audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to nature, completeness, accuracy, existence, valuation, classification and disclosures in respect of the assets and liabilities acquired from the Acquisition on 15 January 2009. Any adjustments that might have been found to be necessary in respect of the above would have a significant effect on the carrying amount of the goodwill arising from the Acquisition on 15 January 2009. The financial position of the PRC Subsidiary as at 15 January 2009 which has been included in note 42 to the consolidated financial statements of the Group for the year ended 31 December 2009 is summarised as below:

*Assets and liabilities of the PRC Subsidiary as at 15 January 2009*

| | *HK$'000* |
|---|---|
| Property, plant & equipment | 1,268 |
| Inventories | 2,730 |
| Deposits and prepayments | 1,965 |
| Bank balances and cash | 45 |
| Accruals and other payables | (3,487) |
| | 2,521 |

**Disclaimer of opinion: Disclaimer on view given by financial statements**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as described in the basis for disclaimer of opinion paragraphs above:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- We were unable to determine whether proper books of account had been kept.

**Material uncertainty concerning going concern basis of accounting**

Without further qualifying our opinion, we draw attention to note 3 to the financial statements which indicated that the Group incurred a net loss of approximately HK$585,670,000 during the year ended 31 December 2009 and, as of the date, the Group's total liabilities exceeded its total assets by approximately HK$255,849,000. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

## DIVIDEND

Based on the abovementioned performance, the Board has resolved not to recommend a final dividend for the year ended 31 December 2009 (2008: Nil).

## RESULTS OF THE YEAR

The year ended 31 December 2009 was the most difficult year the Group had witnessed since its establishment, owing to continuous increase in production cost and significant decline in the selling prices of conductive silicon rubber keypads and electronic products such as electronic learning machines and electronic educational game products. After taking over the business of the Group, the current management conducted a full review of the Group's overall performance and investments. The management believed that a drastic overhaul of the Group's operations is necessary to safeguard the maximum interest of the shareholders. As such, the Group disposed of the electronic products business and conductive silicon rubber keypads manufacturing business on 26 February 2009 and 30 December 2009 respectively, to improve the overall operation of the Group.

For the year ended 31 December 2009, the consolidated revenue contributed from continuing operations (i.e. conductive silicon rubber keypads trading business and liquid crystal on silicon ("LCoS") television business of the Group amounted to approximately HK$43,485,000 (2008: HK$70,681,000).

While the Group endeavored to improve operational efficiency and reduce cost, the cost of major raw materials such as rubber and plastic surged. However, the Group was not able to raise the price of its products to shift the extra costs to customers. As a result, the Group's continuing operations reported a gross loss of HK$10,558,000 for the year (2008 gross loss: HK$29,931,000).

The Group proposed to acquire a LCoS television business in 2008 through the acquisition of Pacific Choice Holdings Limited ("Pacific Choice"). However, the plan for developing LCoS television business had been put off, due to a pledge created on key manufacturing machineries that should be transferred from the vendor had not been discharged on 15 January 2010 (12 months after the completion of the acquisition of Pacific Choice). As a result, the production and sales plan of the Suzhou plant and LCoS televisions had not been realised. Moreover, the management of the Suzhou plant had never complied with the request of the Company concerning its operation and production. In light of this, the Board acknowledged at a board meeting held on 20 April 2010 that the results of the PRC subsidiary which carried out the LCoS television business shall be treated as having been deconsolidated from that of the Group with effect from 1 December 2009. The Group reported a net loss on deconsolidation of subsidiaries of HK$602,806,000 for the year ended 31 December 2009.

Accordingly, the Group recorded a loss attributable to the Company's shareholders of approximately HK$585,670,000 for the year ended 31 December 2009 (loss for the year 2008: HK$169,728,000). Loss per share from continuing operations and discontinued operations was approximately HK83.71 cents (loss per share for the year 2008: HK26.62 cents)

# MANAGEMENT DISCUSSION AND ANALYSIS

## Segmental analysis

### *Conductive Silicon Rubber Keypads*

The popularity of electronic devices, such as mobile phones and audio visual products, continued to drive the growth of demand for conductive silicon rubber keypads. However, industry competition remained severe during the year under review as a result of over production of keypads, leading to significant decline in the selling prices.

The adverse operating environment had greatly affected the turnover of the Group's conductive silicon rubber keypads business for the year ended 31 December 2009, which amounted to approximately HK$43,485,000, representing a decrease of approximately 38.5 percent from HK$70,681,000 of the previous year. In the face of the difficult market environment, the Group continued to exercise stringent cost control and improved operational efficiency. For the year 2009, the Group succeeded in narrowing the segment loss to approximately HK$21,701,000 from approximately HK$43,766,000 in 2008.

The Group's conductive silicon rubber keypads business involved both manufacturing and trading activities. In late 2009, the Group decided to dispose the entire manufacturing operation after considering its continued loss-making performance. The disposal was completed on 30 December 2009 and the Group realised a gain on disposal of approximately HK$19,018,000.

Following the completion of the disposal of the manufacturing operation, the Group continues to engage in the trading business of conductive silicon rubber keypads. In view of increasingly fierce competition in the market, the Group anticipates further decline in the selling prices. With a prudent financial management and seasoned experience in trading operations, the Group is confident in weathering any possible challenges ahead and will continue to explore ways to improve operational efficiency of this segment.

### *Electronic products*

On 26 February 2009, the Group completed the disposal of its entire interest in electronic products operation for a consideration of HK$250,000,000. The decision to dispose the electronic products business was made after taking into account the squeezed profit margin and rising production costs of this operation as well as the alternate investment opportunities provided for with the use of proceeds from the disposal of this business.

During the year under review, the Group realised a gain on the disposal of the electronic products business of HK$90,828,000 and, prior to the disposal, revenue and operating profit of HK$90,787,000 (2008 full year: HK$512,847,000) and HK$5,171,000 (2008 full year: an operating loss of HK$8,951,000) respectively.

### *LCoS Television*

In mid 2008, the Group announced its plan to expand into production and distribution of liquid crystal on silicon ("LCoS") television through the acquisition of the entire issued share capital of Pacific Choice Holdings Limited ("Pacific Choice"), which included the patents ("TMDC Sale Patents") and machineries ("TMDC Sale Machineries") required for the production of LCoS televisions, enlarged display units and related components. The acquisition was completed on 15 January 2009.

During the year under review, the production plan of LCoS at the Suzhou plant was put off, as the pledge created on TMDC Sale Machineries had not been discharged and the transfer of ownership of the TMDC Sale Machineries could not be completed. Moreover, the management of the Suzhou plant had never complied with the request of the Company concerning its operation and production. In light of this, the Board acknowledged at a meeting held on 20 April 2010 that the results of the PRC subsidiary which carried out the LCoS television business shall be treated as having been de-consolidated from that of the group with effect from 1 December 2009. As a result, the Group reported a net loss on deconsolidation of subsidiaries of HK$602,806,000 for the year ended 31 December 2009.

In view of the delay of the production plan and rapid advancement in television technology, the Group will negotiate with the vendors for a proposal to sell the LCoS television business back to the Vendors, and subject to the terms of the proposed disposal to be agreed the convertible bonds and promissory notes issued to the vendors as part of the consideration for the acquisition may be required to be cancelled.

## FUTURE PLANS AND PROSPECTS

Entering the second half of 2009, the overall economy was on its way to positive development, with the gradual return of consumer confidence and recovery of demand. However, the continued rise in costs poses a great challenge to the manufacturing industry as well as consumer trading industry in 2010, leading to anticipated intensified competition in conductive silicon rubber keypads market. In light of the uncertain outlook for 2010, the Group is cautious about its operations in the coming year.

The disposal of the conductive silicon rubber keypads manufacturing business and electronic products operation in 2009 will enable the Group to reduce net cash outflow and concentrate its resources in pursuing projects with better growth prospects. All these will improve the Group's financial position, as well as further optimize its continuing operations, thereby laying a foundation for the long-term development of the Group.

With respect to the LCoS television business, as mentioned earlier, because the pledge created on the machineries related to the production of LCoS televisions had not been discharged, the production and sales plan of the Suzhou plant and LCoS televisions had not been realized. As a result, the Group had missed the timing and opportunities. In view of the rapid technological advancement in the production of LCD televisions and plasma televisions, and a trend of replacement of old models with new ones, LCoS television's advantage in price and picture quality has diminished. Moreover, LCD televisions and plasma televisions have rapidly penetrated the global television market, while 3D television technology has become matured. The Group is of the opinion that it has missed the golden opportunity for launching LCoS televisions. At a Board meeting held on 20 April 2010 the Board resolved that the Company will negotiate with the vendors for a proposal to sell the LCoS television business back to the vendors, and subject to terms of the proposed disposal to be agreed, the convertible bonds and promissory notes issued to the vendors, as part of the consideration for the acquisition may be required to be cancelled.

The existing continuing operations of the Group will continue to provide steady cash flow. The Group will exercise stringent cost control of its existing business and enhance its control over operating expenses and selling costs. Financially, the Group will strive to lower the gearing ratio, and maintain sufficient capital and a healthy financial position, in order to be in a better position to capture opportunities in the future.

In addition to maintaining stable operation of the existing trading business, the Group is actively exploring opportunities to achieve further business diversification, with an aim to broaden its revenue stream and earning base. The management realizes that resources related industry in mainland China and neighboring regions is rapidly growing to satisfy strong upstream demand in particular from various industries in mainland China. The Group is now conducting a preliminary study on investment in this area. The current management team possesses extensive investment and finance experience. The management is confident to utilize its professional knowledge to improve the overall efficiency of the Group and is committed to achieve satisfactory return for the shareholders.

## CAPITAL STRUCTURE

The Group had a deficiency in shareholder's fund of approximately HK$255,849,000 (2008: net assets of approximately HK$253,270,000). As at 31 December 2009, the short term and long term interest bearing debts to shareholders' equity was nil (2008: approximately nil).

As announced by the Group on 20 January 2009, the Group entered into Subscription Agreements with each of the subscribers for the subscription of 50,000,000 new shares for a total consideration of HK$5,000,000 at the subscription price of HK$0.10 per Subscription Share.

The Subscription Shares of 50,000,000 new shares represent about 7.66% of the then existing issued share capital of the Group and about 7.12% of the enlarged share capital of the Group immediately after Subscription. The Subscription Shares were issued under the General Mandate and rank equally among themselves and with the then existing shares.

The Directors believe that the above fund raising exercise provides an opportunity to broaden the shareholder base and strengthen its capital base and financial position for its future business developments. Further, the Group considers that the Subscription is currently a preferred method of fund raising as compared with other equity fund raising exercises based on time and costs involved. The Group used the net proceeds of the Subscription as general working capital of the Group.

## FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenues and expenditure are denominated in Hong Kong dollars, the United States dollars and the Renminbi. It is the Group's policy to adopt a conservative approach on foreign exchange exposure management. However, the Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Group generally finances its operation with internal resources and bank facilities provided by the banks in Hong Kong.

As a measure of additional prudence, the Group uses different low-risk derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

There are no outstanding derivative instruments as at 31 December 2009.

The exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options. Speculative currency transactions are strictly prohibited. The management of currency risk is centralised in the headquarters of the Group in Hong Kong.

Apart from the above, most of the Group's assets and liabilities, revenues and expenditure are either denominated in Hong Kong dollars, the United States dollars and the Renminbi. Therefore, the Directors consider the exposure risk to foreign currency fluctuations is minimal.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Directors consider that the Group has compiled with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2009, save for deviation as stated hereof. Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing. The roles of the chairman and the CEO of the Group was not separated and was performed by the same individual, Mr. Tong Shek Lun throughout 2008. Mr. Chim Kim Lun, Ricky succeeded the roles of chairman and CEO following Mr. Tong's resignation on 2 March 2009. Mr. Sun Ying Chung further succeeded the roles of chairman and CEO following Mr. Chim's resignation on 16 April 2009. The Directors meet regularly to consider major matters affecting the operations of the Group. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

In relation to the Directors' securities transactions, the Group has adopted a code of conduct on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2009.

## AUDIT COMMITTEE

As required by Rule 3.21 of the Listing Rules, the Company has established an Audit Committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. During the year until the date of this announcement, members of the Audit Committee included:

Mr. Sun Yaoquan
(resigned on 1 February 2009)
Mr. Goh Gen Cheung
(resigned on 9 February 2009)
Mr. Wan Hon Keung
(resigned on 31 December 2009)
Mr. Tse Yuk Kong
(appointed on 2 March 2009 and resigned on 28 April 2009)
Mr. Chan Siu Wing, Raymond
(appointed on 2 April 2009 and resigned on 7 April 2010)
Mr. Lum Pak Sum
(appointed on 28 April 2009)
Mr. Ho Lic Ki
(appointed on 14 January 2010 and resigned on 9 April 2010)
Mr. Law Chun Choi
(appointed on 22 April 2010)
Mr. Mak Ka Wing, Patrick
(appointed on 22 April 2010)

## PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## PUBLICATION OF OTHER FINANCIAL INFORMATION

Other financial information containing all the information required by paragraphs 45(1) to 45(3) (both paragraphs inclusive) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board
**Karce International Holdings Company Limited**
**Sun Ying Chung**
*Chairman*

Hong Kong, 28 April 2010

*As at the date of this announcement, the Board consists of three executive directors, Mr. Sun Ying Chung, Mr. Chan Sung Wai and Mr. Wong King Lam, Joseph, two non-executive directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey, and three independent non-executive directors, Mr. Lum Pak Sum, Mr. Law Chun Choi and Mr. Mak Ka Wing, Patrick.*