THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other appropriate independent adviser.

If you have sold or transferred all your shares in Karce International Holdings Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰 盛 實 業 集 團 有 限 公 司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN AND SHAREHOLDER'S LOANS DUE FROM HABERMANN LIMITED, JOYHAM JADE LIMITED, SABIC ELECTRONIC LIMITED AND XINYU ELECTRONICS LIMITED; (2) CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF THE SGM

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

大華證券(香港)有限公司
GRAND CATHAY SECURITIES (HONG KONG) LIMITED

A notice convening the SGM of the Company to be held at Crystal Room VI, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Friday, 17 October, 2008, at 3:00 p.m. is set out on pages N-1 to N-2 of this circular. Whether or not you are able to attend and vote at the aforesaid SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

30 September 2008

** For identification purpose only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Announcement"	the announcement dated 22 May 2008 made by the Company, in relation to, among other things, the Disposal and the Supply Transactions
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business
"BVI"	the British Virgin Islands
"Company"	Karce International Holdings Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the proposed disposal of the Disposal Sale Shares and the assignment of the Disposal Sale Debts, subject to the terms and conditions of the Disposal Agreement
"Disposal Agreement"	the conditional sale and purchase agreement dated 2 May 2008 entered into between Redditch and Extract Group in relation to the Disposal
"Disposal Completion"	the completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
"Disposal Completion Date"	the date of the Disposal Completion in accordance with the terms and conditions of the Disposal Agreement
"Disposal Consideration"	the consideration for the Disposal Sale Shares and the Disposal Sale Debts payable by Extract Group to Redditch for the Disposal
"Disposal Group"	the Four BVI Companies and their subsidiaries

"Disposal Sale Debts"	amounting to approximately HK$63.8 million, being the net amount of the total non-trade accounts receivable and the total non-trade accounts payable by the members of the Disposal Group from and to the members of the Group (other than the members of the Disposal Group) as at 31 March 2008
"Disposal Sale Shares"	being the entire issued share capital of each of the Four BVI Companies
"Extract Group"	Extract Group Limited, a company incorporated in the BVI and solely owned by Mr. Tong, an executive Director and the chairman of the Company
"Four BVI Companies"	Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited, each of which being a company incorporated in the BVI with limited liability
"Grand Cathay"	Grand Cathay Securities (Hong Kong) Limited, a corporation licensed to carry on type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Supply Transactions
"Group"	collectively, the Company and its subsidiaries from time to time
"HKGAAP"	accounting principles generally accepted in Hong Kong
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising all independent non-executive Directors established by the Board to advise the Independent Shareholders regarding the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Tong and his associates, should they be interested in any Shares as at the date of the SGM

"Independent Third Party(ies)"	to the best of the directors' knowledge, information and belief having made all reasonable enquiry, third party(ies) (and its/their ultimate beneficial owner(s)) independent of the Company and connected persons of the Company
"Latest Practicable Date"	26 September 2008, being the latest practicable date for ascertaining certain information included in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Tong"	Mr. Tong Shek Lun, an executive Director and the chairman of the Company
"PRC"	the People's Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Redditch"	Redditch Enterprises Limited, a direct wholly-owned subsidiary of the Company
"Remaining Group"	the Group following the Disposal Completion
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company convened to be held on Friday, 17 October 2008 for the purpose of considering, and if thought fit, approving, among other things, the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holders of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules

"Supply Agreement"	the agreement dated 22 May 2008 entered into between Redditch and the Four BVI Companies in relation to the Supply Transactions
"Supply Transactions"	the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Remaining Group pursuant to the Supply Agreement
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

Executive Directors:
Mr. Tong Shek Lun
Ms. Ko Lai King, Kinny
Ms. Chung Wai Yu, Regina
Mr. Chim Kim Lun, Ricky
Mr. Cheng Kwok Hing, Andy

Non-executive Directors:
Mr. Lee Kwok Leung
Mr. Yang Yiu Chong, Ronald Jeffrey

Independent non-executive Directors:
Mr. Sun Yaoquan
Mr. Goh Gen Cheung
Mr. Wan Hon Keung

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business:
Units 1 and 2, 29th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

30 September 2008

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN AND SHAREHOLDER'S LOANS DUE FROM HABERMANN LIMITED, JOYHAM JADE LIMITED, SABIC ELECTRONIC LIMITED AND XINYU ELECTRONICS LIMITED; (2) CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF THE SGM

INTRODUCTION

On 22 May 2008, the Board announced in the Announcement that after trading hours on 30 April 2008, Sourcestar Profits Limited ("Sourcestar Profits") (as the purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as the warrantor of Sourcestar Profits) entered into a conditional acquisition agreement with China Eagle Development Limited, Fairtime International

* *For identification purposes only*

Limited, Chan Shun Yuen and Hsu Ming Shan, pursuant to which Sourcestar Profits has agreed to acquire, among others, the entire issued share capital of Pacific Choice Holdings Limited at a total consideration of HK$3,400 million (subject to adjustments, if any, as detailed in the Announcement).

The Board also announced in the Announcement that on 2 May 2008, Redditch (as the vendor), a direct wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Extract Group (as the purchaser), pursuant to which Extract Group conditionally agreed to purchase, and Redditch conditionally agreed to sell the Disposal Sale Shares and assign the Disposal Sale Debts, at an aggregate Disposal Consideration of HK$250 million payable in cash at Disposal Completion. On 22 May 2008, Redditch and the Four BVI Companies entered into the Supply Agreement for the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Remaining Group on a priority (but not exclusive) basis for the Disposal Group's production of its electronic products.

The acquisition as announced in the Announcement constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the Shareholders' approval under Chapter 14 of the Listing Rules. As set out in the Company's announcement dated 26 September 2008, an application has been made with the Stock Exchange for a waiver from strict compliance with Rule 14.38 of the Listing Rules and for a further extension of time to despatch the circular regarding the acquisition as announced in the Announcement to on or before 30 November 2008.

The Disposal constitutes a very substantial disposal transaction for the Company under Chapter 14 of the Listing Rules. As Extract Group is solely owned by Mr. Tong who is an executive Director and the chairman of the Company, Extract Group is a connected person of the Company under Chapter 14A of the Listing Rules and the Disposal therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal is subject to, among other things, approval by the Independent Shareholders at the SGM. The Disposal and the acquisition as announced in the Announcement are not inter-conditional with each other.

In addition, upon Disposal Completion, the Four BVI Companies will become wholly-owned subsidiaries of Extract Group and therefore the connected persons of the Company. The Supply Transactions, to be conducted pursuant to the Supply Agreement, will constitute continuing connected transactions for the Company, and with reference to the proposed annual cap amounts, will be subject to reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, to the best of the Company's knowledge after reasonable enquiry, Mr. Tong and his associates were not interested in any Shares. Should Mr. Tong or his associates hold any Shares as at the date of the SGM, Mr. Tong and his associates shall abstain from voting on the resolution to approve the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder at the SGM.

The purpose of this circular is to give you, among other information, (i) further details of the Disposal and the Supply Transactions; (ii) the recommendations of the Independent Board Committee in relation to the Disposal and the Supply Transactions; (iii) the advice of Grand Cathay to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Supply Transactions; and (iv) the notice of the SGM.

THE DISPOSAL AND CONNECTED TRANSACTION

The Disposal Agreement

Date

2 May 2008

Parties

Vendor:	Redditch Enterprises Limited, a directly wholly-owned subsidiary of the Company
Purchaser:	Extract Group Limited

Extract Group is an investment holding company solely owned by Mr. Tong, an executive Director and the chairman of the Company. Accordingly, Extract Group is a connected person of the Company under Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Extract Group and its ultimate beneficial owner and their respective associates was not interested in any Shares as at the Latest Practicable Date and has no prior transactions with the Company other than the Disposal.

Assets to be disposed of

The following assets are proposed to be disposed of:—

(i) the Disposal Sale Shares, being the entire issued share capital of each of the Four BVI Companies; and

(ii) the Disposal Sale Debts, representing the net amount of the total non-trade accounts receivable and the total non-trade accounts payable by the members of the Disposal Group from and to the members of the Group (other than the members of the Disposal Group) as at 31 March 2008.

For further information on the Disposal Group, please refer to the paragraph headed "Information on the Disposal Group" below.

Disposal Consideration

The aggregated Disposal Consideration for the Disposal Sale Shares and the Disposal Sale Debts is HK$250 million payable in cash at the Disposal Completion. The Disposal Sale Debts as at 31 March 2008 was approximately HK$63.8 million.

The Disposal Consideration was arrived at after arm's length negotiations between the parties with reference to the net assets value of the Disposal Group and the amount of the Disposal Sale Debts with a premium agreed between the parties.

Conditions precedent

The Disposal Completion is conditional upon, among other things, the following conditions being fulfilled (or waived) on or before 30 November 2008 (or such later date as may be agreed by the parties) (Note):

(i) the compliance of the Company of (or, as the case may be, obtaining of waiver from), where applicable, any requirement under the Listing Rules (including without limitation the obtaining of the approval from the Independent Shareholders in general meeting) as may be applicable in connection with the Disposal Agreement and the transactions contemplated thereby (including without limitation the Supply Agreement);

(ii) the Board having approved and authorized the execution and completion of the Disposal Agreement;

(iii) none of the warranties contained in the Disposal Agreement having been breached in any material respect (or, if capable of being remedied, not having been remedied) or being misleading or untrue in any material respect; and

(iv) all necessary approvals, consents, authorizations and licences (so far as are necessary) in connection with the transactions contemplated under the Disposal Agreement having been obtained from relevant parties.

Note:

As announced in the announcement of the Company dated 31 July 2008, Redditch and Extract Group have on 30 July 2008 agreed in writing that the long stop date for the fulfillment of the conditions precedent to the completion of the Disposal should be extended to 30 November 2008 (or such later date as the parties may agree in writing) ("Extended Long Stop Date").

All of the conditions are not waivable by Extract Group except for conditions (iii) and (iv). If any of the conditions has not been fulfilled or waived by Extract Group on or before the Extended Long Stop Date on 30 November 2008, or such later date as the parties may otherwise agree, the Disposal Agreement shall lapse and be terminated and no party to the Disposal Agreement shall have any liability under the Disposal Agreement (without prejudice to the rights of the parties in respect of any antecedent breaches). As at the Latest Practicable Date, none of the above conditions have been fulfilled or waived.

Disposal Completion

The Disposal Completion shall take place on the third Business Day following the date of the fulfillment (or, as the case may be, waiver) of the conditions precedent.

Depending on the future business risks and the potential benefits, the Board may consider realizing one of its two remaining business segments (i.e. the conductive silicon rubber keypads and the printed circuit boards) of the Company. As disclosed in the announcement of the Company dated 30 July 2008, the Company has entered into a non-binding term sheet on 30 July 2008 with, among others, a company listed on the Centrex Market of Nagoya Stock Exchange in Japan, in relation to a possible disposal of the printed circuit boards manufacturing business by the Group. On 12 September 2008, (i) China Ample Investments Limited (a company wholly and beneficially owned by the Company) ("**China Ample**") as vendor, (ii) KFE Hong Kong Co., Limited (a company wholly and beneficially owned by KFE Japan Co., Ltd.(a company incorporated in Japan whose shares are listed on the Nagoya Stock Exchange) ("**KFE Japan**")) ("**KFE Hong Kong**") as purchaser, and (iii) KFE Japan as warrantor of KFE Hong Kong, entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 26 September 2008), pursuant to which, among other things, China Ample has conditionally agreed to dispose of, and KFE Hong Kong has conditionally agreed to acquire, the entire issued share capital of Jet Master Limited (a wholly-owned subsidiary of China Ample and an indirect wholly-owned subsidiary of the Company) ("**Jet Master**") for a consideration of US$3,000,000. Jet Master and its wholly owned subsidiary are principally engaged in manufacture and sales of printed circuit boards and they are manufacturing arms of the Group for printed circuit boards business. Details of such disposal have been set out in the Company's announcement dated 26 September 2008.

No change in the members of the Board is currently contemplated as a result of the Disposal. Mr. Tong has no current intention to resign as a Director immediately following the Disposal Completion.

At present, each of the Four BVI Companies is a wholly-owned subsidiary of the Company and their respective financial results are consolidated into the Group's financial statements. Upon the Disposal Completion, each of the Four BVI Companies will cease to be a wholly-owned subsidiary of the Company. The Group will cease to consolidate the Four BVI Companies' financial results and the Group will no longer be engaged in the business of manufacture and marketing of electronic products (mainly electronic calculators and organizers).

Information on the Disposal Group

Each of the Four BVI Companies is an investment holding company incorporated in the BVI with limited liability, and together with their respective subsidiaries, is principally engaged in the manufacture and marketing of electronic products (mainly electronic calculators and organizers).

Based on the financial information of the Group as set out in Appendix I to this circular, the combined audited financial information of the Disposal Group for the two financial years ended 31 December 2006 and 2007 prepared in accordance with HKGAAP (after taking into account the adjustment made for the eliminations of inter-company transactions within the Disposal Group) are as follows:—

	Year ended 31 December 2007 *HK$'000* *(audited)*	**Year ended 31 December 2006** *HK$'000* *(audited)*
Turnover	541,900	478,675
Profit before taxation	45,887	25,624
Profit after taxation and minority interest	44,644	23,930

The Disposal Group recorded profit before taxation of approximately HK$45.9 million and profit after taxation and minority interest of approximately HK$44.6 million for the year ended 31 December 2007, mainly because of an adjustment in respect of waiver of debts on inter-company balances of approximately HK$66.6 million.

As at 31 March 2008, the Disposal Group recorded combined audited consolidated net assets value (including the Disposal Sale Debts) of approximately HK$168.8 million.

Reasons for and benefits of the Disposal

The Group is principally engaged in the production and sale of electronic products on both “Original Design Manufacturing” and “Original Equipment Manufacturing” basis. In addition, it also produces conductive silicon rubber keypads for use in the production of electronic calculators, electronic organizers, mobile phones and audio visual products, and manufactures printed circuit boards. Based on the latest audited financial statement of the Company, for the year ended 31 December 2007, revenues for the electronic products division, conductive silicon rubber keypads division and the printed circuit board division were approximately HK$541,900,000, HK$114,051,000 and HK$127,081,000 respectively. Respective operating losses for the financial year ended 31 December 2007 for the above divisions were approximately HK$8,594,000 (excluding the change in fair value of derivative financial instrument and the management fee paid to the Company), HK$49,000 and HK$13,421,000 respectively.

For the past three years, profit margins of the electronic products segment had been under pressure as both material and manufacturing costs increased. The Disposal would enable the Group to sell out businesses which are non-performing, and in return, realize cash of approximately HK$250 million which can be deployed for the Group’s existing business and other investment opportunities, such as the acquisition as announced in the Announcement.

The Directors consider that it is a prudent decision to realize part of the Group’s assets and investment through the Disposal so as to balance its possible risk and raise funds for business expansion and development. Upon the Disposal Completion, the Group can enhance its liquidity and improve the cash flow within a relatively short period of time. On the other hand, the Directors note that it may be difficult for the Company to seek an Independent Third Party to acquire the Disposal Group within a short period of time, while Mr. Tong is willing to acquire the Disposal Group at a premium over the sum of the net assets value of the Disposal Group and the Disposal Sale Debts. Accordingly, the Directors consider that it is in the interests of the Company and the Shareholders as a whole to adopt a management buy-out method to dispose the Disposal Group to Mr. Tong.

The Directors are of the view that the terms of the Disposal Agreement are on normal commercial terms, which are fair and reasonable and the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole.

Financial effect of the Disposal and the use of proceeds

Based on the unaudited pro forma financial information as set out in Appendix II to this circular, assuming the Disposal Completion took place on 31 December 2007, the Group's net assets value attributable to equity holders of the Company as at 31 December 2007 would be increased by approximately HK$39 million (as a result of the decrease in total assets and liabilities of approximately HK$174 million and approximately HK$213 million respectively). Assuming the Disposal Completion took place on 1 January 2007, the Group's loss attributable to equity holders of the Company for the year ended 31 December 2007 would be changed to profit attributable to equity holders of the Company to approximately HK$17 million, deriving mainly from a gain on disposal of approximately HK$60 million with reference to the combined unaudited consolidated net assets (including the Disposal Sale Debts) of the Disposal Group as at 31 December 2007 of approximately HK$153 million, the amount of the Disposal Sale Debts as at 31 December 2007 of approximately HK$58 million, release of exchange reserve of approximately HK$21 million and the Disposal Consideration. The details of the financial effect of the Disposal on the financial position and results of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix II to this circular.

The net sale proceeds of the Disposal after deducting all necessary charges for the Disposal of approximately HK$250 million are intended to be used for the Group's existing business, as general working capital and for the Group's other investment opportunities, such as the acquisition as announced in the Announcement. As at the Latest Practicable Date, the breakdown for the intended use of the net sale proceeds of the Disposal has not been determined by the Company and there are no other investment opportunities identified by the Company save for the acquisition as announced in the Announcement.

SUPPLY TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

On 22 May 2008, Redditch and the Four BVI Companies entered into the Supply Agreement for a term expiring on 31 December 2010 for the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Remaining Group on a priority (but not exclusive) basis for the Disposal Group's production of its electronic products. Upon the Disposal Completion, the Four BVI Companies will become wholly-owned subsidiaries of Extract Group and therefore the connected persons of the Company. The Supply Transactions, to be conducted pursuant to the Supply Agreement, will constitute continuing connected transactions for the Company.

In any event, the terms of the Supply Transactions shall be either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to Independent Third Parties.

Based on the record of the Group, during each of the three years ended 31 December 2005, 2006 and 2007, the supply of conductive silicon rubber keypads by the Group to the Disposal Group amounted to approximately HK$12.5 million, approximately HK$13.4 million and approximately HK$16.5 million respectively and the supply of printed circuit boards by the Group to the Disposal Group amounted to approximately HK$20.1 million, approximately HK$25.7 million and approximately HK$28.2 million respectively, showing a steady growth rate. It is proposed that the annual caps for the Supply Transactions under the Supply Agreement for the three years ending 31 December 2008, 2009 and 2010 will be HK$18.2 million, HK$20.0 million and HK$22 million respectively for the supply of conductive silicon rubber keypads and HK$31.0 million, HK$34.1 million and HK$37.5 million respectively for the supply of printed circuit boards. The proposed annual caps are determined with reference to the historical transaction figures of the Group for the past three years from 2005 to 2007 and an expected steady annual growth rate of approximately 10% based on current market condition.

Accordingly, the entering into of the Supply Agreement will allow the Remaining Group to continue to generate stable turnover to its existing business.

The Directors are of the view that the proposed annual caps in respect of the Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned, the terms of the Supply Transactions are based on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES REQUIREMENTS

The Disposal constitutes a very substantial disposal transaction for the Company under Chapter 14 of the Listing Rules. As Extract Group is solely owned by Mr. Tong who is an executive Director and the chairman of the Company, Extract Group is a connected person of the Company under Chapter 14A of the Listing Rules and the Disposal therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal is subject to, among other things, approval by the Independent Shareholders at the SGM.

In addition, upon Disposal Completion, the Four BVI Companies will become wholly-owned subsidiaries of Extract Group and therefore the connected persons of the Company. The Supply Transactions, to be conducted pursuant to the Supply Agreement, will constitute continuing connected transactions for the Company, and with reference to the proposed annual cap amounts, will be subject to reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, to the best of the Company's knowledge after reasonable enquiry, Mr. Tong and his associates were not interested in any Shares. Should Mr. Tong or his associates hold any Shares as at the date of the SGM, Mr. Tong and his associates shall abstain from voting on the resolution to approve the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder at the SGM.

SGM

The SGM will be held at Crystal Room VI, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Friday, 17 October, 2008, at 3:00 p.m. to consider and, if thought fit, approve, among other matters, the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder.

A notice convening the SGM is set out on pages N-1 to N-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment meeting thereof if you so wish.

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

Pursuant to the bye-laws of the Company, at any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by a poll is required by the rules of the designated stock exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of the meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(e) by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five percent or more of the total voting rights at the meeting.

A demand by a person as proxy for a member or in the case of a member being a corporate by its duly authorised representative shall be deemed to be the same as a demand by a member.

RECOMMENDATION

The Directors consider that the terms of the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Grand Cathay and the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Karce International Holdings Company Limited
Tong Shek Lun
Chairman and Managing Director

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

30 September 2008

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN AND SHAREHOLDER'S LOANS DUE FROM HABERMANN LIMITED, JOYHAM JADE LIMITED, SABIC ELECTRONIC LIMITED AND XINYU ELECTRONICS LIMITED; (2) CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF THE SGM

We refer to the circular of the Company dated 30 September 2008 (the "Circular"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Disposal Agreement, the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Grand Cathay has been appointed as the independent financial adviser to advise us and you regarding the terms of the Disposal Agreement, the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 16 to 23 of the Circular. Your attention is also drawn to the letter from the Board as set out on pages 5 to 13 of the Circular and the additional information set out in the appendices to the Circular.

* *For identification purposes only*

Having considered the terms of the Disposal Agreement and the Supply Agreement, the principal factors and reasons considered by, and the advice of Grand Cathay as set out in its letter of advice, we consider that the terms of the Disposal Agreement, the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Disposal Agreement, the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Sun Yaoquan	**Mr. Goh Gen Cheung**	**Mr. Wan Hon Keung**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Grand Cathay to the Independent Board Committee and the Independent Shareholders in connection with the Disposal and the Supply Transactions, which has been prepared for the purpose of incorporation in this circular.

大華證券(香港)

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30 September 2008

To the Independent Board Committee
and the Independent Shareholders

Karce International Holdings Company Limited
Units 1 and 2, 29th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal and the Supply Transactions particular of which are set out in the section headed "Letter from the Board" (the "Letter") in the Company's circular dated 30 September 2008 (the "Circular") to the Shareholders, of which this letter forms apart. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 2 May 2008, Redditch (as the vendor), a direct wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Extract Group (as the purchaser), pursuant to which Extract Group conditionally agreed to purchase, and Redditch conditionally agreed to sell the Disposal Sale Shares and assign the Disposal Sale Debts, at an aggregate Disposal Consideration of HK$250 million payable in cash at Disposal Completion.

The Disposal Group is principally engaged in the manufacture and marketing of electronic products (mainly electronic calculators and organizers).

The Disposal constitutes a very substantial disposal transaction for the Company under Chapter 14 of the Listing Rules. As Extract Group is solely owned by Mr. Tong who is an executive Director and the chairman of the Company, Extract Group is a connected person of the Company under Chapter 14A of the Listing Rules and the Disposal therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal is subject to, among other things approval by the Independent Shareholders at the SGM. As at Latest Practicable Date, to the best of the Company's knowledge after reasonable enquiry, Mr. Tong and his associates were not interested in any Shares. Should Mr. Tong or his associates hold any Shares as at the date of the SGM, Mr. Tong and his associates shall abstain from voting on the resolution to approve the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder at the SGM. The vote will be taken by poll.

On 22 May 2008, Redditch and the Four BVI Companies entered into the Supply Agreement for the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Remaining Group on a priority (but not exclusive) basis for the Disposal Group's production of its electronic products. Upon Disposal Completion, the Four BVI Companies will become wholly-owned subsidiaries of Extract Group and therefore the connected persons of the Company. The Supply Transactions, to be conducted pursuant to the Supply Agreement, will constitute continuing connected transactions for the Company, and with reference to the proposed annual caps, will be subject to reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, to the best of the Company's knowledge after reasonable enquiry, Mr. Tong and his associates were not interested in any Shares. Should Mr. Tong or his associates hold any Shares as at the date of the SGM, Mr. Tong and his associates shall abstain from voting on the resolution to approve the Disposal Agreement, the Supply Agreement and the transactions contemplated thereunder at the SGM. The vote will be taken by poll.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Wan Hon Keung, has been established to advise the Independent Shareholders regarding the terms of the Disposal and the Supply Transactions. We, Grand Cathay, have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Disposal Agreement, the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion and representations contained or referred to in the Circular and all information, opinion and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information, opinion and representations contained in the Circular and provided to us by the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Director. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information, opinions and representations, but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal and Supply Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Disposal and the Supply Transactions, we have considered the following principal factors and reasons.

A. Disposal

1. Background of the Group and the Disposal

The Group is principally engaged in the production and sale of electronic products on both “Original Design Manufacturing” and “Original Equipment Manufacturing” basis. In addition, it also produces conductive silicon rubber keypads for use in the production of electronic calculators, electronic organizers, mobile phones and audio visual products, and manufactures printed circuit boards.

Set out below is a summary of turnover and profit of the Group for the two financial years ended 31 December 2007:

	Financial year ended 31 December	
(HK$’000)	**2007**	**2006**
Turnover	735,114	705,859
(loss)/profit for the year	(64,750)	2,431

According to the Letter, each of the Four BVI Companies is an investment holding company incorporated in the BVI with limited liability, and together with their respective subsidiaries, is principally engaged in the manufacture and marketing of electronic products (mainly electronic calculators and organizers).

The combined audited financial information of the Disposal Group for the two financial years ended 31 December 2006 and 2007 prepared in accordance with HKGAAP (after taking into account the adjustment made for the eliminations of inter-company transactions within the Disposal Group) are as follows:

	Financial year ended 31 December	
(HK$'000)	**2007**	**2006**
Turnover	541,900	478,675
Profit before taxation	45,887	25,624
Profit after taxation and minority interest	44,644	23,930

The Disposal Group recorded profit before taxation of approximately HK$45.9 million and profit after taxation and minority interest of approximately HK$44.6 million for the year ended 31 December 2007, mainly because of an adjustment in respect of waiver of debts on inter company balances of approximately HK$66.6 million.

As at 31 March 2008, the Disposal Group recorded combined audited consolidated net assets (including the Disposal Sale Debts) of approximately HK$168.8 million.

2. Reasons for and benefits of the Disposal

As stated in the Letter, for the pass three years, profit margins of the electronic products segment had been under pressure as both material and manufacturing costs increased. The Disposal would enable the Group to sell out businesses which are non-performing, and in return, realize cash of approximately HK$250 million which can be deployed for the Group's existing businesses and other investment opportunities. The Directors also consider that through the Disposal, the Group can raise funds for business expansion and development and it is the Group's policy to broaden the revenue base of the Group by investing in potential investment opportunities, such as the proposed acquisition as announced in the Announcement (the "Acquisition").

According to the management of the Company and the Company's annual report for the financial year 2007 (the "Annual Report"), revenues from the Group's electronic products division (exclude the inter-segment sales) for financial years 2005, 2006 and 2007 were approximately HK$419.7 million, HK$476.6 million and HK$538.6 million respectively which represents an increase of approximately 13.6% for the financial year 2006 and 13.0% for the financial year 2007 respectively. The result of the aforesaid segment for the same corresponding period were approximately HK$48.1 million, HK$33.9 million and loss of HK$8.6 million respectively. The profit margin decreased from approximately 11.5% in financial year 2005 to approximately 7% in financial year 2006 and further deteriorated to negative in financial year 2007. As stated in the Annual Report and according to the Directors, the loss of the Group's electronic products segment was mainly due to the increase of the cost of production as the material cost increased by approximately 27.2%, the labour cost increased by approximately 22.3%, electricity increased by approximately 7.4% and transportation costs increased by approximately 9.4%. Based on the above, we are of the view that the Disposal can enable the Group to sell out businesses which are non-performing, and in return, realize cash of approximately HK$250 million.

Based on the above, we are of the view and concur with the view of the Directors that the Disposal would enable the Group to sell out businesses which are non-performing and in return, realize cash of approximately HK$250 million which can be deployed for the Group's existing business and other potential investment opportunities which can broaden the revenue base of the Group, such as the Acquisition.

3. *Disposal Consideration*

As stated in the Letter, the Disposal Consideration was arrived at after arm's length negotiations between the parties with reference to the net assets value of the Disposal Group and the amount of the Disposal Sale Debts with a premium agreed between the parties. As stated in the Letter, according to the unaudited pro forma financial information as set out in Appendix II to this circular, assuming the Disposal Completion took place on 31 December 2007, the Group's net assets value attributable to equity holders of the Company as at 31 December 2007 would be increased by approximately HK$39.3 million (as a result of the decrease in total assets and liabilities of approximately HK$173.4 million and approximately HK$212.7 million respectively). Assuming the Disposal Completion took place on 1 January 2007, the Group's loss attributable to equity holders of the Company for the year ended 31 December 2007 would be changed to profit attributable to equity holders of the Company to approximately HK$17 million, deriving mainly from a gain on disposal of approximately HK$60 million with reference to the combined unaudited consolidated net assets (including the Disposal Sale Debts) of the Disposal Group as at 31 December 2007 of approximately HK$153 million, the amount of the Disposal Sale Debts as at 31 December 2007 of approximately HK$58 million, release of exchange reserve of approximately HK$21 million and the Disposal Consideration. Based on the above, we are of the view and concur with the view of the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

4. *Financial effects of the Disposal to the Group*

(a) Net Asset

According to the Report on Unaudited Pro Forma Financial Information as stated in Appendix II of the Circular (the "Pro Forma Financial Information"), the net assets value of the Remaining Group would increase by approximately HK$39.3 million to approximately HK$414.3 million immediately after the Disposal Completion.

(b) Gearings

According to the Pro Forma Financial Information, the gearing ratio (Total liabilities/Total assets) of the Group as at 31 December 2007 was approximately was approximately 44.0%. Upon the Disposal Completion, the gearing ratio of the Remaining Group would substantially decrease to approximately 16.5%.

(c) Working capital

According to the Pro Form Financial Information, upon Disposal Completion, the bank balances and cash of the Remaining Group would increase by approximately HK$210.9 million to approximately HK$264.1 million immediately after the Disposal Completion.

Taking into account the above financial effects, we consider that the Disposal is in the interests of the Company and the Shareholders as a whole and that the terms of the Disposal are fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

5. Recommendation

Takings into account the factors and reasons as mentioned above including (i) the reason for and benefit of the Disposal; and (ii) the Disposal Consideration; and (iii) the financial effect of the Disposal to the Group, we are of the opinion that the terms of the Disposal are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend, and advise the Independent Board Committee to recommend, the Independent Shareholders to vote in favour of the ordinary resolution to approve the Disposal and the transaction contemplated thereunder at the SGM.

B. SUPPLY TRANSACTIONS

1. Background of the Supply Transactions

As stated in the Letter, on 22 May 2008, Redditch and the Four BVI Companies entered into the Supply Agreement for a term expiring on 31 December 2010 for the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Remaining Group on a priority (but not exclusive) basis for the Disposal Group's production of its electronic products. Upon the Disposal Completion, the Four BVI Companies will become wholly-owned subsidiaries of the Extract Group and therefore the connected persons of the Company. The Supply Transactions, to be conducted pursuant to the Supply Agreement, will constitute continuing connected transactions for the Company.

According to the Directors and as stated in the Letter, in any event, the terms of the Supply Transactions shall be either on normal commercial terms, or if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to the Independent Third Parties.

2. Terms of the Supply Transactions

In order to assess whether the Supply Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms, we have reviewed (i) the purchase order from the Four BVI Companies to the Group regarding the purchase of conductive silicon rubber keypads and printed circuit boards for the six months ended 31 December 2007; (ii) the purchase order from Independent Third Parties to the Group regarding the purchase of conductive silicon rubber keypads and printed circuit boards for the six months ended 31 December 2007. We have compared the unit price of conductive silicon rubber keypads and printed circuit boards and payment terms of purchase order from (i) the Four BVI Companies and (ii) the Independent Third Parties as stated above and noted that the unit price and payment terms of purchase order from the Four BVI Companies were comparable to those of Independent Third Parties. Therefore, we are of the opinion that the terms of the transactions under the Supply Transactions are no more favourable than those transactions to other Independent Third Parties.

In addition, according to the Directors, the management of the Group would compare the terms of the purchase orders from the Four BVI Companies to other Independent Third Parties on time to time within the terms of the Supply Agreement to ensure that the terms of the purchase orders from the Four BVI Companies are not more favourable than that of other Independent Third Parties.

Based on the above, we are of the view and concur with the views of the Directors that the Supply Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable and is in the interest of the Group and the Shareholders as a whole.

3. The annual caps of the Supply Agreement

According to the Directors and as stated in the Letter, during each of the three years ended 31 December 2005, 2006 and 2007, the supply of conductive silicon rubber keypads by the Group to the Disposal Group amounted to approximately HK$12.5 million, approximately HK$13.4 million and approximately HK$16.5 million respectively, showing an average growth rate of approximately 14.9% per annum and the supply of printed circuit boards by the Group to the Disposal Group amounted to approximately HK$20.1 million, approximately HK$25.7 million and approximately HK$28.2 million respectively, showing an average growth rate of approximately 18.4% per annum.

As stated in the Letter, the proposed annual caps for the Supply Transactions under the Supply Agreement for the three years ending 31 December 2008, 2009 and 2010 will be HK$18.2 million, HK$20.0 million and HK$22 million respectively for the supply of conductive silicon rubber keypads and HK$31.0 million, HK$34.1 million and HK$37.5 million respectively for the supply of printed circuit boards. The proposed annual caps as stated above, according to the management of the Company, are determined with reference to the historical transaction figures of the Group for the past three years from 2005 to 2007 and an expected steady annual growth rate of approximately 10% based on current market condition.

In order to assess the fairness of the annual caps of the Supply Agreement, we have (i) reviewed the purchase orders from the Four BVI Companies regarding the conductive silicon rubber keypads and printed circuit boards for six months ended 30 June 2008; (ii) reviewed the historical trading record between the Four BVI Companies and the Group (excluding the Disposal Group) as stated above; and (iii) consider the expected steady annual growth rate of approximately 10% with reference to the current economic condition. In view of the above, we are of the view that the annual caps of the Supply Agreement is justificable.

4. Recommendation

Taking into account the factors and reasons as mentioned above, we are of the opinion that the entering of the Supply Agreement is in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend, and advise the Independent Board Committee to recommend, the Independent Shareholders to vote in favour of the ordinary resolution to approve the Supply Agreement (including the relevant annual caps) and the transactions contemplated thereunder at the SGM.

Yours faithfully,
For and on behalf of
Grand Cathay Securities (Hong Kong) Limited

Kim Chan
Director

Kevin Chan
Director

1. THE ACCOUNTANTS' REPORT OF THE GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND EACH OF THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2005, 2006 AND 2007

The following is the text of an accountants' report of the Group for the three months ended 31 March 2008 and each of the three years ended 31 December 2005, 2006 and 2007 received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, the independent reporting accountants, for the purpose of incorporation in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2008

The Directors
Karce International Holdings Company Limited
Units 1 and 2, 29th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
HONG KONG

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Karce International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the consolidated balance sheets of the Group as at 31 December 2005, 2006 and 2007 and 31 March 2008, the consolidated income statements, the consolidated cash flow statements and the consolidated statements of changes in equity of the Group for each of the three years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008 (hereinafter collectively referred to as the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes, for inclusion in the circular of the Company dated 30 September 2008 in connection with a very substantial disposal and connected transaction of the Group (the "Circular").

The Company is a public listed company incorporated in Bermuda on 8 July 1997 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company and its subsidiaries are principally engaged in investment holding, manufacture and sale of electronic products, conductive silicon rubber keypads and printed circuit boards.

On 2 May 2008, Redditch Enterprises Limited ("Redditch"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Disposal Agreement") with Extract Group Limited (the "Purchaser"), pursuant to which the Purchaser conditionally agreed to purchase, and Redditch conditionally agreed to sell (i) the entire issued share capital of Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited (the "Disposal Sale Shares") with their respective subsidiaries (collectively referred as the "Disposal Group"); and (ii) the net amount of the total non-trade accounts receivable and the total non-trade accounts payable by the members of the Disposal Group from and to the members of the Group (other than the members of the Disposal Group) as at 31 March 2008 (the "Disposal Sale Debts") at an aggregate consideration of HK$250 million payable in cash (the "Disposal Consideration") (collectively referred as the "Disposal").

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the financial statements for the Relevant Periods, on the basis set out in Note 3 to the Financial Information. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

At the date of this report, the Company has direct and indirect interests in its subsidiaries as set out in Note 37 to the Financial Information. Deloitte Touche Tohmatsu has acted as auditors of the Company and has audited the consolidated financial statements of the Group for the years ended 31 December 2005, 2006 and 2007.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Scope limitation — Valuation on the derivative financial instruments as at 31 March 2008 and recognition of the change in fair values of the derivative financial instruments for the three months ended 31 March 2008

Due to the significance of possible effects arising from the limitations in evidences available to us, we were unable to obtain sufficient audit evidence or to perform alternative audit procedures to fully assess the fair values of the derivative financial assets and liabilities of approximately HK$6,726,000 and HK$26,479,000 respectively as stated in the consolidated balance sheet as at 31 March 2008. Without obtaining sufficient valuations on the derivatives financial instruments, we were also unable to ascertain the gain of approximately HK$515,000 in relation to the change in fair values of certain derivative financial instruments for the three months ended 31 March 2008.

Any adjustments in relation to the above would have a consequential impact on the Group's net assets as at 31 March 2008 and the results for the three months ended 31 March 2008.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessarily had we able to satisfy ourselves as to the fair values of derivative financial assets and liabilities as at 31 March 2008 and change in fair values in respect of the derivative financial instruments for the period ended 31 March 2008, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2005, 2006 and 2007 and 31 March 2008 and of its results of operations and cash flows for the period then ended in accordance with HKFRSs.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the unaudited financial information of the Group including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the three months ended 31 March 2007 (the "Comparative Unaudited Financial Information"), together with the notes thereto.

For the Financial Information for the three months ended 31 March 2007, our responsibility is to express a conclusion on the Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the Comparative Unaudited Financial Information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

BASIS FOR QUALIFIED CONCLUSION

Due to the significant limitation of information in relation to the valuation of derivative financial instruments, the Company was not able to ascertain the change in fair value of derivative financial instruments for the three months ended 31 March 2007. As a result, we were unable to perform any review procedures on the change in fair value of derivative financial instruments for the three months ended 31 March 2007. Such limitation would have a consequential impact on the Group's results for the three months ended 31 March 2007.

QUALIFIED CONCLUSION

Based on our review, which does not constitute an audit, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying Comparative Unaudited Financial Information, for the purpose of this report, is not presented fairly, in all material respects, in accordance with the accounting policies set out in Notes to the Financial Information below which are in conformity with HKFRSs.

A. FINANCIAL INFORMATION

I. CONSOLIDATED INCOME STATEMENTS

		Years ended 31 December			Three months ended 31 March	
		2005	**2006**	**2007**	**2007**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Revenue	*4*	647,004	705,859	735,114	170,558	201,033
Cost of sales		(522,049)	(585,383)	(664,381)	(145,300)	(188,013)
Gross profit		124,955	120,476	70,733	25,258	13,020
Other revenue and income	*5*	6,626	4,616	2,365	244	725
Selling and distribution costs		(11,287)	(12,362)	(18,659)	(2,743)	(4,546)
Administrative expenses		(85,910)	(88,132)	(82,200)	(21,990)	(23,044)
Finance costs	*6*	(3,622)	(3,603)	(4,626)	(912)	(1,399)
(Loss)/gain on fair value change of investment properties	*12*	(1,109)	1,090	3,252	105	—
Gain on disposal of a subsidiary	*28*	2,227	—	—	—	
Gain on deemed disposal of interest in an associate	*29*	1,106	—	—	—	—
Gain/(loss) on fair value change of derivative financial instruments		1,234	(585)	(5,683)	(676)	515
Impairment loss on available-for-sale investment		—	(17,000)	(28,008)	(3,632)	(21,635)
Share of loss of an associate		(5,453)	—	—	—	—
Profit/(loss) before taxation	*8*	28,767	4,500	(62,826)	(4,346)	(36,364)
Taxation	*9*	(731)	(2,069)	(1,924)	(638)	(1,041)
Profit/(loss) for the year/period		28,036	2,431	(64,750)	(4,984)	(37,405)
Dividend	*10*	5,508	5,460	5,444	—	—
Earnings/(loss) per share						
— Basic (HK cents)	*11*	5.09 cents	0.44 cents	(11.89 cents)	(0.92 cents)	(5.73 cents)
— Diluted (HK cents)	*11*	5.02 cents	N/A	N/A	N/A	N/A

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of the Financial Information.

II. CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 31 March
		2005	2006	2007	2008
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Investment properties	*12*	61,241	63,542	71,579	75,556
Property, plant and equipment	*13*	222,551	237,195	252,095	259,277
Prepaid lease payments	*14*	17,775	17,573	18,046	18,668
Available-for-sale investment	*15*	95,345	54,079	—	—
Club debenture	*16*	1,180	1,180	1,180	1,180
		398,092	373,569	342,900	354,681
Current assets					
Inventories	*17*	72,865	107,315	129,030	108,387
Trade and other receivables	*18*	116,877	120,405	109,277	134,846
Available-for-sale investment	*15*	—	—	29,541	1,891
Derivative financial instruments	*19*	—	279	5,543	6,726
Amount due from a related company	*20*	7,806	—	—	—
Bank balances and cash	*21*	92,064	65,890	53,179	85,809
		289,612	293,889	326,570	337,659
Current liabilities					
Trade and other payables	*22*	147,599	163,960	171,153	180,642
Derivative financial instruments	*19*	—	2,311	22,734	26,479
Tax liabilities		22,201	20,715	18,651	19,639
Obligations under finance leases — due within one year	*23*	6,573	5,875	3,714	3,444
Bank loans — due within one year	*24*	23,000	12,833	46,494	47,386
		199,373	205,694	262,746	277,590
Net current assets		90,239	88,195	63,824	60,069
Total assets less current liabilities		488,331	461,764	406,724	414,750

II. CONSOLIDATED BALANCE SHEETS *(Continued)*

		As at 31 December			As at 31 March
		2005	**2006**	**2007**	**2008**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital and reserves					
Share capital	*25*	55,078	54,436	54,436	65,236
Reserves		386,368	362,051	320,595	321,655
Total equity		441,446	416,487	375,031	386,891
Non-current liabilities					
Obligations under finance leases					
— due after one year	*23*	3,787	5,528	1,887	1,110
Bank loans					
— due after one year	*24*	24,500	20,084	9,164	4,964
Deferred tax liabilities	*27*	18,598	19,665	20,642	21,785
		46,885	45,277	31,693	27,859
		488,331	461,764	406,724	414,750

The accompanying notes form an integral part of the Financial Information.

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note a)*	Special reserve *HK$'000* *(Note b)*	Statutory reserves *HK$'000* *(Note c)*	Asset revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2005	55,078	82,364	35,597	19,487	6,553	46,566	—	913	922	146,096	393,576
Revaluation surplus on buildings	—	—	—	—	—	2,850	—	—	—	—	2,850
Deferred tax on revaluation of buildings	—	—	—	—	—	(793)	—	—	—	—	(793)
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	2,607	—	—	2,607
Gain on fair value change of available-for-sale investment	—	—	—	—	—	—	20,796	—	—	—	20,796
Net income recognised directly in equity	—	—	—	—	—	2,057	20,796	2,607	—	—	25,460
Released on disposal of a subsidiary	—	—	—	—	—	—	—	(118)	—	—	(118)
Profit for the year	—	—	—	—	—	—	—	—	—	28,036	28,036
Total recognised income and expense for the year	—	—	—	—	—	2,057	20,796	2,489	—	28,036	53,378
Final dividend for 2004 paid	—	—	—	—	—	—	—	—	—	(5,508)	(5,508)
At 31 December 2005 and at 1 January 2006	55,078	82,364	35,597	19,487	6,553	48,623	20,796	3,402	922	168,624	441,446
Revaluation surplus on buildings	—	—	—	—	—	1,487	—	—	—	—	1,487
Deferred tax on revaluation of buildings	—	—	—	—	—	(402)	—	—	—	—	(402)
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	3,326	—	—	3,326
Loss on fair value change of available-for-sale investment	—	—	—	—	—	—	(41,266)	—	—	—	(41,266)
Impairment loss on available-for-sale investment realised	—	—	—	—	—	—	17,000	—	—	—	17,000
Net income recognised directly in equity	—	—	—	—	—	1,085	(24,266)	3,326	—	—	(19,855)
Profit for the year	—	—	—	—	—	—	—	—	—	2,431	2,431
Total recognised income and expense for the year	—	—	—	—	—	1,085	(24,266)	3,326	—	2,431	(17,424)
Final dividend for 2005 paid	—	—	—	—	—	—	—	—	—	(5,460)	(5,460)
Share repurchased and cancelled	(642)	—	—	—	—	—	—	—	642	(2,075)	(2,075)

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

	Attributable to equity holders of the parent										
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000* *(Note a)*	**Special reserve** *HK$'000* *(Note b)*	**Statutory reserves** *HK$'000* *(Note c)*	**Asset revaluation reserve** *HK$'000*	**Investment revaluation reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Capital redemption reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 31 December 2006 and at 1 January 2007	54,436	82,364	35,597	19,487	6,553	49,708	(3,470)	6,728	1,564	163,520	416,487
Revaluation surplus on buildings	—	—	—	—	—	1,218	—	—	—	—	1,218
Deferred tax on revaluation of buildings	—	—	—	—	—	(329)	—	—	—	—	(329)
Attributable to change in tax rate	—	—	—	—	—	1,352	—	—	—	—	1,352
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	23,027	—	—	23,027
Loss on fair value change of available-for-sale investment	—	—	—	—	—	—	(24,538)	—	—	—	(24,538)
Impairment loss on available-for-sale investment realised	—	—	—	—	—	—	28,008	—	—	—	28,008
Net income recognised directly in equity	—	—	—	—	—	2,241	3,470	23,027	—	—	28,738
Loss for the year	—	—	—	—	—	—	—	—	—	(64,750)	(64,750)
Total recognised income and expense for the year	—	—	—	—	—	2,241	3,470	23,027	—	(64,750)	(36,012)
Final dividend for 2006 paid	—	—	—	—	—	—	—	—	—	(5,444)	(5,444)
At 31 December 2007 and at 1 January 2008	54,436	82,364	35,597	19,487	6,553	51,949	—	29,755	1,564	93,326	375,031
Revaluation surplus on buildings	—	—	—	—	—	—	—	—	—	—	—
Deferred tax on revaluation of buildings	—	—	—	—	—	—	—	—	—	—	—
Issue of shares	10,800	20,511	—	—	—	—	—	—	—	—	31,311
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	17,954	—	—	17,954
Net income recognised directly in equity	10,800	20,511	—	—	—	—	—	17,954	—	—	49,265
Loss for the period	—	—	—	—	—	—	—	—	—	(37,405)	(37,405)
Total recognised income and expense for the period	10,800	20,511	—	—	—	—	—	17,954	—	(37,405)	11,860
At 31 March 2008	65,236	102,875	35,597	19,487	6,553	51,949	—	47,709	1,564	55,921	386,891

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

For the three months ended 31 March 2007 (Unaudited)

	Attributable to equity holders of the parent										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(Note a)*	Special reserve *HK$'000* *(Note b)*	Statutory reserves *HK$'000* *(Note c)*	Asset revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2007	54,436	82,364	35,597	19,487	6,553	49,708	(3,470)	6,728	1,564	163,520	416,487
Revaluation surplus on buildings	–	–	–	–	–	–	–	–	–	–	–
Deferred tax on revaluation of buildings	–	–	–	–	–	–	–	–	–	–	–
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	5,042	–	–	5,042
Loss on fair value change of available-for-sale investment	–	–	–	–	–	–	(3,632)	–	–	–	(3,632)
Net income recognised directly in equity	–	–	–	–	–	–	(3,632)	5,042	–	–	1,410
Loss for the period	–	–	–	–	–	–	–	–	–	(4,984)	(5,061)
Total recognised income and expense for the period	–	–	–	–	–	–	(3,632)	5,042	–	(4,984)	(3,651)
At 31 March 2007	54,436	82,364	35,597	19,487	6,553	49,708	(7,102)	11,770	1,564	158,536	412,836

Notes:

(a) The capital reserve of the Group represents the reserve arising from the acquisition of a further interest in the share capital of a subsidiary at nil consideration pursuant to the Group's reorganisation and capitalisation of retained profits of a subsidiary.

(b) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company's subsidiaries in exchange for the nominal value of the issued share capital of other subsidiaries pursuant to the Group's reorganisation.

(c) The statutory reserves of the Group represent reserves required by the relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiaries and is appropriated at directors' discretion. The statutory reserves can be used to make up prior years' losses of the PRC subsidiaries, if any, and can be applied in conversion into capital after approval by PRC authorities.

The accompanying notes form an integral part of the Financial Information.

IV. CONSOLIDATED CASH FLOW STATEMENTS

	Years ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Operating activities					
Profit/(loss) before taxation	28,767	4,500	(62,826)	(4,346)	(36,364)
Adjustments for:					
Finance costs	3,622	3,603	4,626	912	1,399
Allowance for doubtful debts	6,063	1,862	4,530	—	142
Allowance recognised/(reversed) for obsolete and slow moving inventories	2,797	(2,394)	3,183	(85)	—
Interest income	(1,820)	(3,661)	(1,330)	(244)	(196)
Loss/(gain) on fair value change of investment properties	1,109	(1,090)	(3,252)	(105)	—
Depreciation and amortisation	33,813	31,406	35,705	8,874	9,908
Revaluation surplus on buildings	(224)	(86)	(331)	—	—
(Gain)/loss on disposal of property, plant and equipment	(3,730)	1,026	(127)	26	3
Unrealised loss on fair value change of derivative financial instruments	—	2,032	15,159	1,787	2,562
Impairment loss on available-for-sale investment	—	17,000	28,008	3,632	21,635
Unrealised loss from sales of assets to an associate	349	—	—	—	—
Share of loss of an associate	5,453	—	—	—	—
Gain on disposal of a subsidiary	(2,227)	—	—	—	—
Gain on deemed disposal of interest in an associate	(1,106)	—	—	—	—
Operating cash flows before movements in working capital	72,866	54,198	23,345	10,451	(911)
Decrease/(increase) in inventories	29,465	(32,056)	(16,991)	8,201	21,667
Decrease/(increase) in trade and other receivables	2,737	(4,751)	7,077	6,912	(21,717)
(Increase)/decrease in bills receivables	(1,619)	(628)	—	2,080	1,343
Decrease in amount due from an associate	677	—	—	—	—
(Increase)/decrease in amount due from a related company	(7,806)	7,806	—	—	—
Increase/(decrease) in trade and other payables	4,654	14,469	765	(12,658)	3,875
Cash generated from operations	100,974	39,038	14,196	14,986	4,257
Hong Kong Profits Tax (paid)/refunded	(3,208)	(2,445)	(2,372)	75	215
PRC Enterprise Income Tax (paid)/refunded	(3,369)	(1,216)	(2,365)	(599)	773
Net cash generated from operating activities	94,397	35,377	9,459	14,462	5,245

IV. CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Investing activities					
Purchase of property, plant and equipment	(33,782)	(32,307)	(31,886)	(14,288)	(3,304)
Interest received	1,225	3,661	1,330	244	196
Proceeds on disposal of property, plant and equipment	17,970	279	334	92	3
Proceeds on disposal of convertible debentures and warrants	32,120	—	—	—	—
Proceeds on disposal of a subsidiary	5,756	—	—	—	—
Net cash generated from/(used in) investing activities	23,289	(28,367)	(30,222)	(13,952)	(3,105)
Financing activities					
Issue of share capital	—	—	—	—	31,347
New bank loans obtained	15,000	20,500	55,165	20,799	4,796
Repayment of bank loans	(38,915)	(35,083)	(32,424)	(5,492)	(8,104)
Decrease in trust receipt loans	(14,065)	—	—	—	—
Repayment of obligations under finance leases	(12,580)	(7,690)	(5,802)	(1,899)	(1,047)
Dividend paid	(5,508)	(5,460)	(5,444)	—	—
Interest paid on bank loans	(2,907)	(2,919)	(4,093)	(758)	(1,281)
Interest paid on obligations under finance leases	(715)	(684)	(533)	(154)	(118)
Payment for repurchase of shares	—	(2,075)	—	—	—
Net cash (used in)/generated from financing activities	(59,690)	(33,411)	6,869	12,496	25,593
Net increase/(decrease) in cash and cash equivalents	57,996	(26,401)	(13,894)	13,006	27,733
Cash and cash equivalents brought forward	34,068	92,064	65,890	65,890	53,179
Effect of foreign exchange rate changes	—	227	1,183	(881)	4,897
Cash and cash equivalents carried forward represented by bank balances and cash	92,064	65,890	53,179	78,015	85,809

The accompanying notes form an integtal part of the Financial Information.

V. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda whereas the address of the principal place of business of the Company is Units 1 and 2, 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 37 to the Financial Information.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

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

During the Relevant Periods, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently applied all these new HKFRSs over the Relevant 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. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidations[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions [3]
HK(IFRIC) — Int 12	Service Concession Arrangements [4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes [5]
HK(IFRIC) — Int 14	HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation [6]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at revalued amounts or fair values, where appropriate.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by 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. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount.

Rental income from operating leases is recognised on a straight-line basis over the terms of the relevant leases.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment, other than buildings held for use in the production or supply of goods or services, or for administrative purposes and construction in progress, are stated at cost less subsequent accumulated depreciation and impairment loss.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at their revalued amount, being the fair value at the date of revaluation less subsequent accumulated depreciation and impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their residual value, using the straight-line method.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress is stated at cost less any impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecongition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible asset — Club debenture

Club debenture with indefinite useful life is carried at cost less any impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statements on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to consolidated income statements.

Rentals payable under operating leases are charged to consolidated income statements on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in consolidated income statement in the period in which the foreign operation is disposed of.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expenses represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated income statements.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in consolidated income statements when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statements. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to consolidated income statements.

Impairment losses on available-for-sale equity investments will not be reversed in consolidated income statements in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through consolidated income statements to the extent that the carrying amount of the asset at the date the impairment is revered does not exceed what the amortised cost would have been had the impairment not been recognised.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Financial liabilities (other than derivative financial instruments)

The Group's financial liabilities (including trade and bills payables and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in consolidated income statements on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in consolidated income statements immediately.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statements.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statements.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheets.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Employees' benefits

Bonuses

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employees' benefits *(Continued)*

Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Share-based payment expenses

The fair value of the employee services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share-based payment reserve).

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share based payment reserve will be transferred to retained profits.

Related party transactions

A party is considered to be related to the Group if:

i. the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;

ii. the party is an associate;

iii. the party is a jointly-controlled entity;

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related party transactions *(Continued)*

iv. the party is a member of the key management personnel of the Group or its parent;

v. the party is a close member of the family of any individual referred to in (i) or (iv);

vi. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

vii. the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three principal operating divisions — electronic products, conductive silicon rubber keypads and printed circuit boards. These divisions are the basis on which the Group reports its primary segment information inter-segment sales were made at cost plus mark up.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these business is presented below:

Income statement
For the year ended 31 December 2005

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
External sales	419,720	80,299	143,387	3,598	—	647,004
Inter-segment sales	6,209	12,548	20,113	747	(39,617)	—
Total	425,929	92,847	163,500	4,345	(39,617)	647,004
Result						
Segment result	48,113	4,799	(7,970)	(7,236)	—	37,706
Unallocated other income						586
Unallocated corporate expenses						(2,790)
Finance costs						(3,622)
Share of loss of an associate						(5,453)
Gain on deemed disposal of interest in an associate						1,106
Gain on fair value change of derivative financial instruments						1,234
Profit before taxation						28,767
Taxation						(731)
Profit for the year						28,036

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Income statement
For the year ended 31 December 2006

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	476,623	101,241	127,995	—	705,859
Inter-segment sales	2,052	13,396	25,714	(41,162)	—
Total	478,675	114,637	153,709	(41,162)	705,859
Result					
Segment result	33,891	5,480	(11,057)	—	28,314
Unallocated corporate expenses					(2,626)
Finance costs					(3,603)
Impairment loss on available-for-sale investment					(17,000)
Loss on fair value change of derivative financial instruments					(585)
Profit before taxation					4,500
Taxation					(2,069)
Profit for the year					2,431

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Income statement
For the year ended 31 December 2007

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	538,627	97,565	98,922	—	735,114
Inter-segment sales	3,273	16,486	28,159	(47,918)	—
Total	541,900	114,051	127,081	(47,918)	735,114
Result					
Segment result	(8,594)	(49)	(13,421)	—	(22,064)
Unallocated corporate expenses					(2,445)
Finance costs					(4,626)
Impairment loss on available-for-sale investment					(28,008)
Loss on fair value change of derivative financial instruments					(5,683)
Loss before taxation					(62,826)
Taxation					(1,924)
Loss for the year					(64,750)

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Income statement
For the three months ended 31 March 2007 (Unaudited)

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
External sales	124,208	23,947	22,403	—	—	170,558
Inter-segment sales	864	3,323	6,028	—	(10,215)	—
Total	125,072	27,270	28,431	—	(10,215)	170,558
Result						
Segment result	4,575	(51)	(3,172)	—	—	1,352
Unallocated other income						—
Gain on fair value changes of investment properties						105
Unallocated corporate expenses						(583)
Finance costs						(912)
Impairment loss on available-for-sale investment						(3,632)
Loss on fair value change on derivative financial instruments						(676)
Loss before taxation						(4,346)
Taxation						(638)
Loss for the period						(4,984)

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Income statement
For the three months ended 31 March 2008

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
External sales	165,859	16,499	18,675	—	—	201,033
Inter-segment sales	603	3,289	6,071	—	(9,963)	—
Total	166,462	19,788	24,746	—	(9,963)	201,033
Result						
Segment result	2,816	(7,251)	(5,962)	—	—	(10,397)
Unallocated other income						—
Unallocated corporate expenses						(3,448)
Finance costs						(1,399)
Impairment loss on available-for-sale investment						(21,635)
Gain on fair value change of derivative financial instruments						515
Loss before taxation						(36,364)
Taxation						(1,041)
Loss for the period						(37,405)

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet
As at 31 December 2005

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Segment assets	376,496	113,448	93,836	2,783	—	586,563
Unallocated corporate assets						101,141
Consolidated total assets						687,704
Liabilities						
Segment liabilities	84,130	21,941	39,939	1,632	—	147,642
Unallocated corporate liabilities						98,616
Consolidated total liabilities						246,258
Other information						
Additions to property, plant and equipment	17,867	11,228	10,432	—	—	39,527
Depreciation of property, plant and equipment	17,897	5,520	9,180	779	—	33,376
Amortisation of prepaid lease payments	329	82	26	—	—	437
Allowance recognised/ (reversed) for obsolete and slow moving inventories	4,208	(279)	72	(1,204)	—	2,797
Allowance recognised/ (reversed) for doubtful debts	797	728	(152)	4,690	—	6,063
Gain on disposal of property, plant and equipment	2,679	1,051	—	—	—	3,730

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet
As at 31 December 2006

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	402,978	110,409	97,355	—	610,742
Unallocated corporate assets					56,716
Consolidated total assets					667,458
Liabilities					
Segment liabilities	99,412	25,744	38,524	—	163,680
Unallocated corporate liabilities					87,291
Consolidated total liabilities					250,971
Other information					
Additions to property, plant and equipment	16,311	9,299	15,430	—	41,040
Depreciation of property, plant and equipment	16,256	7,048	7,135	522	30,961
Amortisation of prepaid lease payments	334	84	27	—	445
Allowance (reversed)/ recognised for obsolete and slow moving inventories	(1,240)	285	(1,439)	—	(2,394)
Allowance recognised/ (reversed) for doubtful debts	—	1,927	(65)	—	1,862
Loss on disposal of property, plant and equipment	425	175	426	—	1,026

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet
As at 31 December 2007

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	419,442	103,624	108,003	—	631,069
Unallocated corporate assets					38,401
Consolidated total assets					669,470
Liabilities					
Segment liabilities	106,224	23,392	39,080	—	168,696
Unallocated corporate liabilities					125,743
Consolidated total liabilities					294,439
Other information					
Additions to property, plant and equipment	13,206	5,186	13,494	—	31,886
Depreciation of property, plant and equipment	18,426	8,016	8,200	602	35,244
Amortisation of prepaid lease payments	345	88	28	—	461
Allowance recognised/ (reversed) for obsolete and slow moving inventories	3,061	(371)	493	—	3,183
Allowance recognised for doubtful debts	1,163	2,521	846	—	4,530
Gain/(loss) on disposal of property, plant and equipment	155	—	(28)	—	127

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet
As at 31 March 2007 (Unaudited)

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Segment assets	470,551	109,280	100,383	—	—	680,214
Unallocated corporate assets						53,805
Consolidated total assets						734,019
Liabilities						
Segment liabilities	90,978	24,704	34,582	—	—	150,264
Unallocated corporate liabilities						104,487
Consolidated total liabilities						254,751
Other information						
Additions to property, plant and equipment	3,761	3,133	7,394	—	—	14,288
Depreciation of property, plant and equipment	4,739	2,014	1,857	150	—	8,760
Amortisation of prepaid lease payments	85	22	7	—	—	114
Allowance reversed for obsolete and slow moving inventories	—	—	(85)	—	—	(85)
Loss on disposal of property, plant and equipment	—	—	26	—	—	26

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Balance sheet
As at 31 March 2008

	Electronic products *HK$'000*	Conductive silicon rubber keypads *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Assets						
Segment assets	458,691	93,695	98,209	—	—	650,595
Unallocated corporate assets						41,745
Consolidated total assets						692,340
Liabilities						
Segment liabilities	115,389	21,989	39,298	—	—	176,676
Unallocated corporate liabilities						128,773
Consolidated total liabilities						305,449
Other information						
Additions to property, plant and equipment	2,475	27	802	—	—	3,304
Depreciation of property, plant and equipment	5,152	2,042	2,440	—	151	9,785
Amortisation of prepaid lease payments	91	24	8	—	—	123
Allowance recognised for doubtful debts	34	—	—	—	—	34
Loss on disposal of property, plant and equipment	3	—	—	—	—	3

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Geographical segments

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

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

	Revenue				
	Years ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Hong Kong *(note a)*	244,214	279,557	284,513	78,451	118,361
Europe	102,294	110,606	169,524	12,859	28,665
Japan *(note b)*	69,699	78,138	84,882	21,398	15,400
Other Asian countries	84,775	106,747	72,704	15,127	13,151
America	46,269	28,325	55,089	10,459	7,673
PRC	85,134	90,204	51,608	28,529	15,074
Others	14,619	12,282	16,794	3,735	2,709
	647,004	705,859	735,114	170,558	201,033

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.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

4. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

The following is an analysis of the carrying amount of segment assets at the balance sheet dates, and additions to property, plant and equipment during the years/periods analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets				
	Years ended 31 December			**Three months ended 31 March**	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Hong Kong	295,142	228,712	184,134	185,577	202,823
PRC	392,562	438,746	485,336	485,442	489,517
	687,704	667,458	669,470	671,019	692,340

	Additions to property, plant and equipment				
	Years ended 31 December			**Three months ended 31 March**	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Hong Kong	2,630	669	132	49	21
PRC	36,897	40,371	31,754	14,239	3,283
	39,527	41,040	31,886	14,288	3,304

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

5. OTHER REVENUE AND INCOME

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Other revenue and income includes:					
Interest income	1,820	3,661	1,330	244	196
Gain on disposal of property, plant and equipment	3,730	—	127	—	—
Sundry income	852	869	—	—	—
Revaluation surplus on buildings	224	86	331	—	—
Exchange gain	—	—	577	—	529
	6,626	4,616	2,365	244	725

Other income analysed by category of asset is as follows:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Loans and receivables (including cash and bank balances)	1,820	3,661	1,330	244	196
Non-financial assets	3,954	86	1,035	—	529

6. FINANCE COSTS

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Interest on:					
Bank loans wholly repayable within five years	2,907	2,919	4,093	758	1,281
Obligations under finance leases	715	684	533	154	118
	3,622	3,603	4,626	912	1,399

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(a) Directors' remuneration:

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005				
Executive directors:				
Mr. Tong Shek Lun	—	1,645	68	1,713
Ms. Ko Lai King, Kinny	—	1,028	35	1,063
Ms. Chung Wai Yu, Regina	—	1,224	64	1,288
Mr. Li Ka Fai, Fred	—	1,044	—	1,044
	—	4,941	167	5,108
Non-executive directors:				
Mr. Lee Kwok Leung	120	—	—	120
Mr. Yang Yiu Chong, Ronald Jeffrey	120	—	—	120
	240	—	—	240
Independent non-executive directors:				
Mr. Sun Yaoquan	120	—	—	120
Mr. Goh Gen Cheung	120	—	—	120
Mr. Chan Ho Man	33	—	—	33
Mr. Tsao Kwang Yung, Peter	40	—	—	40
	313	—	—	313
Total emoluments	553	4,941	167	5,661

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(a) Directors' remuneration: *(Continued)*

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2006				
Executive directors:				
Mr. Tong Shek Lun	—	1,927	62	1,989
Ms. Ko Lai King, Kinny	—	1,215	32	1,247
Ms. Chung Wai Yu, Regina	—	1,451	61	1,512
Mr. Li Ka Fai, Fred	412	—	—	412
	412	4,593	155	5,160
Non-executive directors:				
Mr. Lee Kwok Leung	120	—	—	120
Mr. Yang Yiu Chong, Ronald Jeffrey	120	—	—	120
	240	—	—	240
Independent non-executive directors:				
Mr. Sun Yaoquan	120	—	—	120
Mr. Goh Gen Cheung	120	—	—	120
Mr. Chan Ho Man	120	—	—	120
	360	—	—	360
Total emoluments	1,012	4,593	155	5,760

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(a) Directors' remuneration: *(Continued)*

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2007				
Executive directors:				
Mr. Tong Shek Lun	—	2,117	88	2,205
Ms. Ko Lai King, Kinny	—	1,330	49	1,379
Ms. Chung Wai Yu, Regina	—	1,609	80	1,689
Mr. Chim Kim Lun, Ricky	—	—	—	—
Mr. Cheng Kwok Hing, Andy	—	—	—	—
	—	5,056	217	5,273
Non-executive directors:				
Mr. Lee Kwok Leung	120	—	—	120
Mr. Yang Yiu Chong, Ronald Jeffrey	120	—	—	120
	240	—	—	240
Independent non-executive directors:				
Mr. Sun Yaoquan	120	—	—	120
Mr. Goh Gen Cheung	120	—	—	120
Mr. Chan Ho Man	120	—	—	120
	360	—	—	360
Total emoluments	600	5,056	217	5,873

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(a) Directors' remuneration: *(Continued)*

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the three months ended 31 March 2007 (Unaudited)				
Executive directors:				
Mr. Tong Shek Lun	—	678	29	707
Ms. Ko Lai King, Kinny	—	425	17	442
Ms. Chung Wai Yu, Regina	—	516	26	542
	—	1,619	72	1,691
Non-executive directors:				
Mr. Lee Kwok Leung	30	—	—	30
Mr. Yang Yiu Chong, Ronald Jeffrey	30	—	—	30
	60	—	—	60
Independent non-executive directors:				
Mr. Sun Yaoquan	30	—	—	30
Mr. Goh Gen Cheung	30	—	—	30
Mr. Chan Ho Man	30	—	—	30
	90	—	—	90
Total emoluments	150	1,619	72	1,841

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(a) Directors' remuneration: *(Continued)*

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the three months ended 31 March 2008				
Executive directors:				
Mr. Tong Shek Lun	—	575	24	599
Ms. Ko Lai King, Kinny	—	362	14	376
Ms. Chung Wai Yu, Regina	—	437	22	459
Mr. Chim Kim Lun, Ricky	—	—	—	—
Mr. Cheng Kwok Hing, Andy	—	—	—	—
	—	1,374	60	1,434
Non-executive directors:				
Mr. Lee Kwok Leung	30	—	—	30
Mr. Yang Yiu Chong, Ronald Jeffrey	30	—	—	30
	60	—	—	60
Independent non-executive directors:				
Mr. Sun Yaoquan	30	—	—	30
Mr. Goh Gen Cheung	30	—	—	30
Mr. Chan Ho Man	30	—	—	30
	90	—	—	90
Total emoluments	150	1,374	60	1,584

No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors have waived any emoluments during the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(b) Highest paid employees:

The five highest paid employees of the Group include four, three, three, three and three executive directors of the Company for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 respectively, details of whose emoluments are included above. The remuneration of the remaining one, two, two, two and two individuals for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 respectively were as follows:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Salaries and other benefits	1,032	1,886	2,002	552	561
Retirement benefits scheme contributions	43	65	89	29	24
	1,075	1,951	2,091	581	585

The emoluments of the one, two, two, two and two highest paid employees for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 respectively were within the following bands:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Nil to HK$1,000,000	—	1	1	2	2
HK$1,000,001 to HK$1,500,000	1	1	1	—	—
	1	2	2	2	2

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

8. PROFIT/(LOSS) BEFORE TAXATION

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Profit/(loss) before taxation has been arrived at after charging:					
Auditor's remuneration	1,335	1,321	1,421	435	59
Depreciation:					
Owned assets	29,047	26,449	32,739	7,943	9,185
Assets held under finance leases	4,329	4,512	2,505	817	600
Amortisation of prepaid lease payments	437	445	461	114	123
Allowance for doubtful debts	6,063	1,862	4,530	—	142
Cost of inventories recognised as expense	522,049	585,383	664,381	145,300	188,013
Allowance/(reversal) for obsolete and slow moving inventories *(Note)*	2,797	(2,394)	3,183	(85)	—
Directors' remuneration *(Note 7)*	5,661	5,760	5,873	1,841	1,584
Other staff costs	118,227	135,717	156,540	33,923	40,495
Staff costs	123,888	141,477	162,413	35,764	42,079
Operating lease rentals	1,543	2,040	1,429	465	247
(Gain)/loss on disposal of property, plant and equipment	(3,730)	1,026	(127)	26	3
(Gain)/loss on fair value change of derivative financial instruments comprised of:					
Realised gain	(1,234)	(1,447)	(9,476)	(1,111)	(3,077)
Unrealised loss	—	2,032	15,159	1,787	2,562
and after crediting:					
Gross rental income from investment properties	7,095	7,325	7,457	1,769	—
Less: Direct operating expenses from investment properties that generate rental income during the year/period	(328)	(495)	(520)	(155)	—
	6,767	6,830	6,937	1,641	—
Foreign exchange (losses)/gains, net	(1,977)	(1,594)	577	(1,764)	529

Note:

During the year ended 31 December 2006, inventories were reprocessed and sold. Hence, the allowance for obsolete and slow moving inventories was reversed.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

9. TAXATION

	Years ended 31 December			Three months ended 31 March	
	2005	2006	2007	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
The charge comprises:					
Hong Kong Profits Tax:					
Current year/period	2,160	2,223	75	356	—
Overprovision in prior year/period	—	(457)	(351)	—	—
PRC enterprise income tax:					
Current year/period	3,047	966	2,389	460	861
(Over)/under provision in prior years/periods	(2,595)	(957)	(943)	(206)	180
	2,612	1,775	1,170	610	1,041
Deferred taxation *(Note 27)*					
Current year/period	(1,881)	294	813	28	—
Attributable to change in tax rate	—	—	(59)	—	—
	731	2,069	1,924	638	1,041

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 respectively. PRC Enterprise Income Tax is calculated at the rates prevailing in relevant region of the PRC at 27% for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 respectively and at 25% for the three months ended 31 March 2008. The Group's subsidiaries operating in the PRC are eligible for certain tax concessions. The subsidiaries in the PRC are granted a tax holiday of a 2-year exemption followed by a 3-year 50% reduction in income tax rate commencing from the first profit-making year. Upon expiry of the tax holiday, if the export sales of the subsidiaries exceed 70% of the total sales for the years, the entities are entitled to a 50% reduction of the income tax rate and three of the subsidiaries operating in the PRC enjoyed this reduction for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 respectively.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax of the PRC, pursuant to which the corporate income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January 2008. As a result, the Enterprise Income Tax rate of the Group's subsidiaries operating in the PRC will be changed from 27% to 25% with effect from 1 January 2008. As a result of the change in tax rate, deferred tax credit of approximately HK$1,352,000 and approximately HK$59,000 were recognised in the equity and consolidated income statement for the year ended 31 December 2007.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

9. TAXATION *(Continued)*

The taxation charge for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2007 and 2008 can be reconciled to profit/(loss) before taxation per the consolidated income statements as follows:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Profit/(loss) before taxation	28,767	4,500	(62,826)	(4,346)	(36,364)
Tax at domestic income tax rate of 27% for 2005, 2006 and 2007 and 25% for 2008	7,767	1,215	(16,963)	(1,202)	(9,092)
Tax effect of expenses not deductible for tax purposes	468	5,229	9,902	1,385	6,199
Tax effect of income not taxable for tax purposes	(2,836)	(843)	(329)	—	(94)
Tax effect of tax losses not recognised	3,254	2,222	10,708	(133)	4,388
Tax effect of share of result of an associate	1,472	—	—	—	—
Tax effect of undistributed earnings of an associate	(1,582)	—	—	—	—
Tax effect of income tax at concessionary rate	(4,898)	(1,534)	(62)	—	—
Utilisation of tax losses previously not recognised	(662)	(1,775)	(824)	1,202	(540)
Effect of different tax rates of group entities operating in other jurisdictions	30	(890)	(40)	(1,104)	—
(Over)/under provision in respect of prior years/periods	(2,595)	(1,414)	(1,294)	(206)	180
Decrease in operating deferred tax liability resulting a decrease in PRC income tax rate	—	—	(59)	—	—
Others	313	(141)	885	696	—
Taxation charge for the year/period	731	2,069	1,924	638	1,041

As the majority of the operations of the Group are carried out in the PRC, the PRC Enterprise Income Tax rate is used.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

10. DIVIDEND

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Final, paid in respect of 2004, 2005 and 2007 — HK 1 cent per share	5,508	5,460	5,444	—	—
Final, proposed for 2005 and 2006 — HK 1 cent per share	5,508	5,460	—	—	—

The directors do not recommend the payment of a final dividend for the year ended 31 December 2007 and for the three months ended 31 March 2008.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

11. EARNINGS/(LOSS) PER SHARE

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Earnings/(loss) for the purposes of basic earnings/(loss) per share	28,036	2,431	(64,750)	(4,984)	(37,405)
Effect of dilutive potential ordinary shares of an associate:					
Interest income on convertible debentures and advance to an associate	(595)	N/A	N/A	N/A	N/A
Adjustment to the share of result of an associate based on dilution of its earnings per share	184	N/A	N/A	N/A	N/A
	(411)	N/A	N/A	N/A	N/A
Earnings for the purposes of diluted earnings per share	27,625	N/A	N/A	N/A	N/A
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share)	550,776,000	546,692,000	544,356,000	544,356,000	652,356,000

Basic and diluted earnings/(loss) per share for the years ended 31 December 2006 and 2007 and for the three months ended 31 March 2007 and 2008 are presented as equal because there was no any potential dilutive ordinary shares outstanding during the two years ended 31 December 2006 and 2007 and the three months ended 31 March 2007 and 2008.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

12. INVESTMENT PROPERTIES

	HK$'000
Fair value	
As at 1 January 2005	—
Transferred from property, plant and equipment	56,191
Transferred from prepaid lease payments	5,288
Exchange adjustment	871
Decrease in fair value	(1,109)
As at 31 December 2005	61,241
Exchange adjustment	1,211
Increase in fair value	1,090
As at 31 December 2006	63,542
Exchange adjustment	4,785
Increase in fair value	3,252
As at 31 December 2007	71,579
Exchange adjustment	3,977
Increase in fair value	—
As at 31 March 2008	75,556

The investment properties are situated on land under medium-term leases in the PRC and are rented out under operating leases.

The fair value of the Group's investment properties at 31 December 2005, 2006 and 2007 and 31 March 2008 has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties of the Hong Kong Institute of Surveyors, was arrived at by reference to recent market evidence of transaction prices for similar properties.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant, machinery and moulds *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost or valuation							
As at 1 January 2005	177,543	3,409	240,732	21,635	7,632	4,915	455,866
Exchange adjustments	2,311	—	4,230	278	99	41	6,959
Additions	69	175	26,565	4,110	3,127	5,481	39,527
Transfer to investment properties	(56,191)	—	—	—	—	—	(56,191)
Reclassification	3,357	—	3,130	(252)	—	(6,235)	—
On disposal of a subsidiary	(10,500)	(1,732)	(17,852)	(1,853)	(359)	—	(32,296)
Disposals/written off	—	(401)	(26,732)	(1,182)	(1,506)	—	(29,821)
Revaluation	(5,259)	—	—	—	—	—	(5,259)
As at 31 December 2005	111,330	1,451	230,073	22,736	8,993	4,202	378,785
Exchange adjustments	2,109	12	4,488	329	99	199	7,236
Additions	228	878	24,747	2,602	604	11,981	41,040
Disposals/written off	—	—	(16,164)	(2,311)	(283)	—	(18,758)
Revaluation	(1,148)	—	—	—	—	—	(1,148)
As at 31 December 2006	112,519	2,341	243,144	23,356	9,413	16,382	407,155
Exchange adjustments	8,578	78	18,379	1,251	395	679	29,360
Additions	61	40	28,714	381	710	1,980	31,886
Transfers	18,706	—	—	—	—	(18,706)	—
Disposals/written off	—	—	(3,147)	(805)	(229)	—	(4,181)
Revaluation	(1,671)	—	—	—	—	—	(1,671)
As at 31 December 2007	138,193	2,459	287,090	24,183	10,289	335	462,549
Exchange adjustments	7,479	63	15,689	1,004	335	19	24,589
Additions	—	—	3,280	24	—	—	3,304
Transfers	—	—	—	—	—	—	—
Disposals/written off	—	(14)	(44)	—	—	—	(58)
Revaluation	(960)	—	—	—	—	—	(960)
As at 31 March 2008	144,712	2,508	306,015	25,211	10,624	354	489,424
Comprising:							
At cost	—	1,451	230,073	22,736	8,993	4,202	267,455
At valuation							
— 31 December 2005	111,330	—	—	—	—	—	111,330
	111,330	1,451	230,073	22,736	8,993	4,202	378,785
At cost	—	2,341	243,144	23,356	9,413	16,382	294,636
At valuation							
— 31 December 2006	112,519	—	—	—	—	—	112,519
	112,519	2,341	243,144	23,356	9,413	16,382	407,155
At cost	—	2,459	287,090	24,183	10,289	335	324,356
At valuation							
— 31 December 2007	138,193	—	—	—	—	—	138,193
	138,193	2,459	287,090	24,183	10,289	335	462,549
At cost	—	2,508	306,015	25,211	10,624	354	344,712
At valuation							
— 31 March 2008	144,712	—	—	—	—	—	144,712
	144,712	2,508	306,015	25,211	10,624	354	489,424

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings	Leasehold improvements	Plant, machinery and moulds	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation and impairment							
As at 1 January 2005	—	3,071	127,230	14,706	6,849	—	151,856
Exchange adjustments	—	2	2,613	206	91	—	2,912
Provided for the year	8,333	117	21,904	2,151	871	—	33,376
Eliminated on disposal of a subsidiary	—	(1,407)	(5,254)	(987)	(346)	—	(7,994)
Eliminated on disposals/written off	—	(401)	(12,827)	(849)	(1,506)	—	(15,583)
Eliminated on revaluation	(8,333)	—	—	—	—	—	(8,333)
As at 31 December 2005	—	1,382	133,666	15,227	5,959	—	156,234
Exchange adjustments	—	4	2,649	210	76	—	2,939
Provided for the year	2,721	224	23,457	3,485	1,074	—	30,961
Eliminated on disposals/written off	—	—	(14,913)	(2,257)	(283)	—	(17,453)
Eliminated on revaluation	(2,721)	—	—	—	—	—	(2,721)
As at 31 December 2006	—	1,610	144,859	16,665	6,826	—	169,960
Exchange adjustments	—	33	11,193	908	310	—	12,444
Provided for the year	3,220	252	27,258	3,297	1,217	—	35,244
Eliminated on disposals/written off	—	—	(2,974)	(771)	(229)	—	(3,974)
Eliminated on revaluation	(3,220)	—	—	—	—	—	(3,220)
As at 31 December 2007	—	1,895	180,336	20,099	8,124	—	210,454
Exchange adjustments	—	34	9,813	810	263	—	10,920
Provided for the period	960	66	7,775	643	341	—	9,785
Eliminated on disposals/written off	—	(12)	(40)	—	—	—	(52)
Eliminated on revaluation	(960)	—	—	—	—	—	(960)
As at 31 March 2008	—	1,983	197,884	21,552	8,728	—	230,147
Carrying values							
As at 31 March 2008	144,712	525	108,131	3,659	1,896	354	259,277
As at 31 December 2007	138,193	564	106,754	4,084	2,165	335	252,095
As at 31 December 2006	112,519	731	98,285	6,691	2,587	16,382	237,195
As at 31 December 2005	111,330	69	96,407	7,509	3,034	4,202	222,551

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line method, after taking into account of their residual values, at the following rates per annum:

Buildings	Over 50 years, or shorter of the lease terms, where appropriate
Leasehold improvements	25%
Plant, machinery and moulds	12.5% — 25%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%

The fair value of the Group's buildings at the balance sheet dates has been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group. Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties of the Hong Kong Institute of Surveyors, was arrived at using a depreciated replacement cost basis. The resulting revaluation increase of approximately HK$2,850,000, HK$1,487,000, HK$1,218,000 and HK$Nil as at 31 December 2005, 2006 and 2007 and 31 March 2008 respectively and revaluation surplus of HK$224,000, HK$86,000, HK$331,000 and HK$Nil as at 31 December 2005, 2006 and 2007 and 31 March 2008 respectively have been credited to asset revaluation reserve and consolidated income statement, respectively.

If the buildings had not been revalued, they would have been included at historical cost less accumulated depreciation of approximately HK$71,948,000, HK$71,491,000 HK$92,605,000 and HK$94,989,000 as at 31 December 2005, 2006 and 2007 and 31 March 2008 respectively.

As at 31 December 2005, 2006 and 2007 and 31 March 2008, the carrying values of property, plant and equipment included an amount of approximately HK$14,573,000, HK$18,882,000, HK$11,825,000 and HK$11,669,000 respectively in respect of assets held under finance leases.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

14. PREPAID LEASE PAYMENTS

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group's prepaid lease payments comprise leasehold interest in land and land use rights held under medium-term leases as follows:				
Leasehold land in Hong Kong	5,006	4,885	4,764	4,734
Land use rights in the PRC	13,206	13,136	13,754	14,426
	18,212	18,021	18,518	19,160
Analysis for reporting purposes as:				
Non-current asset	17,775	17,573	18,046	18,668
Current asset *(Note 18)*	437	448	472	492
	18,212	18,021	18,518	19,160

15. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities listed in overseas, at fair value	95,345	54,079	29,541	1,891

The investment represents the Group's interest in the issued share capital of Ascalade Communications Inc. ("ACI"). ACI is operating in the telecommunication industry sector and its shares are quoted in the Toronto Stock Exchange. As at 31 December 2005, 2006 and 2007, the Group held a 14.7% equity interest in ACI and as at 31 March 2008, the Group held a 9.8% equity interest in ACI after the disposal of 4.9% during the three months period. The fair value of the available-for-sale investments were determined in accordance with the quoted market price.

Details of change in interests in ACI subsequent to the balance sheet dates are set out in Note 38(a) to the Financial Information.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

16. CLUB DEBENTURE

The club debenture represents entrance fee paid to a golf club held on long-term basis.

17. INVENTORIES

				As at
		As at 31 December		**31 March**
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	41,470	52,239	67,384	56,385
Work in progress	10,797	14,783	15,342	25,404
Finished goods	20,598	40,293	46,304	26,598
	72,865	107,315	129,030	108,387

18. TRADE AND OTHER RECEIVABLES

				As at
		As at 31 December		**31 March**
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	115,640	118,232	105,642	109,525
Less: Allowance for doubtful debts	(7,136)	(5,635)	(7,110)	(7,253)
	108,504	112,597	98,532	102,272
Other receivables	7,936	7,360	10,273	32,082
Prepaid lease payments *(Note 14)*	437	448	472	492
	116,877	120,405	109,277	134,846

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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 allowance for doubtful debts, is as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not yet due	63,517	55,482	69,780	79,431
Overdue within 30 days	18,151	34,577	13,289	7,598
Overdue for 31- 60 days	12,512	9,453	5,158	5,906
Overdue for 61- 90 days	5,797	4,793	7,692	7,253
Overdue for more than 90 days	8,527	8,292	2,613	2,084
	108,504	112,597	98,532	102,272

The Group closely monitors the granting of credit and periodically reviews the recoverability of each trade debt. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately HK$44,987,000, HK$57,115,000, HK$28,752,000 and HK$22,841,000 as at 31 December 2005, 2006 and 2007 and 31 March 2008 respectively which are past due at the balance sheet dates for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts is summarised as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	3,256	7,136	5,635	7,110
Impairment losses recognised on receivables	5,570	1,927	4,530	142
Amounts written off as uncollectible	(1,466)	(3,363)	(3,055)	—
Amounts recovered during the year/period	—	(65)	—	—
Disposal of fellow subsidiaries	(224)	—	—	—
Balance at end of the year/period	7,136	5,635	7,110	7,252

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

18. TRADE AND OTHER RECEIVABLES *(Continued)*

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the balance sheet dates. Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$5,570,000, HK$1,927,000, HK$4,530,000 and HK$142,000 as at 31 December 2005, 2006 and 2007 and 31 March 2008 respectively which have either been placed under liquidation or in severe financial difficulties. The impairment loss recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

The Group's trade and bills receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD	**RMB**
	HK$'000	*HK$'000*
As at 31 March 2008	77,218	425
As at 31 December 2007	49,080	747
As at 31 December 2006	53,632	—
As at 31 December 2005	38,010	—

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

19. DERIVATIVE FINANCIAL INSTRUMENTS

		As at 31 December						As at 31 March	
		2005		2006		2007		2008	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign currency forward contracts	*(i)*	–	–	279	2,311	4,128	2,133	5,216	3,761
Structured forward contract	*(ii)*	–	–	–	–	–	3,138	–	4,080
USD/RMB linked hybrid USD swaps	*(iii)*	–	–	–	–	1,415	17,463	1,510	18.638
		–	–	279	2,311	5,543	22,734	6,726	26,479

Notes:

(i) The Group is a party to a variety of foreign currency forward contracts to mitigate its exchange rate exposures. Details of the outstanding forward contracts to which the Group is committed at the balance sheet dates are as follows:

As at 31 March 2008

Aggregate notional amount	Maturity	Exchange rates
HK$54,000,000	From April 2008 to September 2008	Sell HK$/Buy RMB at 0.9358 to 0.9528
HK$54,000,000	From April 2008 to September 2008	Sell RMB/Buy HK$ at 0.9223 to 0.9457
USD1,280,000	From April 2008 to May 2008	Sell USD/Buy RMB at 7.419 to 7.432
USD1,280,000	From April 2008 to May 2008	Sell RMB/Buy USD at 7.307 to 7.337
USD1,500,000	November 2008	Buy USD/Sell HK$ at 7.7285

As at 31 December 2007

Aggregate notional amount	Maturity	Exchange rates
HK$95,000,000	From January 2008 to September 2008	Sell HK$/Buy RMB at 0.9358 to 0.9584
HK$95,000,000	From January 2008 to September 2008	Sell RMB/Buy HK$ at 0.9223 to 0.9467
USD1,280,000	From April 2008 to May 2008	Sell USD/Buy RMB at 7.419 to 7.432
USD1,280,000	From April 2008 to May 2008	Sell RMB/Buy USD at 7.307 to 7.337
USD3,500,000	From January 2008 to November 2008	Buy USD/Sell HK$ at 7.728 to 7.7285

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

19. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notes: (Continued)

(i) **As at 31 December 2006**

Aggregate notional amount	**Maturity**	**Exchange rates**
USD 62,000,000	From January 2007 to November 2007	Buy USD/sell HK$ at 7.7195

(ii) The Group has entered into a USD/RMB and a USD/HKD structured forward contract which offers the Group to receive the settlement (at net currency basis) if the exchange rate of USD/RMB or USD/HKD falls within the stated range. Details of the outstanding structured forward contracts to which the Group is committed at the balance sheet dates are as follows:

As at 31 March 2008

Aggregate notional amount	**Maturity**	**Receive net settlement when exchange rate fall within**
USD 8,000,000	From June 08 to August 08	USD/RMB ranged from 7.1825 to 7.2575
USD 3,000,000	From 28 May 08 to 28 July 08	USD/HKD ranged from 7.7325 to 7.7500

As at 31 December 2007

Aggregate notional amount	**Maturity**	**Receive net settlement when exchange rate fall within**
USD 8,000,000	From June 08 to August 08	USD/RMB ranged from 7.1825 to 7.2575

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

19. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notes: (Continued)

(iii) **As at 31 December 2007 and 31 March 2008**

The Group entered into certain USD/RMB linked hybrid USD swap contracts which the Group would receive USD fixed rate interest ranging from 3% to 7.05% per annum. Under the relevant swap contracts, in case the exchange rate on the fixing dates fall below the strike rate, the Group would pay USD coupon at floating rates determined with reference to the strike rate and spot rate on the fixed dates. Terms of major interest rate swaps are set out below:

Notional amount	**Maturity**
USD 3,000,000	5 September 2008
USD 8,000,000	2 June 2008
USD 2,000,000	3 June 2008
USD 4,000,000	2 July 2008
USD 10,000,000	9 October 2008

The above derivatives are measured at fair value at 31 December 2005, 2006 and 2007. Their fair values are determined based on the valuation provided by financial institutions. The directors of the Company (the "Directors") have attempted to obtain valuations from financial institutions to assess the fair values of certain derivative financial instruments as at 31 March 2008. Due to certain limitation information available from the financial institutions, the Directors were unable to obtain the necessary valuations of one structure forward contracts with notional amount of USD4,000,000 and five swap contracts with aggregate notional amounts of USD27,000,000 and, therefore, fail to ascertain the fair values of the derivatives financial instruments as at 31 March 2008 and the change in fair values on financial derivative instruments for the three months ended 31 March 2008.

The derivative contracts with the aggregate notional amount of USD31,000,000, which had no valuation obtained as at 31 March 2008, were realised with a further loss of approximately HK$7,516,000 subsequent to the balance sheet date.

20. AMOUNT DUE FROM A RELATED COMPANY

The amount owed by a subsidiary of a former associate of the Group and was unsecured, interest free and repaid during the year ended 31 December 2006.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

21. BANK BALANCES

Bank balances comprise short-term bank deposits which carry interest ranging from 1% to 3%, 1% to 5%, 2% to 5% and 2% to 6% per annum for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008 respectively.

The Group's bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Denominated in	
	USD	**RMB**
	HK$'000	*HK$'000*
As at 31 March 2008	56,851	—
As at 31 December 2007	32,557	—
As at 31 December 2006	16,132	1
As at 31 December 2005	24,522	—

22. TRADE AND OTHER PAYABLES

An aged analysis of trade payables and bills payables is as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not yet due or overdue within 30 days	55,623	72,414	117,746	90,139
Overdue for 31- 60 days	15,785	15,476	6,166	14,709
Overdue for 61- 90 days	6,069	8,889	2,385	9,530
Overdue for more than 90 days	8,298	7,960	4,713	30,868
	85,775	104,739	131,010	145,246
Other payables	61,824	59,221	40,143	35,396
	147,599	163,960	171,153	180,642

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

22. TRADE AND OTHER PAYABLES *(Continued)*

The Group's trade and bills payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	Denominated in	
	USD	RMB
	'000	*'000*
As at 31 March 2008	40,773	2
As at 31 December 2007	20,965	—
As at 31 December 2006	9,769	8
As at 31 December 2005	8,190	3

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 31 March	As at 31 December			As at 31 March
	2005	2006	2007	2008	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
Amounts payable under finance leases:								
Within one year	6,789	6,306	3,951	3,608	6,573	5,875	3,714	3,444
Between one to two years	3,899	3,944	1,933	1,140	3,787	3,592	1,887	1,110
Between two to five years	—	1,993	—	—	—	1,936	—	—
	10,688	12,243	5,884	4,748	10,360	11,403	5,601	4,554
Less: Future finance costs	(328)	(840)	(283)	(194)	—	—	—	—
Present value of lease obligations	10,360	11,403	5,601	4,554	10,360	11,403	5,601	4,554
Less: Amount due within one year shown under current liabilities					(6,573)	(5,875)	(3,714)	(3,444)
Amount due after one year					3,787	5,528	1,887	1,110

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

23. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

It is the Group's policy to lease certain of its plant, machinery, and motor vehicles under finance leases. The average lease term is three years. The average effective borrowing rate was 3.25%, 4.81%, 4.81% and 4.81% per annum for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008 respectively. Interest rates are fixed at the contract date ranging from 1.93% to 5.33%, 2.55% to 7.07%, 2.55% to 7.07% and 3.06% to 6.95% per annum for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008 respectively. All leases are on a fixed repayment basis.

24. BANK LOANS

The bank loans are unsecured and are repayable as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	23,000	12,833	46,494	47,386
Between one to two years	18,500	18,334	6,717	2,481
Between two to five years	6,000	1,750	2,447	2,483
	47,500	32,917	55,658	52,350
Less: Amount due within one year shown under current liabilities	(23,000)	(12,833)	(46,494)	(47,386)
Amount due after one year	24,500	20,084	9,164	4,964

The Group's bank loans carry floating interests at 1% to 2% above Hong Kong Inter Bank Offer Rate ("HIBOR"). Their effective interest rates are ranging from 2.25% to 5.92%, 5.27% to 6.24%, 4.35% to 7.07% and 3.15% to 5.88% per annum for the years ended 31 December 2005, 2006 and 2007 and for the three months ended 31 March 2008 respectively.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

25. SHARE CAPITAL

	Number of shares				Amount			
		As at 31 December		As at 31 March		As at 31 December		As at 31 March
	2005	2006	2007	2008	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
Ordinary shares of HK$0.1 each								
Authorised:								
At beginning and end of the year/period	2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000	200,000	200,000	200,000	200,000
Issued and fully paid:								
At beginning of the year/period	550,776,000	550,776,000	544,356,000	544,356,000	55,078	55,078	54,436	54,436
Shares repurchased and cancelled *(Note a)*	—	(6,420,000)	—	—	—	(642)	—	—
Issuance of new shares *(Note b)*	—	—	—	108,000,000	—	—	—	10,800
At end of the year/period	550,776,000	544,356,000	544,356,000	652,356,000	55,078	54,436	54,436	65,236

Note a During the year ended 31 December 2006, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
March	800,000	0.270	0.265	214
April	2,048,000	0.355	0.285	659
May	2,968,000	0.375	0.320	1,037
September	332,000	0.280	0.280	93
October	72,000	0.280	0.280	20
November	200,000	0.270	0.250	52
	6,420,000			2,075

The above shares were cancelled upon repurchase.

Note b Pursuant to a subscription agreement entered into on 6 February 2008, the Company issued 108,000,000 ordinary shares of HK$0.10 each at HK$0.30 per share to a shareholder. The net proceeds of approximately HK$31,000,000 will be used for financing its ongoing operation and future business expansion.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted on 29 May 2002 under which the board of the directors may grant options to eligible participants, including employees and directors, of the Company and any of its subsidiaries to subscribe for shares of the Company. The Share Option Scheme is valid and effective for a period of 10 years commencing from the adoption date after which no further options may be issued.

The number of shares, which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and other schemes adopted by the Group, is not permitted to exceed 30% of the shares of the Company in issue at any point in time. The total number of shares in respect of which options may be granted under the Share Option Scheme and other schemes adopted by the Group in aggregate is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The total number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue at any 12-month period.

Consideration of HK$1 is payable by the grantee on the acceptance of option granted. Option may be exercised from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses and 10 years from the offer date of that option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing prices of the shares on the Stock Exchange on the date of the grant of the options, the average of the closing prices of the shares for the five trading days immediately preceding the date of the grant of the options and the nominal value of the shares.

No share options have been granted under the Share Option Scheme since its adoption.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

27. DEFERRED TAX LIABILITIES

The major deferred tax liability recognised by the Group and movements thereon during the current and prior years are as follows:

	Revaluation of properties	**Undistributed earnings of associate**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2005	17,702	2,039	19,741
Charge to equity	793	—	793
Credit to consolidated income statement	(299)	(1,582)	(1,881)
Exchange adjustments	402	—	402
Eliminated against available-for-sale investment pursuant to deemed disposal of interest in an associate	—	(457)	(457)
As at 31 December 2005	18,598	—	18,598
Charge to equity	402	—	402
Charge to consolidated income statement	294	—	294
Exchange adjustments	371	—	371
As at 31 December 2006	19,665	—	19,665
Charge to equity	329	—	329
Charge to consolidated income statement	813	—	813
Effect of change in tax rate			
— equity	(1,352)	—	(1,352)
— consolidated income statement	(59)	—	(59)
Exchange adjustments	1,246	—	1,246
As at 31 December 2007	20,642	—	20,642
Charge to consolidated income statement	—	—	—
Effect of change in tax rate			
— equity	—	—	—
— consolidated income statement	—	—	—
Exchange adjustments	1,143	—	1,143
As at 31 March 2008	21,785	—	21,785

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

27. DEFERRED TAX LIABILITIES *(Continued)*

As at 31 December 2005, 2006 and 2007 and 31 March 2008, the Group has unused tax losses of approximately HK$29,004,000, HK$31,707,000, HK$68,715,000 and HK$79,216,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

28. DISPOSAL OF A SUBSIDIARY

On 4 January 2005, the Group entered into an agreement with a third party to dispose of its entire equity interest in Dongguan Tehsutec Electronic Company Limited ("DTEC"), an indirect wholly-owned subsidiary of the Company, at a consideration of HK$12,000,000. Details of the transaction are disclosed in a circular of the Company dated 27 January 2005.

The net assets of DTEC at the date of disposal were as follows:

	2005
	HK$'000
Net assets disposed of:	
Property, plant and equipment	24,302
Inventories	10,213
Trade and other receivables	21,209
Bank balances and cash	2,814
Trade and other payables	(45,442)
Tax liabilities	(1,318)
Bank borrowings	(1,887)
	9,891
Exchange reserve released	(118)
	9,773
Gain on disposal	2,227
Total consideration	12,000
Satisfied by:	
Cash	8,570
Deferred consideration included in other receivables due within one year	3,430
	12,000
Net cash inflow arising on disposal:	
Cash consideration	8,570
Bank balances and cash disposed of	(2,814)
	5,756

DTEC did not have any significant contribution to the Group's results nor cash flows during the year ended 31 December 2005.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

29. DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

As at 31 December 2004, the Group had a 30.8% interest in the issued share capital of Ascalade Communications Inc. ("ACI"), a company incorporated in Canada which together with its subsidiaries are engaged in the design, manufacture and sale of electronic and wireless telecommunication products.

In June 2005, the share of ACI were listed on the Toronto Stock Exchange. Pursuant to the listing of ACI's shares, the Group's interest in ACI has decreased from 39.1% to 19.2%. Accordingly, the Group's interest in ACI has been classified as an available-for-sale investment (Note 15). The reduction of the Group's interest in ACI has resulted in a gain on deemed disposal approximately HK$1,106,000.

30. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2005, the Group disposed of its subsidiary and the consideration of approximately HK$3,430,000 was included in the other receivables.

During the years ended 31 December 2005 and 2006, the Group entered into finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of approximately HK$5,745,000 and HK$8,733,000 respectively.

31. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits scheme contributions charged to the consolidated income statement represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the amounts of the forfeited contributions will be used to reduce future contributions payable by the Group.

The subsidiaries of the Company in the PRC are required to make contributions to state-managed retirement benefits scheme operated by the PRC government based on a certain percentage of the monthly payroll costs of the PRC employees.

During the years ended 31 December 2005, 2006 and 2007 and three months ended 31 March 2008, the retirement benefits scheme contributions are approximately HK$1,553,000, HK$3,162,000, HK$3,824,000 and HK$344,000 respectively. The Group did not have any forfeited contributions available to offset future employers' contributions to the ORSO Scheme.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

32. CAPITAL COMMITMENTS

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment:				
Authorised but not contracted for	1,800	48	345	—
Contracted but not provided for	13,325	11,411	6,167	7,588
	15,125	11,459	6,512	7,588

33. OPERATING LEASES COMMITMENTS

The Group as lessee

As at the balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,234	1,057	343	298
In the second to fifth year inclusive	756	448	135	93
	1,990	1,505	478	391

Leases are negotiated for original terms ranging from one to five years at fixed monthly rentals.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

33. OPERATING LEASES COMMITMENTS *(Continued)*

The Group as lessor

Certain of the Group's properties are held for rental purpose. As at 31 December 2005 and 2006, these properties had committed tenants for one to five years.

As at the balance sheet dates, the Group had contracted with tenants for future minimum lease payments which fall due as follows:

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	164	147	—	—
In the second to fifth year inclusive	228	37	—	—
	392	184	—	—

34. MATERIAL RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the Notes to the Financial Information, the Group entered into the following significant transactions with the former assoicate:

	Years ended 31 December			Three months ended 31 March	
Nature of transactions	**2005**	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Sales by the Group	38,783	—	—	—	—
Interest charged by the Group	980	—	—	—	—
Subcontracting fee income charged by the Group	7,334	—	—	—	—
Rental income charged by the Group	3,565	—	—	—	—
Computer system expenditure charged by the Group	2,400	—	—	—	—
Property, plant and equipment transferred by the Group	15,753	—	—	—	—

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

34. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

The remuneration of directors and other members of key management during the years ended 31 December 2005, 2006 and 2007 and the three months ended 31 March 2008 were as follows:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Short-term benefits	2,453	8,588	9,925	2,171	2,668
Post-employment benefits	82	277	425	101	120
	2,535	8,865	10,350	2,272	2,788

The remuneration of directors and other members of key management is determined by the Board of Directors having regard to the performance of individual and market trends.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the obligations under finance leases and borrowings disclosed in Notes 23 and 24 to the Financial Information respectively, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued share capital, reserves and retained earnings.

The directors of the Group review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the raising of new debt or the redemption of existing debt.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	200,572	178,487	151,711	188,081
Available-for-sale investment	95,345	54,079	29,541	1,891
Amount due from a related company	7,806	—	—	—
Derivative financial instruments at fair value through profit and loss	—	279	5,543	6,726
Financial liabilities				
Amortised cost	133,275	137,656	186,668	186,529
Obligations under finance leases	10,360	11,403	5,601	4,554
Derivative financial instruments at fair value through profit and loss	—	2,311	22,734	26,479

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade and other receivables, derivative financial instruments, bank balances, trade and other payables, obligations under finance leases and bank loans. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Market risk

(i) Currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 80% of the Group's sales are denominated and settled in United States Dollar ("USD"). In addition, certain intra-group receivables outstanding at the balance sheet dates are denominated in currency other than the functional currency of the relevant group entities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

	Assets				Liabilities			
	As at 31 December			As at 31 March	As at 31 December			As at 31 March
	2005	2006	2007	2008	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
USD	62,532	69,764	81,637	134,069	(8,190)	(9,679)	(20,965)	(12,169)
RMB	—	1	747	425	(3)	(8)	—	(2)
HK$	212	40,822	19,794	451	(5,172)	—	—	(45,746)

The Group does not have a foreign currency hedging policy. However, the Group entered into certain foreign exchange forward contracts and USD/RMB linked hybrid USD swaps to manage the foreign currency exposures.

Sensitivity analysis

The Group's currency risk is mainly attributable to the exposure outstanding on receivables denominated in HK$ of the subsidiaries operated in the PRC. As Hong Kong dollars is pegged to USD, the currency risk exposure of the USD receivables is considered insignificant.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

The Group's sensitivity to a 5% increase in HK$ against RMB are as follows.

- For the year ended 31 December 2005, the Group's profit for the year would decrease by approximately HK$3,141,000.

- For the year ended 31 December 2006, the Group's profit for the year would increase by approximately HK$2,041,000.

- For the year ended 31 December 2007, the Group's loss for the year would decrease by approximately HK$990,000.

- For the three months ended 31 March 2007, the Group's loss would decrease by approximately HK$2,883,900.

- For the three months ended 31 March 2008, the Group's loss would decrease by approximately HK$2,455,000.

For a 5% weakening of HK$ against RMB, there would be an equal and opposite impact on the Group's profit/(loss) for the current and prior years/periods. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

In addition, the Group is exposed to fluctuations in foreign exchange rates (mainly USD/RMB and HK$/RMB) in relation to its derivative financial instruments. The Group's sensitivity to a 5% increase in the forward foreign exchange rates of the relevant forward/swap contracts are as follows.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

- For the year ended 31 December 2005, the Group's profit for the year would decrease/increase by approximately HK$50,000.

- For the year ended 31 December 2006, the Group's profit for the year would increase by approximately HK$120,000.

- For the year ended 31 December 2007, the Group's loss for the year would decrease by approximately HK$3,700,000.

- For the three months ended 31 March 2007, the Group's loss would decrease/increase by approximately HK$1,300,000.

- For the three months ended 31 March 2008, the Group's loss would increase/decrease by approximately HK$800,000.

For a 5% decrease in the forward foreign exchange rates of the relevant forward/swap contracts, there would be an equal and opposite impact on the Group's profit/(loss) for the current and prior years/periods.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to obligations under finance leases (see Note 23 to the Financial Information for details) and bank deposits carrying fixed interest rates. Management monitors interests rate exposure and consider as insignificant.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank loans (see Note 24 to the Financial Information for details) and short-term deposits placed in banks.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's bank loans.

Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet dates. For variable-rate bank loans and bank deposits, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the effect on the Group's profit/(loss) for the years/periods are as follows.

- For the year ended 31 December 2005, the Group's profit for the year would decrease/increase by approximately HK$223,000.

- For the year ended 31 December 2006, the Group's profit for the year would decrease/increase by approximately HK$165,000.

- For the year ended 31 December 2007, the Group's loss for the year would increase/decrease by approximately HK$12,000.

- For the three months ended 31 March 2007, the Group's loss would be decrease/increase by approximately HK$3,000.

- For the three months ended 31 March 2008, the Group's loss would be decrease/increase by approximately HK$5,000.

This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its available-for-sale investment in ACI which is measured at fair value at each balance sheet date. The Group's equity price risk is mainly concentrated on equity instruments operating in telecommunication industry sector quoted in the Toronto Stock Exchange. Management regularly reviews the value of the available-for-sale investment and will consider adequate impairment loss to be made when necessary.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting dates.

If the prices of the equity instruments had been 5% higher/lower, the effect on impairment loss on available-for-sale investment recognised as a result of change in fair value of available-for-sale investment are as follows.

- For the year ended 31 December 2005, the Group's profit for the year would decrease/increase by approximately HK$4,767,000.

- For the year ended 31 December 2006, the Group's profit for the year would decrease/increase by approximately HK$2,704,000.

- For the year ended 31 December 2007, the Group's loss for the year would decrease/increase by approximately HK$1,477,000.

- For the three months ended 31 March 2007, the Group's loss would be decrease/increase by approximately HK$112,000.

- For the three months ended 31 March 2008, the Group's profit would be decrease/increase by approximately HK$94,000.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

As at 31 March 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group's principal financial assets are trade and other receivables and bank balances. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for in the consolidated balance sheet. Management therefore carefully manages its exposure to credit risk.

Management of credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The Group is also exposed to concentration of credit risk as the Group relies on a limited number of customers.

The Group manages its credit risk by closely monitoring the granting of credit. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group also entered into factoring arrangement without recourse with banks in order to minimise its credit risk exposure. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Concentration of risks of financial assets with credit risk exposure

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for approximately 59% (2005, 2006 and 2007: 38%, 43% and 48% respectively) of the total trade receivables as at 31 March 2008. Also, the Group has concentration of credit risk as approximately 18% (2005, 2006 and 2007: 5%, 14% and 8% respectively) and approximately 43% (2005, 2006 and 2007: 50%, 27%, 16% respectively) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the business segment as at 31 March 2008.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

Concentration of risks of financial assets with credit risk exposure (Continued)

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings. Other than concentration of credit risk specified above, the Group does not have any other significant concentration of credit risk. The counterparties consist of a large number of companies, spread across diverse industries.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The Group relies on bank loans as a significant source of liquidity. As at 31 March 2008, the Group has available non-pledged unutilised bank loan facilities of approximately HK$113,669,000 (2005, 2006 and 2007: HK$201,486,000, HK$191,565,000, HK$113,669,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative financial assets and liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

For derivative instruments settle on a net basis, undiscounted net cash (inflows)/ outflows are presented.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31 December
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2005							
Non-derivative financial liabilities							
Trade and bills payables	—	31,515	54,260	—	—	85,775	85,775
Bank loans	4.09	5,467	6,356	13,514	25,233	50,570	47,500
Obligations under finance leases	3.63	613	1,839	5,201	3,792	11,445	10,360
		37,595	62,455	18,715	29,025	147,790	143,635

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31 December
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2006							
Non-derivative financial liabilities							
Trade and bills payables	—	70,862	33,877	—	—	104,739	104,739
Bank loans	5.89	227	5,310	8,919	20,838	35,294	32,917
Obligations under finance leases	4.81	644	1,296	4,366	5,937	12,243	11,403
		71,733	40,483	13,285	26,775	152,276	149,059
Derivative net settlement							
Foreign currency forward contracts		(45)	153	1,924	—	2,032	2,032

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31 December
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007							
Non-derivative financial liabilities							
Trade and bills payables	—	68,297	62,712	—	—	131,009	131,009
Bank loans	5.24	23,876	4,026	19,532	9,846	57,280	55,658
Obligations under finance leases	4.81	676	673	2,602	1,933	5,884	5,601
		92,849	67,411	22,134	11,779	194,173	192,268
Derivatives net settlement							
Foreign currency forward contracts		(233)	(353)	(1,409)	—	(1,995)	(1,995)
Structured forward contract		—	—	3,138	—	3,138	3,138
USD/RMB linked hybrid USD swap		—	(643)	16,691	—	16,048	16,048
		(233)	(996)	18,420	—	17,191	17,191

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31 December
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2008							
Non-derivative financial liabilities							
Trade and bills payables	—	38,584	95,595	—	—	134,179	134,179
Bank loans	4.52	21,117	5,859	19,492	7,218	53,686	52,350
Obligations under finance leases	4.81	417	1,019	3,160	149	4,745	4,554
		60,118	102,473	22,652	7,367	192,610	191,083
Derivatives net settlement							
Foreign currency forward contracts		(233)	(353)	(1,409)	—	(1,995)	(1,995)
Structured forward contract		—	—	3,138	—	3,138	3,138
USD/RMB linked hybrid USD swap		—	(643)	16,691	—	16,048	16,048
		(233)	(996)	18,420	—	17,191	17,191

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

36. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The directors consider that the carrying amount of the Group's financial instruments recorded at amortised cost in the consolidated financial statements approximates their fair values.

37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 March 2008 are as follows:

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by the Group	Principal activities
Champeace Investment Limited	Hong Kong	HK$2 Ordinary shares	100%	Investment holding
China Ample Investments Limited	British Virgin Islands	US$1 Ordinary shares	100%	Inactive
Champion Keypad Manufacturing Limited (formerly known as On Shing Telephone Keypads Limited)	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in conductive silicon rubber products
Dongguan Humen Taida Electronics Co., Ltd.	PRC	HK$180,000,000 Registered capital	100%	Manufacture and sale of electronic products

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by the Group	Principal activities
Dongguan Karce Electronics Co., Ltd.	PRC	RMB3,000,000 Registered capital	100%	Manufacture and sale of electronic products
Dongguan Shatian Tehsheng Silicon Rubber Products Co., Ltd	PRC	HK$38,000,000 Registered capital	100%	Manufacture and sale of conductive silicon rubber products
Dongguan Tai Shan Electronics Co., Ltd.	PRC	HK$28,000,000 Registered capital	100%	Manufacture and sale of printed circuit boards
Dragon Spirit Enterprise Limited	British Virgin Islands	US$100 Ordinary shares	100%	Investment holding
Habermann Limited	British Virgin Islands	US$2 Ordinary shares	100%	Investment holding
Hong Shing Industrial Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in conductive silicon rubber products
Interconn Electronics Limited	Hong Kong	HK$1 Ordinary share	100%	Trading in printed circuit boards
Jet Master Limited	British Virgin Islands	US$100 Ordinary shares	100%	Investment holding
Joyham Jade Limited	British Virgin Islands	US$2 Ordinary shares	100%	Investment holding
Karce Co. Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic products
Karce Communications Limited	British Virgin Islands	US$2 Ordinary shares	100%	Inactive
Karce Electronics Limited	Hong Kong	HK$2 Ordinary shares	100%	Inactive

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by the Group	Principal activities
Karce Electronics Toys Limited	Hong Kong	HK$20,000 Ordinary shares	100%	Trading in electronic products
Master Key Industrial Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic products
Million Well Creation Limited *(Note)*	Hong Kong	HK$1 Ordinary share	100%	Inactive
On Shing Holdings Company Limited	British Virgin Islands	US$10,000 Ordinary shares	100%	Investment holding
Pristine Limited	Labuan Malaysia	US$1 Ordinary share	100%	Investment holding
Redditch Enterprises Limited	British Virgin Islands	US$10,000 Ordinary shares	100%	Investment holding
Sabic Electronic Limited	British Virgin Islands	US$2 Ordinary shares	100%	Investment holding
Sourcestar Profits Limited *(Note)*	British Virgin Islands	US$1 Ordinary share	100%	Investment holding
T & S Industrial Company Limited	Hong Kong	HK$200,000 Ordinary shares	100%	Provision of purchasing agency, administrative and management services
Tachibana Limited	British Virgin Islands	US$100 Ordinary shares	100%	Investment holding
Xinyu Electronics Limited	British Virgin Islands	US$1 Ordinary share	100%	Investment holding

Note: The subsidiaries are incorporated during the year ended 31 December 2007.

Only Redditch Enterprises Limited and Sourcestar Profits Limited are directly held by the Company.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

All the subsidiaries established in the PRC are registered as foreign investment enterprise.

None of the subsidiaries had any debt securities outstanding as at 31 December 2005, 2006 and 2007 and 31 March 2008 or at any time during the years/period.

38. POST BALANCE SHEET EVENTS

The following significant events took place after the balance sheet date:

(a) On 3 March 2008, ACI filed creditor protection under the Companies' Creditors Arrangement Act with the British Columbia Supreme Court due to its inability to fund operations to meet customer demand. The market share price of ACI demanded from CAD 1.25 on 31 December 2007 to CAD 0.25 on 3 March 2008, and further decreased to CAD 0.05 as the Latest Practicable Date of this report on 26 September 2008 (Canadian time).

(b) On 14 July 2008, T & S Industrial Company Limited ("T&S"), the subsidiary of the Group, has early terminated a 12-month USD/RMB Linked Hybrid USD Swap Contract, which is in respect of ISDN Master Agreement and Confirmation signed between KBC Bank N.V. ("KBC Bank") and T&S, at the settlement amount of USD2.88 million. This early termination did not result any change in relation to other treasury transactions between KBC Bank and T&S.

(c) On 12 September 2008, (i) China Ample Investments Limited (a company wholly and beneficially owned by the Company) as vendor, (ii) KFE Hong Kong Co., Limited (a company wholly and beneficially owned by KFE Japan Co., Ltd. (a company incorporated in Japan whose shares are listed on the Nagoya Stock Exchange) as purchaser, and (iii) KFE Japan as warrantor of KFE Hong Kong, entered into a sale and purchase agreement dated 26 September 2008, pursuant to which, among other things, China Ample has conditionally agreed to dispose of , and KFE Hong Kong has conditionally agreed to acquire, the entire issued share capital of Jet Master Limited (a wholly-owned subsidiary of China Ample and an indirect wholly-owned subsidiary of the Company) for a total consideration of US$3,000,000. Jet Master and its wholly owned subsidiary are principally engaged in manufacture and sales of printed circuit boards and they are manufacturing arms of the Group for printed circuit boards business.

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

(d) Included in the consolidated income statement of the Group are the following unaudited results attributable to the Disposal Group during the years ended 31 December 2005, 2006 and 2007 and three months ended 31 March 2007 and 2008 which are presented on a combined basis after elimination of intra-entities transactions:

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Revenue	425,929	478,675	541,900	125,072	166,462
Cost of sales	(323,412)	(387,304)	(489,695)	(103,182)	(147,206)
Gross profit	102,517	91,371	52,205	21,890	19,256
Other income	4,974	5,733	3,964	239	168
Selling and distribution costs	(6,500)	(7,836)	(13,230)	(1,792)	(3,298)
Administrative expenses	(61,222)	(60,855)	(56,835)	(14,774)	(13,333)
Finance costs	(2,865)	(3,380)	(3,670)	(706)	(1,187)
Waive of debts on intercompany balance	—	—	66,630	—	—
(Loss)/gain on fair value change of investment properties	(886)	1,176	3,252	105	—
Net gain/(loss) on fair value change of derivative financial instruments	1,234	(585)	(6,429)	(676)	545
Profit before taxation	37,252	25,624	45,887	4,286	2,151
Taxation	(2,629)	(1,694)	(1,243)	(282)	(823)
Profit for the year/period	34,623	23,930	44,644	4,004	1,328

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

(e) Included in the consolidated balance sheets of the Group are the following unaudited balances of the assets and liabilities attributable to the Disposal Group as at 31 December 2005, 2006 and 2007 and 31 March 2008 which are presented on a combined basis after elimination of intra-entities transactions:

		As at 31 December		As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment properties	61,241	63,542	71,579	75,556
Property, plant and equipment	132,506	135,489	141,136	146,025
Prepaid lease payments	13,868	13,368	13,650	14,059
	207,615	212,399	226,365	235,640
Current assets				
Inventories	48,554	85,768	104,938	86,659
Trade and other receivables	46,520	58,381	49,073	77,703
Derivative financial instruments	—	279	3,967	4,392
Amount due from an ultimate holding company	—	—	34	375
Amounts due from fellow subsidiaries	33,975	40,752	96,682	118,581
Amount due from a related company	6,457	571	—	—
Bank balances and cash	73,807	46,430	39,066	58,689
	209,313	232,181	293,760	346,399

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

	As at 31 December			As at 31 March
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade and other payables	84,130	99,412	106,224	115,389
Derivative financial instruments	—	2,311	21,751	24,648
Amount due to an intermediate holding company	42,153	42,148	100,062	100,062
Amounts due to fellow subsidiaries	133	3,107	54,568	91,799
Amount due to an ultimate holding company	36,492	30,364	—	—
Tax liabilities	21,967	20,489	18,797	19,897
Obligations under finance leases — due within one year	5,417	4,322	3,121	2,825
Bank loans — due within one year	23,000	12,833	42,056	43,386
	213,292	214,986	346,579	398,006
Net current (liabilities)/assets	(3,979)	17,195	(52,819)	(51,607)
Total assets less current liabilities	203,636	229,594	173,546	184,033
Capital and reserves				
Share capital	—	—	—	—
Reserves	162,418	189,968	152,839	166,290
Total equity	162,418	189,968	152,839	166,290
Non-current liabilities				
Obligations under finance leases — due after one year	2,674	4,648	1,609	961
Bank loans — due after one year	24,500	20,083	3,199	—
Deferred tax liabilities	14,044	14,895	15,899	16,782
	41,218	39,626	20,707	17,743
	203,636	229,594	173,546	184,033

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

(f) Included in the consolidated cash flow statement of the Group are the following unaudited consolidated cash flows attributable to the Disposal Group during the years ended 31 December 2005, 2006 and 2007 and three months ended 31 March 2007 and 2008 which are presented on a combined basis after elimination of intra-entities transactions:

		Year ended 31 December		**Three months ended 31 March**	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Operating activities					
Profit before taxation	37,252	25,624	45,887	4,286	2,151
Adjustments for:					
Finance costs	2,865	3,380	3,670	706	1,187
Allowance recognised for obsolete and slow moving inventories	3,005	—	3,061	—	—
Allowance for doubtful debts	4,690	5,640	4,888	495	—
Interest income	(1,357)	(3,523)	(1,198)	(221)	(168)
Waive of debts on intercompany balance	—	—	(66,630)	—	—
Loss/(gain) on fair value change of investment properties	886	—	(3,252)	105	—
Depreciation and amortisation	18,469	16,590	18,771	4,824	5,243
Revaluation surplus on buildings	—	(1,176)	—	—	—
(Gain)/loss on disposal of property, plant and equipment	(2,679)	—	(156)	(18)	3
(Gain)/loss on fair value change of derivative financial instruments	(1,234)	2,032	22,181	2,185	1,928

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Operating cash flows before movements in working capital	61,897	48,567	27,222	12,152	10,344
Decrease/(increase) in inventories	21,600	(37,214)	(22,231)	7,734	18,279
(Increase)/decrease in trade and other receivables	(3,800)	(17,303)	4,436	1,592	(28,617)
Increase in amount due from an ultimate holding company	(48,358)	—	(34)	—	(341)
Decrease/(increase) in amount due from a related company	1,167	5,886	571	(685)	—
Decrease in amount due to an ultimate holding company	(26,284)	(6,128)	(30,364)	(30,364)	—
Decrease/(increase) in amount due to an intermediate holding company	—	157	124,544	(42,148)	—
Decrease/(increase) in amounts due from fellow subsidiaries	92,435	(6,777)	(55,930)	(107,922)	(21,899)
Increase in amounts due to fellow subsidiaries	133	2,974	51,461	170,768	37,231
(Decrease)/increase in trade and other payables	(15,765)	15,282	6,814	(6,402)	9,165
Cash generated from operations	83,025	5,444	106,489	4,725	24,162
Profits Tax paid	(3,208)	(2,172)	(3,634)	(1,271)	(861)
Net cash generated from operating activities	79,817	3,272	102,855	3,454	23,301
Investing activities					
Purchase of property, plant and equipment	(17,387)	(15,971)	(13,206)	(3,761)	(2,475)
Interest received	1,357	3,523	1,198	221	168
Proceeds on disposal of property, plant and equipment	16,579	1,528	326	43	3
Net cash generate from/(used in) investing activities	549	(10,920)	(11,682)	(3,497)	(2,304)

V. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

38. POST BALANCE SHEET EVENTS *(Continued)*

	Years ended 31 December			Three months ended 31 March	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Financing activities					
New bank loans obtained	15,000	20,500	42,956	20,057	4,796
Repayment of bank loans	(25,708)	(35,083)	(30,617)	(5,493)	(6,666)
Inception of finance lease	—	7,173	—	—	—
Dividend paid	—	—	(100,000)	—	—
Repayment of obligations under finance leases	(8,511)	(6,294)	(4,240)	(1,486)	(944)
Interest paid on bank loans	(2,865)	(3,380)	(3,670)	(706)	(1,187)
Net cash (used in)/ generated from financing activities	(22,084)	(17,084)	(95,571)	12,372	(4,001)
Net increase/(decrease) in cash and cash equivalents	58,282	(24,732)	(4,398)	12,329	16,996
Cash and cash equivalents brought forward	19,193	73,807	46,430	46,430	39,066
Effect of foreign exchange rate changes	(3,668)	(2,645)	(2,966)	(488)	2,627
Cash and cash equivalents carried forward represented by bank balances and cash	73,807	46,430	39,066	58,271	58,689

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiary companies in respect of any period subsequent to 31 March 2008 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiary companies in respect of any period subsequent to 31 March 2008.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

The following management and discussion of the Remaining Group has been prepared for the purpose of illustrating the effect of the Disposal becoming effective as if all had taken place on 31 March 2008.

The principal activities of the Remaining Group following completion of the Disposal will comprise two business segments: conductive silicon rubber keypads and printed circuit boards.

For the three months ended 31 March 2008, the Remaining Group recorded an unaudited turnover of approximately HK$45 million and an unaudited net loss attributable to the equity holders of the Company of approximately HK$36 million. Excepted for the losses from business segments stated as below, the net loss of the Remaining Group included the impairment loss of available-for-sale investment and other unallocated corporate expenses of approximately HK$22 million and approximately HK$1 million respectively.

Conductive silicon rubber keypads

For the three months ended 31 March 2008, the conductive silicon rubber keypads segment contributed revenue and net loss to the Remaining Group of approximately HK$20 million and HK$7 million respectively.

During the period under review, this segment faced unstable material costs for mainly conductive silicon rubber and plastic components. Some customers held back their decision in placing order and shortened the lead time to deliver finished goods. Consequently, there was pressure on the average selling price.

In fact, conductive silicon rubber keypads are crucial components in the production of electronic calculators, electronic organizers, mobile phones and audio visual products. With the variety of different electronic products launched in the market, this business becomes an increasingly important sector of the Remaining Group.

The Directors are confident that the maintenance of high quality and reliable standards and customer support can improve the performance of this sector, which would bring positive contribution to the Remaining Group.

Printed circuit boards ("PCB")

For the three months ended 31 March 2008, the PCB segment contributed revenue and net loss to the Remaining Group of approximately HK$25 million and HK$6 million respectively.

The market for PCB was fiercely competitive. During the period under review, the business strategy was focused to consolidate on its key client base and serve a range of and some well known customers in Japan and the Asian Pacific Region.

As disclosed in the announcement of the Company dated 30 July 2008, the Company has entered into a non-binding term sheet on 30 July 2008 with, among others, a company listed on the Centrex Market of Nagoya Stock Exchange in Japan, in relation to a possible disposal of the PCB manufacturing business by the Group. On 12 September 2008, a company wholly and beneficially owned by the Company entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 26 September 2008) to dispose of the PCB manufacturing business to KFE Hong Kong Co., Limited. Details of such disposal have been set out in the Company's announcement dated 26 September 2008.

Available-for-sale investment

Ascalade Communications Inc. ("Ascalade Inc.") is a corporation incorporated pursuant to the laws of the Province of British Columbia and whose securities are listed on the Toronto Stock Exchange, with the stock symbol "ACG". As at 31 March 2008, the Group's equity interest in Ascalade Inc. maintained at approximately 9.8%.

Ascalade Inc. is classified as an available-for sale investment. The Remaining Group's available-for-sale investment is measured at fair value at each balance sheet date, which exposes the Remaining Group to equity security price risk. As such, the Directors regularly review the value of the available-for-sale investment and will consider adequate impairment to be made when necessary.

The Directors noted that the share price of Ascalade Inc. decreased to 12 cents of Canadian dollar on 31 March 2008 and made an impairment loss on available-for-sale investment of approximately HK$21,635,000 for the three months ended 31 March 2008. During the period under review, the Directors considered that it was a prudent decision to realise part of the Group's investment in Ascalade Inc. through the disposal so as to balance its possible risk, enhance its liquidity and improve the cash flow within a relatively short period of time and therefore the Group disposed of approximately 4.9% Ascalade Inc.'s shares to the market and received an aggregate amount of approximately HK$6,015,000.

As announced by the Company on 4 March 2008 and 8 April 2008, the Directors noted that Ascalade Inc. sought a protection from creditors under the Companies' Creditors Arrangement Act ("CCAA") with the British Columbia Supreme Court on 3 March 2008 (Canadian time) due to its inability to fund operations to meet customer demand and obtained an order for CCAA protection which period expired on 4 June 2008. In addition, the subsidiary of Ascalade Inc. filed a scheme arrangement under section 166 of the Companies Ordinance (Chapter 32, Laws of Hong Kong). From the press releases of Ascalade Inc., the Directors further noted the operation of Ascalade Inc's factory in the PRC began focusing on the orderly wind down of operations and dispositions of its inventory and other assets, and Ascalade Inc. has ceased taking new orders as of 31 March 2008 (Canadian time). The details relating to the CCAA protection of Ascalade Inc. were disclosed in the Company's announcements dated 4 March 2008 and 8 April 2008.

As a result of Ascalade Inc.'s undergoing of CCAA protection, the Group expects further impairment loss on available-forsale investment. However, the implications for Ascalade Inc.'s shareholders will not be able to be determined until the end of Ascalade Inc.'s restructuring process. The Directors will update the Shareholders on the progress when appropriate.

Capital Structure

During the three months ended 31 March 2008, there was an increase in issued share capital in the Company of 108,000,000 Shares which were issued at HK$0.30 per Share as a result of a top-up placing exercise pursuant to a subscription agreement and a placing agreement (both dated 6 February 2008). The net proceeds of approximately HK$31,000,000 will be used for financing the Remaining Group's ongoing operation and future business expansion. Save for the above, there has been no change in the capital structure of the Company during the period under review, nor in the subsequent period up to the Latest Practicable Date. As at the Latest Practicable Date, the authorized share capital of the Company was HK$200 million (comprising 2,000 million Shares) and the issued share capital of the Company was approximately HK$ 65,236,000 (comprising 652,356,000 Shares).

Liquidity and Financial Resources

The Remaining 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 the Remaining Group to maintain a strong financial position. As at 31 March 2008, the Remaining Group's bank balances and cash was approximately HK$47 million. As at 31 March 2008, the Remaining Group had banking facilities amounted to an aggregate sum of approximately HK$59,910,400 with various banks. Out of the trade and overdraft banking facilities of approximately HK$43,000,000 in Hong Kong granted to the Remaining Group, approximately HK$974,000 had been utilized as at 31 March 2008.

At 31 March 2008, the current ratio of the Remaining Group was approximately 1.56 times based on current assets of approximately HK$105,818,000 and current liabilities of approximately HK$67,894,000 and the quick ratio of the Remaining Group was approximately 1.19 times.

As at 31 March 2008, the Remaining Group's gearing ratio (being the total indebtedness including bank loans and obligations under finance leases contracts of approximately HK$9,732,000 over the total shareholders' equity of approximately HK$148,889,000) was approximately 6.54%.

As at 31 March 2008, the Remaining Group did not have any charge on its assets or material contingent liabilities.

The Directors considered that the Remaining 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 Remaining Group's assets and liabilities, revenues and expenditures are denominated in Hong Kong dollars, the United States dollars and the Renminbi. It is the Remaining Group's policy to adopt a conservative approach on foreign exchange exposure management. However, the Remaining Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Remaining 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 Remaining Group uses different derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

The fair value of the Remaining Group's outstanding derivative instruments as at 31 March 2008 represented the net amount the Remaining Group would receive/pay if these contracts were closed out at 31 March 2008. The fair value of these outstanding derivatives have been recognised as assets or liabilities.

The Remaining Group's exposure to foreign currency mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Remaining 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 headquarter of the Remaining Group in Hong Kong.

Apart from the above, most of the Remaining Group's assets and liabilities, revenues and expenditures 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.

Employees and Remuneration Policies

As at 31 March 2008, the Remaining Group employed 1,996 full time employees, out of which 11 were based in Hong Kong and 1,985 were based in the PRC. The Remaining Group recorded staff costs of approximately HK$37 million for the three months ended 31 March 2008. The Remaining Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Company.

Future Plan for Material Investments

Save for the acquisition as announced in the Announcement, the Remaining Group did not have any future plan for material investments or capital assets as at the Latest Practicable Date.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2008, being the date up to which the latest published audited financial statements of the Group were made up.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2008, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Group (including the company(ies) agreed to be acquired by the Group as disclosed in the Announcement) had the following outstanding borrowings:

	HK$'000
Obligations under finance leases	4,019
Bank loans	37,279
	41,298

Contingencies

The Group (including the company(ies) agreed to be acquired by the Group as disclosed in the Announcement) did not have any material contingent liabilities or guarantees as at 31 July 2008.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 31 July 2008, the Group (including the company(ies) agreed to be acquired by the Group as disclosed in the Announcement) had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group (including the company(ies) to be acquired by the Group as disclosed in the Announcement) since 31 July 2008 and up to the Latest Practicable Date.

5. WORKING CAPITAL

Following the Disposal Completion, as at the Latest Practicable Date, after due and careful enquiry, the Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the present internal financial resources (including principally cash at bank and listed securities investment) of the Remaining Group (including the company(ies) agreed to be acquired by the Group as disclosed in the Announcement), the Remaining Group (including the company(ies) agreed to be acquired by the Group as disclosed in the Announcement) will, immediately following the Disposal Completion, have sufficient working capital for at least twelve months from the date of this circular.

6. FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in manufacture and marketing of electronic products mainly electronic calculators and organizers, conductive silicon rubber keypads and printed circuit boards.

The economy of the United States of America ("US") is likely to continue to be adversely affected by the continuing impact of the subprime credit crisis, the continual slump in housing markets and resulting recessionary pressures in the US. This adverse trend in the US economy, the weaker US dollar and high energy prices will affect other economies around the world to varying degrees.

It is nonetheless expected that sales growth in Europe will continue and hence the Group should achieve modest overall growth in both revenue and profit in the coming years.

Although the tightening economic measures in the PRC have slowed its growth, these measures will be beneficial in many respects to its long term economic development and will help to maintain its long term growth potential. Hong Kong and the Asian region will continue to benefit from the PRC's growth and development. The Group's diversified businesses around the world are all solid, financially sound and well positioned to continue to progress.

As the electronic manufacturing business is highly labour intensive, persistent increase in the cost of and the shortage of skilled and experienced workers in the PRC have added to the already difficult operating environment, which is mired in escalating electricity, material and transportation costs. Operating efficiency and optimum utilization of production facilities were also affected.

In view of this, the Group has been looking into the opportunity of other business and exploring more investment to offer sustainable growth to its business. On 30 April 2008, the Group has entered into a conditional acquisition agreement for which allow the Company to engage in business for carrying out the research and development, manufacturing and distribution of LCoS televisions, enlarged display units and related components. The directors of the Company are of the view that the LCoS technology is of considerable development potential and the Group's sources of income may be broadened. The Directors also expect that the LCoS projection televisions will receive positive response upon launch in the market.

Save as the aforesaid, there is no other information required to be disclosed under Rule 14.68(3) of the Listing Rules.

1. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountant, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 September 2008

The Directors
Karce International Holdings Company Limited
Units 1 and 2, 29th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
HONG KONG

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Karce International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed disposal of Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited (hereinafter collectively referred to as the "Disposal Group") (the remaining Group, after such proposed disposal referred as to the "Remaining Group") and the net amount of the total non-trade accounts receivable and the total non-trade accounts payable by the members of the Disposal Group from and to the members of the Remaining Group as at 31 March 2008 (the "Disposal Sale Debts") (collectively referred as the "Disposal") might have affected the financial information of the Group.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information on the Remaining Group in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information on the Remaining Group and to report our opinion to you. We do not accept any responsibilities for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information on the Remaining Group beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information on the Remaining Group with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information on the Remaining Group has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information on the Remaining Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information on the Remaining Group is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any events will take place in the future and may not be indicative of:

- the financial position of the Remaining Group as at 31 December 2007 or at any future date; or
- the financial results and cash flows of the Remaining Group for the year ended 31 December 2007 or for any future periods.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information on the Remaining Group has been properly compiled by the Directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information on the Remaining Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

2. UNAUDITED PRO FORMA FINANCIAL INFOMRATION

The following unaudited pro forma financial information is prepared in accordance with Rule 4.29 of the Listing Rules and in a manner consistent with both the format and accounting policies adopted by the Group in the preparation of its published audited consolidated financial statements for the financial year ended 31 December 2007. It is prepared to provide the possible financial effect on the Group upon Disposal Completion based on the consolidated financial information of the Group for the year ended 31 December 2007 as extracted from Appendix I to this circular.

The unaudited pro forma financial information of the Remaining Group have been prepared by the directors of the Company for illustrative purposes only and are based on a number of assumptions, estimates, and uncertainties. Accordingly, the unaudited pro forma financial information of the Remaining Group does not purport to describe the actual financial position of the Remaining Group that would have been attained had the Disposal been completed on 31 December 2007, and does not purport to describe the actual financial results and cash flow of the Remaining Group that would have been attained had the Disposal been completed on 1 January 2007, nor purport to predict the future financial position of the Remaining Group.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical information of the Group as set out in the consolidated financial statements of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

The unaudited pro forma financial information of the Remaining Group have been prepared by the directors of the Company for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Remaining Group following Disposal Completion.

(a) Unaudited pro forma consolidated balance sheet

The unaudited pro forma consolidated balance sheet of the Remaining Group has been prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the transaction took place on 31 December 2007.

The unaudited pro forma consolidated balance sheet of the Remaining Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2007 as set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; and (ii) factually supportable.

	Audited consolidated balance sheet of the Group as at 31 December 2007	Pro forma adjustment for the Disposal				Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2007
		Note 1	*Note 2*	*Note 3*	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Investment properties	71,579	(71,579)				—
Property, plant and equipment	252,095	(141,136)				110,959
Prepaid lease payments	18,046	(13,650)				4,396
Available-for-sale investment	—					—
Club debenture	1,180					1,180
	342,900					116,535
Current assets						
Inventories	129,030	(104,938)				24,092
Trade and other receivables	109,277	(49,073)				60,204
Amount due from an ultimate holding company	—	(34)	34			—
Amounts due from fellow subsidiaries	—	(96,682)	96,682			—
Available-for-sale investment	29,541					29,541
Derivative financial instruments	5,543	(3,967)				1,576
Bank balances and cash	53,179	(39,066)		250,000		264,113
	326,570					379,526
Current liabilities						
Trade and other payables	171,153	(106,224)				64,929
Derivative financial instruments	22,734	(21,751)				983
Amount due to an intermediate holding company	—	(100,062)	100,062			—
Amounts due to fellow subsidiaries	—	(54,568)	54,568			—
Tax liabilities	18,651	(18,797)				(146)
Obligations under finance leases — due within one year	3,714	(3,121)				593
Bank loans — due within one year	46,494	(42,056)				4,438
	262,746					70,797
Net current assets	63,824					308,729
Total assets less current liabilities	406,724					425,264

	Audited consolidated balance sheet of the Group as at 31 December 2007	Pro forma adjustment for the Disposal				Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2007
		Note 1	*Note 2*	*Note 3*	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital and reserves						
Share capital	54,436					54,436
Reserves	320,595	(21,150)			60,397	359,842
Total equity	375,031					414,278
Non-current liabilities						
Obligations under finance leases — due after one year	1,887	(1,609)				278
Bank loans — due after one year	9,164	(3,199)				5,965
Deferred tax liabilities	20,642	(15,899)				4,743
	31,693					10,986
	406,724					425,264

Notes to the unaudited pro forma consolidated balance sheet

1. The adjustments represented the effects of disposing of all assets and liabilities of the Disposal Group from the consolidated balance sheet of the Group as at 31 December 2007, as if the Disposal was completed on 31 December 2007.

2. The adjustments represented the effects of disposing the Disposal Sale Debts as at 31 December 2007.

3. The adjustment of approximately HK$250,000,000 represented the consideration to be received from Extract Group Limited (the "Extract Group") upon the Disposal, assuming the related transaction costs were immaterial to the Disposal.

4. The adjustments of approximately HK$39,247,000 represented the gain on the Disposal as if the Disposal was completed on 31 December 2007, which was carried forward in the reserves as at 31 December 2007. The gain on Disposal is calculated by reference to the combined net assets of the Disposal Group and the fair value of the Disposal Sale Debts as at 31 December 2007 of which the details are set out as follows:

		HK$'000
Net consideration received from Extract Group		250,000
Add:	Exchange reserve released on disposal	21,150
Less:	Combined net assets of the Disposal Group	(152,839)
	The fair value of the Disposal Sale Debts *(Note 2)*	(57,914)
		60,397

(b) Unaudited pro forma consolidated income statement

The unaudited pro forma consolidated income statement of the Remaining Group has been prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the transaction took place on 1 January 2007.

The unaudited pro forma consolidated income statement of the Remaining Group is prepared based on the audited consolidated income statement of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; and (ii) factually supportable.

	Audited consolidated income statement of the Group for the year ended 31 December 2007	Pro forma adjustment for the Disposal			Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2007
		Note 1	*Note 2*	*Note 3*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	735,114	(541,900)		45,782	238,996
Cost of sales	(664,381)	489,695		(44,646)	(219,332)
Gross profit	70,733				19,664
Other income	2,365	(3,964)		2,610	1,011
Selling and distribution costs	(18,659)	13,230			(5,429)
Administrative expenses	(82,200)	56,835		(4,826)	(30,191)
Finance costs	(4,626)	3,670			(956)
Gain on disposal of subsidiaries	—		60,397		60,397
Gain on fair value change of investment properties	3,252	(3,252)			—
Net (loss)/gain on fair value change of derivative financial instruments	(5,683)	6,429			746
Impairment loss on available-for-sale investment	(28,008)				(28,008)
Waive of debts on intercompany balance	—	(66,630)		66,630	—
(Loss)/profit before taxation	(62,826)				17,234
Taxation	(1,924)	1,243			(681)
(Loss)/profit for the year	(64,750)				16,553
Attributable to:					
Equity holders of the Company	(64,750)				16,553
(Loss)/Earnings per share contributable to the equity holders of the Company — Basic and diluted *(Note 4)*	(11.89 cents)				(3.04 cents)

Notes to the unaudited pro forma consolidated income statement

1. The adjustments represented the elimination of all income and expenses of the Disposal Group which were to be disposed of for the year ended 31 December 2007 together with consolidation adjustments on intercompany transactions as if the Disposal had been completed on 1 January 2007.

2. The gain on the Disposal of approximately HK$60,397,000 was calculated based on the combined net assets of the Disposal Group and the fair value of the Disposal Sale Debts as at 31 December 2007 because the combined net assets of the Disposal Group and the fair value of the Disposal Sale Debts as at 1 January 2007 and 31 December 2007 are substantially different. As such, the adjustments do not reflect a misleading financial impact of the Disposal in the unaudited pro forma consolidated income statement. Please refer to part (a) note 4 of the unaudited pro forma financial information for details.

3. The adjustments represented the elimination of the consolidation adjustments on revenue, cost of sales, other income, administrative expenses and waive of debts on intercompany balance in relation to the Disposal Group as if the Disposal was completed on 1 January 2007.

4. The calculation of pro forma earnings per share is based on the Remaining Group's pro forma net profit attributable to the equity holders of the Company of HK$16,553,000 and the number of ordinary shares of 544,356,000 of the Remaining Group upon completion of the Disposal.

   No diluted earnings per shares has been calculated for the Remaining Group because there were no potential dilutive ordinary shares were outstanding during the year ended 31 December 2007.

(c) Unaudited pro forma consolidated cashflow statement

The unaudited pro forma consolidated cash flow statement of the Remaining Group has been prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of illustrating the effect of the Disposal as if the transaction took place on 1 January 2007.

The unaudited pro forma consolidated cash flow statement of the Remaining Group is prepared based on the audited consolidated cash flow statement of the Group for the year ended 31 December 2007 as set out in Appendix I to this circular, after making pro forma adjustments relating to the Disposal that are (i) directly attributable to the transaction; and (ii) factually supportable.

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2007	Pro forma adjustment for the Disposal				Unaudited pro forma consolidated cash flow statement of the Remaining Group for the year ended 31 December 2007
		Note 1	*Note 2*	*Note 3*	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities						
(Loss)/profit before taxation	(62,826)	(45,887)	60,397		65,550	17,234
Adjustments for:						
Finance costs	4,626	(3,670)				956
Allowance for doubtful debts	4,530	(4,888)				(358)
Allowance recognised for obsolete and slow moving inventories	3,183	(3,061)				122
Interest income	(1,330)	1,198				(132)
Gain on fair value change of investment properties	(3,252)	3,252				—
Depreciation and amortisation	35,705	(18,771)				16,934
Revaluation surplus on buildings	(331)					(331)
(Gain)/loss on disposal of property, plant and equipment	(127)	156				29
Gain on disposal of subsidiaries	—		(60,397)			(60,397)
Unrealised loss/(gain) on fair value change of derivative financial instruments	15,159	(22,181)				(7,022)
Impairment loss on available-for-sale investment	28,008					28,008
Waive of debts on intercompany balance	—	66,630			(66,630)	—

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2007	Pro forma adjustment for the Disposal				Unaudited pro forma consolidated cash flow statement of the Remaining Group for the year ended 31 December 2007
		Note 1	*Note 2*	*Note 3*	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital	23,345					(4,957)
(Increase)/decrease in inventories	(16,991)	22,231				5,240
Decrease in trade and other receivables	7,077	(4,436)				2,641
Increase in amount due from an ultimate holding company	—	34			(34)	—
Decrease in amount due from a related company	—	(571)			571	—
Decrease in amount due to an ultimate holding company	—	30,364			(30,364)	—
Increase in amount due to an intermediate holding company	—	(124,544)			124,544	—
Increase in amounts due from fellow subsidiaries	—	55,930			(55,930)	—
Increase in amounts due to fellow subsidiaries	—	(51,461)			51,461	—
Increase/(decrease) in trade and other payables	765	(6,814)				(6,049)
Cash generated from /(used in) operations	14,196					(3,125)
Profits Tax Paid	(4,737)	3,634				(1,103)
Net cash generated from /(used in) operating activities	9,459					(4,228)

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2007	Pro forma adjustment for the Disposal				Unaudited pro forma consolidated cash flow statement of the Remaining Group for the year ended 31 December 2007
		Note 1	*Note 2*	*Note 3*	*Note 4*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities						
Purchase of property, plant and equipment	(31,886)	13,206				(18,680)
Interest received	1,330	(1,198)				132
Proceeds on disposal of property, plant and equipment	334	(326)				8
Proceeds on disposal of subsidiaries	—			250,000		250,000
Net cash (used in)/ generated from investing activities	(30,222)					231,460
Financing activities						
New bank loans obtained	55,165	(42,956)				12,209
Repayment of bank loans	(32,424)	30,617				(1,807)
Repayment of obligations under finance leases	(5,802)	4,240				(1,562)
Dividend paid	(5,444)	100,000			(100,000)	(5,444)
Interest paid on bank loans	(4,093)	3,670				(423)
Interest paid on obligations under finance leases	(533)					(533)
Net cash generated from financing activities	6,869					2,440
Net (decrease)/increase in cash and cash equivalents	(13,894)					229,672
Cash and cash equivalents brought forward	65,890					65,890
Effect of foreign exchange rate changes	1,183	2,966				4,149
Cash and cash equivalents carried forward represented by bank balances and cash	53,179					299,711

Notes to the unaudited pro forma consolidated cash flow statement

1. The adjustments represented the elimination of all cash inflow and outflow of the Disposal Group which were to be disposed of for the year ended 31 December 2007 as if the Disposal had been completed on 1 January 2007.

2. The pro forma adjustments to the consolidated cash flow statement represented the recognition of gain on the Disposal of the Disposal Group of approximately HK$60,397,000. The gain on the Disposal of approximately HK$60,397,000 was calculated based on the combined net assets of the Disposal Group and the fair value of the Disposal Sale Debts as at 31 December 2007 because the combined net assets of the Disposal Group and the fair value of the Disposal Sale Debts as at 1 January 2007 and 31 December 2007 are substantially different. As such, the adjustments do not reflect a misleading financial impact of the Disposal in the unaudited pro forma consolidated income statement. Please refer to part (a) note 4 of the unaudited pro forma financial information for details.

3. The adjustment of approximately HK$250,000,000 represented the consideration to be received from Extract Group upon Disposal, assuming the related transaction costs were immaterial to the Disposals.

4. The adjustments represented the elimination of the consolidation adjustments on profit before taxation, gain on disposal and waive of debts on intercompany balance in relation to the Disposal Group as if the Disposal was completed on 1 January 2007.

The following is the text of a letter, summary of value and valuation certificate on the property interests held by the Disposal Group as at 30 June 2008 prepared by Savills Valuation and Professional Services Limited for the purpose of inclusion in this circular.

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Professional Services Limited
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The Board of Directors
Karce International Holdings Company Limited
29th Floor, Unit 1-2
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

30 September 2008

Dear Sirs,

VALUATION OF VARIOUS PROPERTIES IN HONG KONG AND THE PEOPLE'S REPUBLIC OF CHINA

In accordance with your instructions for us to value the properties held by Karce International Holdings Company Limited ("the Company") and its subsidiaries (hereinafter together known as "the Group") in Hong Kong and the People's Republic of China (the "PRC") intended to be disposed of, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the properties as at 30 June 2008 ("Valuation Date") for the inclusion in a circular issued by the Company.

Our valuation of each of the properties is our opinion of its value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the properties in the PRC, we have assumed that transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have assumed that the owners of the properties have enforceable titles to the properties, and have free and uninterrupted rights to use the properties for the whole of the respective unexpired terms granted.

In valuing the properties in Group I, which are owned and occupied by the Group in Hong Kong, we have adopted the direct comparison approach by making reference to the comparable market transactions available and assuming sale with the benefit of vacant possession.

In valuing the property in Group II, which is owned and occupied by the Group in the PRC, due to the specific purpose for which the property was constructed, there are no readily identifiable market comparables and the buildings and structures of the property cannot be valued on the basis of direct comparison. It has been valued on the basis of their depreciated replacement cost. We would define "depreciated replacement cost" for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings, including fees and finance charges, from which deductions are then made to allow for physical, functional and environmental obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuing the properties in Group III, which are held for investment purposes by the Group in the PRC, we have valued the properties by capitalizing the net incomes as shown in the schedules provided to us with due allowance for the reversionary income potential of the property.

We have caused searches to be made at the Land Registry for the Hong Kong properties and have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments that may not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and its PRC legal advisers, Beijing Wangyumei Law Firm Dongguan Office, regarding the titles to the properties in the PRC.

In the course of our valuation, we have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuation. We have also advised by the Group that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspection, we did not note any serious defect. However, no structural survey has been made and we are therefore unable to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expense, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. Where appropriate, the exchange rate we have adopted in our valuation was HK$1 = RMB0.90, which was the prevailing exchange rate as at 30 June 2008. There have been no significant fluctuation in such exchange rate between that date and the date of this letter.

Our summary of values and valuation certificate are attached.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited

Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has been a qualified valuer and has about 24 years' experience in the valuation of properties in Hong and has about 19 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 30 June 2008	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 June 2008
Group I — Properties held by the Group for owner occupation in Hong Kong				
1.	Unit No. 1 on 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	HK$4,100,000	100%	HK$4,100,000
2.	Unit No. 2 on 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	HK$5,100,000	100%	HK$5,100,000
3.	Lorry Parking Space No. L21 on 3rd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	HK$620,000	100%	HK$620,000
4.	Private Car Parking Space No. P34 on 3rd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories	HK$360,000	100%	HK$360,000
	Sub-total:	HK$10,180,000	100%	HK$10,180,000
Group II — Property held by the Group for owner occupation in the PRC				
5.	Portion of an industrial compound located at Cuntou Administrative Zone, Humen Town, Dongguan, Guangdong Province, PRC	HK$99,128,000 (RMB89,217,000)	100%	HK$99,128,000 (RMB89,217,000)
	Sub-total:	HK$99,128,000	100%	HK$99,128,000

No.	Property	Capital value in existing state as at 30 June 2008	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 June 2008
Group III — Properties held for by the Group for investment in the PRC				
6.	An industrial compound located at Renzhou Administrative Zone, Shatian Town, Dongguan, Guangdong Province, PRC	HK$8,911,000 (RMB8,020,000)	100%	HK$8,911,000 (RMB8,020,000)
7.	Portion of an industrial compound located at Cuntou Administrative Zone, Humen Town, Dongguan, Guangdong Province, PRC	HK$43,357,000 (RMB39,020,000)	100%	HK$43,357,000 (RMB39,020,000)
	Sub-total:	HK$52,268,000	100%	HK$52,268,000
	Total:	**HK$161,576,000**		**HK$161,576,000**

VALUATION CERTIFICATE

Group I — Properties held by the Group for owner occupation in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
1.	Unit No. 1 on 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories 150/177,500th shares of and in Tsuen Wan Town Lot No. 218 and Tsuen Wan Inland Lot No. 36.	Cable TV Tower is a 41-storey warehouse/factory/office complex building with ancillary car parking and loading/unloading facilities completed in 1992. The property comprises an office unit on the 29th floor of the development, with a gross floor area of 205.96 sq m (2,217 sq ft) or thereabouts. Tsuen Wan Town Lot No. 218 is held from Government under New Grant No. TW5008 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot. Tsuen Wan Inland Lot No. 36 is held from Government under Conditions of Sale No. UB5156 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.	The property is occupied by the Group as administrative office.	HK$4,100,000 (100% attributable to the Group: HK$4,100,000)

Notes:

(1) The registered owner of the property is T & S Industrial Company Limited, in which the Group has a 100 per cent attributable interest.

(2) The property is subject to a mortgage to secure all moneys in respect of general banking facilities (pt.) in favour of The Hongkong and Shanghai Banking Corporation Limited.

(3) The property lies within an area zoned “Other Specified Uses (Business(1))” under Tsuen Wan Outline Zoning Plan.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
2.	Unit No. 2 on 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories 200/177,500th shares of and in Tsuen Wan Town Lot No. 218 and Tsuen Wan Inland Lot No. 36.	Cable TV Tower is a 41-storey warehouse/factory/office complex building with ancillary car parking and loading/unloading facilities completed in 1992. The property comprises an office unit on the 29th floor of the development, with gross floor area of 261.71 sq m (2,817 sq ft) or thereabouts. Tsuen Wan Town Lot No. 218 is held from Government under New Grant No. TW5008 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot. Tsuen Wan Inland Lot No. 36 is held from Government under Conditions of Sale No. UB5156 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.	The property is occupied by the Group as administrative office.	HK$5,100,000 (100% attributable to the Group: HK$5,100,000)

Notes:

(1) The registered owner of the property is T & S Industrial Company Limited, in which the Group has a 100 per cent attributable interest.

(2) The property is subject to a mortgage to secure all moneys in respect of general banking facilities (pt.) in favour of The Hongkong and Shanghai Banking Corporation Limited.

(3) The property lies within an area zoned “Other Specified Uses (Business(1))” under Tsuen Wan Outline Zoning Plan.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
3.	Lorry Parking Space No. L21 on 3rd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories 39/177,500th shares of and in Tsuen Wan Town Lot No. 218 and Tsuen Wan Inland Lot No. 36.	Cable TV Tower is a 41-storey warehouse/factory/office complex building with ancillary car parking and loading/unloading facilities completed in 1992. The property comprises a lorry parking space on the 3rd floor of the development. Tsuen Wan Town Lot No. 218 is held from Government under New Grant No. TW5008 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot. Tsuen Wan Inland Lot No. 36 is held from Government under Conditions of Sale No. UB5156 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.	The property is occupied by the Group for car parking purposes.	HK$620,000 (100% attributable to the Group: HK$620,000)

Notes:

(1) The registered owner of the property is T & S Industrial Company Limited, in which the Group has a 100 per cent attributable interest.

(2) The property is subject to a mortgage to secure all moneys in respect of general banking facilities (pt.) in favour of The Hongkong and Shanghai Banking Corporation Limited.

(3) The property lies within an area zoned "Other Specified Uses (Business(1))" under Tsuen Wan Outline Zoning Plan.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
4.	Private Car Parking Space No. P34 on 3rd Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories 22/177,500th shares of and in Tsuen Wan Town Lot No. 218 and Tsuen Wan Inland Lot No. 36.	Cable TV Tower is a 41-storey warehouse/factory/office complex building with ancillary car parking and loading/unloading facilities completed in 1992. The property comprises a private car parking space on the 3rd floor of the development. Tsuen Wan Town Lot No. 218 is held from Government under New Grant No. TW5008 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot. Tsuen Wan Inland Lot No. 36 is held from Government under Conditions of Sale No. UB5156 for a term expiring on 30 June 2047 at an annual Government rent at 3% of the rateable value for the time being of the lot.	The property is occupied by the Group for car parking purposes.	HK$360,000 (100% attributable to the Group: HK$360,000)

Notes:

(1) The registered owner of the property is T & S Industrial Company Limited, in which the Group has a 100 per cent attributable interest.

(2) The property is subject to a mortgage to secure all moneys in respect of general banking facilities (pt.) in favour of The Hongkong and Shanghai Banking Corporation Limited.

(3) The property lies within an area zoned “Other Specified Uses (Business(1))” under Tsuen Wan Outline Zoning Plan.

VALUATION CERTIFICATE

Group II — Property held by the Group for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
5.	Portion of an industrial compound located at Cunton Administrative Zone, Humen Town, Dongguan, Guangdong Province, PRC	The property comprises portion of an industrial compound erected upon three adjoining leveled parcels of land with a total site area of approximately 86,875.00 sq m (935,123 sq ft) of reinforced concrete construction completed in various phases between 1998 to 2004. Main buildings in the industrial compound include a 5-storey office building, a 5-storey guesthouse, four 4-storey factory buildings, a 6-storey senior staff quarters building, three 6-storey staff-quarter buildings and a 4-storey canteen/ recreational building. The total gross floor area is approximately 93,111.54 sq m (1,002,253 sq ft). The industrial compound also comprises extension buildings of a 4-storey factory building/ warehouse, a 6-storey staff-quarters building and various extension of the factory buildings with a total gross floor area of approximately 24,001.21 sq m (258,349 sq ft) completed in 2004. The property comprises portion of the main buildings of the industrial compound with a total gross floor area of approximately 70,268.04 sq m (756,365 sq ft) and portion of the extension buildings with a total gross floor area of approximately 4,315.61 sq m (46,453 sq ft). Property (7) comprises the remaining portion of the industrial compound. The land use rights of the property were granted for two terms of 50 years expiring on 28 October 2047 and 15 January 2048 for industrial uses respectively.	The property is occupied by the Group for manufacturing and dormitory purposes.	HK$99,128,000 (RMB89,217,000) (100% attributable to the Group: HK$99,128,000) (RMB89,217,000)

Notes:

(1) Pursuant to two State-owned Land Use Rights Certificates 東府國有(1997) 字第特328 及 329 號 both issued by Dongguan Land Administration Bureau on 18 November 1997, the land use rights of a portion of the property with a total site area of approximately 77,148 sq m is vested in 東莞虎門泰達電子有限公司 (Dongguan Humen Taida Electric Co., Ltd., referred hereinafter as "Taida") for a term expiring on 28 October 2047 for industrial uses.

(2) Pursuant to the State-owned Land Use Rights Certificate 東府國有(1998) 字第特22 號 issued by Dongguan Land Administration Bureau on 14 January 1998, the land use rights of the remaining portion of the property with a site area of approximately 9,727.00 sq m is vested in Taida for a term expiring on 15 January 2048 for industrial uses.

(3) Pursuant to eleven Real Estate Title Certificates all issued by the People's Government of Guangdong, the title to the main buildings of the property is vested in Taida for a term expiring on 28 October 2047 for industrial uses. Details of the said certificates are listed out below:-

Certificate No.	**Gross Floor Area** *(sq m)*	**Use**
粵房地証字第C0385751	12,808.00	Factory
粵房地証字第C0385750	12,808.00	Factory
粵房地証字第C0385749	12,808.00	Factory
粵房地証字第C0385748	12,808.00	Factory
粵房地証字第C0385747	6,820.72	Staff quarter
粵房地証字第C0385746	7,542.43	Staff quarter
粵房地証字第C0385745	6,820.72	Staff quarter
粵房地証字第C0385744	6,820.72	Staff quarter
粵房地証字第C0385714	6,090.40	Canteen
粵房地証字第C0385701	5,221.78	Office
粵房地証字第C0385752	2,562.77	Hostel
Total	**93,111.54**	

(4) We have been advised that the relevant Building Ownership Certificates for the extension buildings have not been obtained. We have assigned no commercial value to the portion of these buildings of the property with a total gross floor area of about 4,315.61 sq m in our valuation. For indicative purpose, had the relevant Building Ownership Certificate for the said buildings been obtained, the depreciated replacement cost of the portion of these buildings of the property as at 30 June 2008 was RMB4,065,000.

(5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) Taida legally owns the land use rights of the property and building ownership of the buildings with a total gross floor area of 70,268.04 sq m of the property; and

(ii) Taida is entitled to transfer, lease, mortgage or dispose of by other means the land use rights and buildings of the property with a total gross floor area of 70,268.04 sq m.

VALUATION CERTIFICATE

Group III — Properties held by the Group for investment in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
6.	An industrial compound located at Renzhou Administrative Zone,Shatian Town, Dongguan, Guangdong Province, PRC	The property comprises an industrial complex erected upon an irregular-shaped site with an area of approximately 3,748.00 sq m (40,343 sq ft) of reinforced concrete construction completed in 1993. The industrial compound comprises mainly a 6-storey factory building and three 3 to 6-storey staff-quarters buildings with a total gross floor area of approximately 8,375.23 sq m (90,151 sq ft) and a single-storey factory extension with a gross floor area of approximately 720 sq m (7,750 sq ft). The land use rights of the property were granted for a term of 50 years from 18 August 1997 to 17 August 2047 for industrial factory and ancillary facilities uses.	The property is partly occupied by the Group for manufacturing and dormitory purposes, and is partly vacant. The property is intended to be held by the Group for investment purpose.	HK$8,911,000 (RMB8,020,000) (100% attributable to the Group: HK$8,911,000) (RMB8,020,000)

Notes:

(1) Pursuant to the State-owned Land Use Rights Certificate 東府國用(1997)字第特219號 issued by Dongguan People's Government (hereinafter referred to as "Party A") on 8 August 1997, the land use rights of the property with a site area of approximately 3,748 sq m is vested in 東莞虎門泰達電子有限公司 (Dongguan Humen Taida Electric Co. Ltd., hereinafter referred to as "Taida") for a term of 50 years commencing on 18 August 1997 and expiring on 17 August 2047 for industrial factory and auxiliary facilities uses.

(2) Pursuant to the Building Ownership Certificate 粵房地証字第0964021號 issued by Party A on 22 August 1997, the title to the factory building with a gross floor area of approximately 4,686.40 sq m is vested in Taida.

(3) Pursuant to three Building Ownership Certificates 粵房地証字第0964018, 0964019 & 0964020號 all issued by Party A on 22 August 1997, the title to three staff quarters buildings with a total gross floor area of approximately 3,688.83 sq m is vested in Taida.

(4) We have been advised that the Building Ownership Certificate for the single-storey factory extension has not been obtained. We have assigned no commercial value to this building in our valuation. For indicative purpose, had the Building Ownership Certificate for the said building been obtained, the depreciated replacement cost of this building of the property as at 30 June 2008 was RMB378,000.

(5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

    (i) Taida legally owns the land use rights and buildings ownership of the buildings of the property with a total gross floor area of 8,375.23 sq m; and

    (ii) Taida is entitled to transfer, lease, mortgage or dispose of by other means the land use rights and buildings of the property with a total gross floor area of 8,375.23 sq m.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2008
7.	Portion of an industrial compound located at Cunton Administrative Zone, Humen Town, Dongguan, Guangdong Province, PRC	The property comprises portion of an industrial compound erected upon three adjoining leveled parcels of land with a total site area of approximately 86,875.00 sq m (935,123 sq ft) of reinforced concrete construction completed in various phases between 1998 to 2004. Main buildings in the industrial compound include a 5-storey office building, a 5-storey guesthouse, four 4-storey factory buildings, a 6-storey senior staff quarters building, three 6-storey staff-quarter buildings and a 4-storey canteen/ recreational building. The total gross floor area is approximately 93,111.54 sq m (1,002,253 sq ft). The industrial compound also comprises extension buildings of a 4-storey factory building/ warehouse, a 6-storey staff-quarters building and various extension of the factory buildings with a total gross floor area of approximately 24,001.21 sq m (258,349 sq ft) were completed in 2004. The property comprises portion of the main buildings of the industrial compound with a total gross floor area of approximately 22,843.50 sq m (245,887 sq ft) and portion of the extension buildings with a total gross floor area of approximately 19,685.60 sq m (211,896 sq ft). Property (5) comprises the remaining portion of the industrial compound. The land use rights of the property were granted for two terms of 50 years expiring on 28 October 2047 and 15 January 2048 for industrial uses respectively.	The property is vacant.	HK$43,357,000 (RMB39,020,000) (100% attributable to the Group: HK$43,357,000) (RMB39,020,000)

Notes:

(1) Pursuant to two State-owned Land Use Rights Certificates 東府國有(1997) 字第特328 及 329 號 both issued by Dongguan Land Administration Bureau on 18 November 1997, the land use rights of a portion of the property with a total site area of approximately 77,148 sq m is vested in 東莞虎門泰達電子有限公司 (Dongguan Humen Taida Electric Co., Ltd., referred hereinafter as "Taida") for a term expiring on 28 October 2047 for industrial uses.

(2) Pursuant to the State-owned Land Use Rights Certificate 東府國有(1998) 字第特22 號 issued by Dongguan Land Administration Bureau on 14 January 1998, the land use rights of the remaining portion of the property with a site area of approximately 9,727.00 sq m is vested in Taida for a term expiring on 15 January 2048 for industrial uses.

(3) Pursuant to eleven Real Estate Title Certificates all issued by the People's Government of Guangdong, the title to the main buildings of the property is vested in Taida for a term expiring on 28 October 2047 for industrial uses. Details of the said certificates are listed out below:-

Certificate No.	Gross Floor Area *(sq m)*	Use
粵房地証字第C0385751	12,808.00	Factory
粵房地証字第C0385750	12,808.00	Factory
粵房地証字第C0385749	12,808.00	Factory
粵房地証字第C0385748	12,808.00	Factory
粵房地証字第C0385747	6,820.72	Staff quarters
粵房地証字第C0385746	7,542.43	Staff quarters
粵房地証字第C0385745	6,820.72	Staff quarters
粵房地証字第C0385744	6,820.72	Staff quarters
粵房地証字第C0385714	6,090.40	Canteen
粵房地証字第C0385701	5,221.78	Office
粵房地証字第C0385752	2,562.77	Hostel
Total	**93,111.54**	

(4) We have been advised that the relevant Building Ownership Certificates for the extension buildings have not been obtained. We have assigned no commercial value to the portion of these buildings of the property with a total gross floor area of about 19,685.60 sq m in our valuation. For indicative purpose, had the relevant Building Ownership Certificates for the said buildings been obtained, the depreciated replacement cost of the portion of these buildings of the property as at 30 June 2008 was RMB20,439,000.

(5) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) Taida legally owns the land use rights of the property and buildings ownership of the buildings with a total gross floor area of 22,843.50 sq m of the property; and

(ii) Taida is entitled to transfer, lease, mortgage and dispose of by other means the land use rights and buildings of the property with a total gross floor area of 22,843.50 sq m.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

2. DIRECTORS' INTERESTS

(a) Directors' and chief executive's interests in the securities of the Company and its associated corporation

As the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interest and short positions in which they were deemed or taken to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Directors' interests in assets/contracts and other interests

Save for Mr. Tong's interest in the Disposal Agreement, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group (including the Disposal Group) and company(ies) agreed to be acquired as disclosed in the Announcement (collectively, the "Enlarged Group") subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

Save for Mr. Tong's interest in the Disposal Agreement, and that Chan Shun Yuen (a proposed Director following the completion of the acquisition as disclosed in the Announcement) is the sole shareholder of the company which in turn holds 10% of the company proposed to be acquired by a subsidiary of the Company as disclosed in the Announcement, as at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, or are proposed to be, acquired or disposed of by or leased to any member of Enlarged Group since 31 March 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

(c) Directors' interests in service contracts

As at the Latest Practicable Date, none of the Directors nor proposed Directors had any existing or proposed service contracts with any member of the Group other than contracts expiring or determinable by the Company or the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

3. DISCLOSURE OF INTERESTS BY PERSONS OTHER THAN DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or , who 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 meetings of any other member of the Enlarged Group:

(a) Interests in the Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage
Golden Mount Limited *(Note 1)*	Beneficial owner	151,180,000	23.17%
Perfect Treasure Investment Limited *(Note 2)*	Beneficial owner	87,800,000 *(Note 3)*	13.45%

Notes:

1. Golden Mount Limited is wholly-owned by Mr. Chim Pui Chung, who does not hold any position in the Company and is the father of Mr. Chim Kim Lun, Ricky, an executive Director. As the entire issued share capital of Golden Mount Limited is held by Mr. Chim Pui Chung, Mr. Chim Pui Chung is deemed to be interested in the Shares in which Golden Mount Limited is interested by virtue of the SFO.

2. Perfect Treasure Investment Limited is a company incorporated in Hong Kong and a wholly-owned subsidiary of Sing Tao News Corporation Limited, a company incorporated in Bermuda and whose securities are listed on the Stock Exchange.

3. It was stated in the corporate substantial shareholder notice of Perfect Treasure Investment Limited filed on 29 February 2008 that it was interested in 87,800,000 Shares (representing 13.45% of the total issued Shares). To the best knowledge and belief of the Directors, Perfect Treasure Investment Limited was interested in 90,416,000 Shares (representing 13.85% of the total Shares) as at the Latest Practicable Date.

(b) Interests in the underlying Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage
China Eagle Development Limited *(Note 1)*	Beneficial owner	6,712,500,000	1,028.96% *(Note 2)*
Fairtime International Limited *(Note 3)*	Beneficial owner	787,500,000	120.72%

Notes:

1. As at the Latest Practicable Date, China Eagle Development Limited was owned as to 51% by Pacific Zone Enterprises Limited and as to 49% by Goldsino Development Limited. Pacific Zone Enterprises Limited and Goldsino Development Limited were wholly-owned by Lam Suk Fong and Hsu Ming Shan respectively. Lam Suk Fong and Hsu Ming Shan are deemed to be interested in the underlying Shares in which China Eagle Development Limited is interested by virtue of the SFO.

2. The approximate shareholding percentage disclosed in the corporate substantial shareholder notice of China Eagle Development Limited filed on 5 May 2008 is 999.99%, which to the best knowledge and belief of the Directors, should be 1,028.92% instead (based on the total issued Shares of 652,356,000 as at the Latest Practicable Date).

3. As at the Latest Practicable Date, Fairtime International Limited was wholly-owned by Chan Shun Yuen. Chan Shun Yuen is deemed to be interested in the underlying Shares in which Fairtime International Limited is interested by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had an interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who 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 meetings of any other member of the Enlarged Group.

As at the Latest Practicable Date and save and except that Chan Shun Yuen, a proposed Director, is deemed to be interested in the underlying Shares in which Fairtime International Limited is interested as disclosed in paragraph 3(b) above, none of the Directors or proposed Director held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(i) the conditional acquisition agreement entered into between Sourcestar Profits, a direct wholly-owned subsidiary of the Company, the Company, China Eagle Development Limited, Fairtime International Limited, Chan Shun Yuen and Hsu Ming Shan, pursuant to which Sourcestar Profits has agreed to acquire, among others, the entire issued share capital of Pacific Choice Holdings Limited at a total consideration of HK$3,400 million, details of which were disclosed in the Announcement;

(ii) the Disposal Agreement;

(iii) the Supply Agreement;

(iv) the conditional acquisition agreement dated 19 September 2007 and entered into between Sourcestar Profits (as purchaser), the Company (as purchaser's warrantor), Prime Sino Investments Limited (as vendor) and Chan Shun Yuen (as vendor's warrantor) in relation to the acquisition of the entire issued share capital of Silverway Pacific (S) Limited for the purpose of acquiring the exploration and mining rights of certain mines in Mongolia. The consideration involved was HK$1,400 million and the details of such proposed acquisition were disclosed in the announcement of the Company dated 10 October 2007. However, the said conditional acquisition agreement was eventually terminated, details of which were disclosed in the announcement of the Company dated 6 February 2008;

(v) the placing agreement entered into between the Company and Guotai Junan Securities (Hong Kong) Limited (as placing agent) on 28 September 2007, pursuant to which the Company has appointed the said placing agent, on a best-efforts basis, to place or procure placees of more than six, for 455,000,000 placing shares of the Company at HK$0.33 each. Details of such proposed acquisition were disclosed in the announcement of the Company dated 10 October 2007. However, given the placing agreement was conditional upon the agreement referred to item (iv) above becoming unconditional, and that the agreement in item (iv) was eventually terminated, the placing as contemplated by the said placing agreement did not proceed eventually, details of which were disclosed in the announcement of the Company dated 6 February 2008;

(vi) the termination agreement entered into between Sourcestar Profits, the Company with Prime Sino Investments Limited and Chan Shun Yuen on 5 February 2008 for cancelling the conditional acquisition agreement referred to in item (iv) above, details of which were disclosed in the announcement of the Company dated 6 February 2008;

(vii) the conditional placing agreement dated 6 February 2008 entered into between the Company, Golden Mount Limited and Guotai Junan Securities (Hong Kong) Limited (as placing agent) in respect of the top-up placing of up to 108,000,000 existing Shares beneficially owned by Golden Mount Limited on a best effort basis at HK$0.3 per Share. The placing of 108,000,000 existing Shares beneficially owned by Golden Mount Limited and subscription of new Shares in an equal number were completed and net proceeds of approximately HK$31 million was raised. Details of such top-up placing were disclosed in the announcement of the Company dated 11 February 2008;

(viii) the agreement dated 29 February 2008 and made between, among others, 台灣微型影像股份有限公司 (Taiwan Micro Display Corp., "**TMDC**") as vendor and Starwick Development Limited ("**Starwick**") as purchaser (as supplemented by a supplemental agreement executed on 5 September 2008) in connection with, inter alia, the sale and purchase of the certain machineries and patents of TMDC and the entire issued share capital in Precise Media Limited;

(ix) the exclusive licence agreement entered into between TMDC and Sheenway Limited ("Sheenway") and dated 4 September 2008 pursuant to which TMDC licensed a patent registered in the PRC (Patent number: ZL200520103712.2) for the use of Sheenway and/or Sheenway's nominee(s) from 4 September 2008 to 11 August 2015;

(x) the exclusive licence agreement entered into between TMDC and Sheenway and dated 4 September 2008 pursuant to which TMDC licensed five patents registered in Taiwan (Patent numbers: M286929, M251417, I216985, M260965 and M260756) for the exclusive use of Sheenway and/or Sheenway's nominee(s) from 4 September 2008 to the respective expiry date of the said patents, being 26 July 2015, 8 February 2014, 9 January 2015, 25 May 2014 and 25 May 2014 respectively; and

(xi) the sale and purchase agreement dated 12 September 2008 and entered into among China Ample (a company wholly and beneficially owned by the Company) as vendor, KFE Hong Kong (a company wholly and beneficially owned by KFE Japan (a company incorporated in Japan whose shares are listed on the Nagoya Stock Exchange) as purchaser and KFE Japan as warrantor of KFE Hong Kong (as supplemented by the supplemental agreement dated 26 September 2008), in connection with China Ample's disposal of the entire issued share capital of Jet Master Limited (a wholly-owned subsidiary of China Ample and an indirect wholly-owned subsidiary of the Company) to KFE Hong Kong at a consideration of US$3,000,000.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had an interest in a business apart from the Company's business which competes, or is likely to compete, either directly or indirectly, with the Company's business.

7. EXPERTS AND CONSENTS

(i) The following are the qualifications of the experts who have been named in this circular or have given opinions and advice contained in this circular:

Name	Qualification
Savills Valuation and Professional Services Limited ("Savills")	Property valuer, chartered surveyor
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants, Certified Public Accountants
Grand Cathay	A licensed corporation to carry on type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Supply Transactions

(ii) None of Savills, HLB and Grand Cathay has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) Each of Savills, HLB and Grand Cathay has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of their letters or the references to their names in the form and context in which they respectively appear.

(iv) None of Savills, HLB and Grand Cathay has any direct or indirect interest in any asset which has been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2008, the date to which the latest published audited financial statements of the Group were made up.

8. MISCELLANEOUS

(i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(ii) The head office and principal place of business of the Company in Hong Kong is at Units 1 and 2, 29th Floor Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

(iii) The company secretary as well as the qualified accountant of the Company is Mr. Kwong Ping Man who holds a bachelor's degree in Commerce Accounting from Curtin University of Technology in Australia and a master degree in Professional Accountancy from the Hong Kong Polytechnic University. He is a Certified Public Accountant of the Australia Society of Certified Practising Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

(iv) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(v) In the event of inconsistence, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company from the date of this circular up to and including the date of the SGM:

(i) the memorandum of association and bye-laws of the Company;

(ii) the annual reports of the Company for the two years ended 31 December 2007;

(iii) the accountants' report on the Group included in Appendix I to this circular;

(iv) the report from HLB in respect of the unaudited pro forma financial information of the Remaining Group as set out in Appendix II to this circular;

(v) the property valuation report prepared by Savills as included in Appendix III to this circular;

(vi) the written consents referred to under the paragraph headed "Experts and consents" in this appendix;

(vii) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(viii) the letter from the Independent Board Committee, the text of which is set out in the section "Letter from the Independent Board Committee" in this circular; and

(ix) the letter from Grand Cathay, the text of which is set out in the section "Letter from Grand Cathay" in this circular.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Karce International Holdings Company Limited ("**Company**") will be held at Crystal Room VI, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Friday, 17 October, 2008, at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

1. "**THAT** the conditional agreement dated 2 May 2008 ("**Disposal Agreement**") (copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) and made between, Redditch Enterprises Limited ("**Redditch**"), a direct wholly-owned subsidiary of the Company and Extract Group Limited, a company solely owned by Tong Shek Lun, an executive director ("**Director**") and the chairman of the Company in relation to, among others, the disposal of the entire issued share capital of each of Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited ("**Four BVI Companies**") and the net amount of the total non-trade accounts receivable and the total non-trade accounts payable by the Four BVI Companies and their subsidiaries ("**Disposal Group**") from and to the members of the Company and its subsidiaries ("**Group**") (other than the members of the Disposal Group) as at 31 March 2008, in accordance with the terms and conditions of the Disposal Agreement as set out in the circular ("**Circular**") of the Company dated 30 September 2008 (copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved, and that the Directors be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Disposal Agreement or the transactions contemplated thereunder and the amendments thereto (to the extent such amendments are not material in the context of the entire transaction as a whole)."

2. "**THAT**

   (a) the supply agreement ("**Supply Agreement**") dated 22 May 2008 and entered into between Redditch and the Four BVI Companies in relation to the supply of conductive silicon rubber keypads and printed circuit boards to the Disposal Group by the Group (excluding the Disposal Group) (copy of which has been produced to the meeting marked "C" and

* *For identification purposes only*

signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby; and

(b) the annual caps for the three years ending 31 December 2010 for the transactions contemplated under the Supply Agreement as shown in the Circular,

be and they are hereby approved and that the Directors be and they are hereby authorised to take any step as they consider necessary, desirable or expedient in connection with the Supply Agreement or the transactions contemplated thereby."

Yours faithfully,
For and on behalf of the Board
Karce International Holdings Company Limited
Tong Shek Lun
Chairman and Managing Director

Hong Kong, 30 September 2008

Notes:

1. Any member entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised to sign the same.

3. Where there are joint registered holders of any share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

4. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the SGM or any adjourned meeting.

5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the SGM convened and in such event, the form of proxy shall be deemed to be revoked.

As at the date hereof, the board of Directors consists of five executive Directors, Mr. Tong Shek Lun, Ms. Ko Lai King, Kinny, Ms. Chung Wai Yu, Regina, Mr. Chim Kim Lun, Ricky and Mr. Cheng Kwok Hing, Andy, two non-executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey and three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Wan Hon Keung.