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

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

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KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰 盛 實 業 集 團 有 限 公 司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

MAJOR TRANSACTION
ASSIGNMENT OF LOAN AND ADVANCES AND SUBSCRIPTION OF SECURITIES

DISCLOSEABLE TRANSACTION
DISPOSAL OF SECURITIES

30 June 2005

* *for identification only*

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

"ACL"	Ascalade Communications Limited, a limited company incorporated in Hong Kong and is a wholly owned subsidiary of Ascalade Communications
"Accountants' Report"	has the meaning ascribed thereto under the section headed "Waiver Application to the Stock Exchange in relation to the Transactions"
"affiliated company"	referring to a company which, in accordance with Hong Kong Financial Reporting Standards, is recorded using the equity method of accounting in any entity's financial statements
"Agreements"	referring to (1) the Assignment and Share Subscription Agreements and (2) the Assignment and Unit Subscription Agreements
"Ascalade Communications"	Ascalade Communications Holdings Limited, a limited company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Ascalade Inc.
"Ascalade Group"	Ascalade Inc. and/or its subsidiaries or any of them
"Ascalade Inc."	Ascalade Communications Inc., a corporation incorporated pursuant to the laws of the Province of British Columbia and is an affiliated company of the Company as at the Latest Practicable Date
"Ascalade Inc. Shares"	fully paid common shares in the share capital of Ascalade Inc. after the Consolidation
"Assignment and Share Subscription"	the sale and assignment of Karce Loan by the Group to Ascalade Inc. in consideration of the allotment and issue of Ascalade Inc. Shares in accordance with the terms and conditions of the Assignment and Share Subscription Agreements
"Assignment and Share Subscription Agreements"	referring to (1) the loan assignment agreement dated 28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time) entered into between T&S, ACL, Ascalade Communications and Ascalade Inc. and (2) the share subscription agreement dated 28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time) entered into between Dragon and Ascalade Inc. in relation to the Assignment and Share Subscription

"Assignment and Unit Subscription"	the sale and assignment of Karce Advances by the Group to Ascalade Inc. in consideration of the issuance of Units in accordance with the terms and conditions of the Assignment and Units Subscription Agreements
"Assignment and Unit Subscription Agreements"	referring to (1) the advances assignment agreement dated 28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time) entered into between T&S, ACL, Ascalade Communications and Ascalade Inc. and (2) the unit subscription agreement dated 28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time) entered into between Dragon and Ascalade Inc. in relation to the Assignment and Unit Subscription
"Board"	the board of Directors
"Canadian GAAP"	Canadian Generally Accepted Accounting Principles
"Company"	Karce International Holdings Company Limited
"Consolidation"	consolidation of every eight then existing common shares into one new common share in Ascalade Inc. effective on 31 March 2005
"Convertible Debenture(s)"	each unit consists of CAD1,000 (approximately HK$6,300) principal amount of 12% convertible unsecured subordinated debentures in Ascalade Inc.
"Debenture Transfer Agreement"	the debenture transfer agreement dated 15 June 2005 in relation to the transfer of the Purchase Debentures from the Group to Yeebo
"Directors"	the directors of the Company
"Disposals"	the disposals of the Purchase Debentures and Purchase Warrants pursuant to the Transfer Agreements
"Dragon"	Dragon Spirit Enterprise Limited, a limited company incorporated in the British Virgin Islands and is an indirect wholly owned subsidiary of the Company
"Group"	the Company and/or its subsidiaries or any of them
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Latest Practicable Date"	26 June 2005, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Karce Advances"	the outstanding advances in the aggregate principal sum of US$4,000,000 (approximately HK$31,200,000) together with all accrued and unpaid interest thereon advanced to ACL by T&S for general working capital purpose
"Karce Loan"	the outstanding loan in the aggregate principal sum of US$5,000,000 (approximately HK$39,000,000) together with all accrued and unpaid interest thereon lent to ACL by T&S for general working capital purpose
"Other Securities"	have the meaning ascribed to it under the section headed "Information of the Group and Ascalade Inc."
"PRC"	The People's Republic of China
"Proposed Listing "	the proposed listing of Ascalade Inc. Shares on the TSX
"Purchase Debentures"	referring to 5009 units of Convertible Debentures (i.e. representing CAD 5,009,000 (approximately HK$ 31,556,700) principal amount of 12% convertible unsecured subordinated debentures in Ascalade Inc.) held by the Group pursuant to the Assignment and Unit Subscription and to be sold by the Group to Yeebo pursuant to the Debenture Transfer Agreement
"Purchase Warrants"	referring to 5009 units of Warrants (i.e. representing 62,612 (round down to the nearest whole figure) common share purchase warrants in Ascalade Inc.) held by the Group pursuant to the Assignment and Unit Subscription and to be sold by the Group to Yeebo pursuant to the Warrant Transfer Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	holders of the Share(s)
"Shares"	ordinary shares of HK$0.10 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"T&S"	T&S Industrial Company Limited, a limited company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company
"Transactions"	referring to (1) the Assignment and Share Subscription and (2) the Assignment and Unit Subscription
"Transfer Agreements"	referring to (1) the Debenture Transfer Agreement and (2) Warrant Transfer Agreement
"TSX"	Toronto Stock Exchange
"Unit(s)"	each unit consists of (1) one unit of Convertible Debenture and (2) one unit of Warrant
"Warrant Transfer Agreement"	the warrant transfer agreement dated 15 June 2005 in relation to the transfer of the Purchase Warrants from the Group to Yeebo
"Warrant(s)"	each unit consists of 12.5 units of common share purchase warrant in Ascalade Inc. (after the Consolidation)
"Yeebo"	Yeebo Investment Limited, a company incorporated in the Labuan, Malaysia and is a subsidiary of Yeebo (International Holdings) Limited, a company listed on the Main Board of the Stock Exchange
"Yeebo Group"	Yeebo (International Holdings) Limited and its subsidiaries
"CAD" or "Cdn$"	the lawful currency of Canada. For information only, CAD has been translated to HK$ as to CAD1 to HK$6.3. No representation is made that such amounts were or could be exchanged at such rate
"HK$"	the lawful currency of Hong Kong
"US$" or "$"	the lawful currency of the United States of America. For information only, US$ has been translated to HK$ as to US$1 to HK$7.8. No representation is made that such amounts were or could be exchanged at such rate
"%"	per cent

Unless otherwise specified, all times and dates as stated in this circular refer to Hong Kong local times and dates

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 1159)

Directors:
Mr. Tong Shek Lun
(Chairman and Managing Director)
Mr. Li Ka Fai, Fred
Ms. Ko Lai King, Kinny
Ms. Chung Wai Yu, Regina

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

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

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Units 1 and 2, 29th Floor
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9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

30 June 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ASSIGNMENT OF LOAN AND ADVANCES AND SUBSCRIPTION OF SECURITIES

DISCLOSEABLE TRANSACTION
DISPOSAL OF SECURITIES

(A) INTRODUCTION

As announced by the Company on 7 March 2005, the Group had entered into (1) the Assignment and Share Subscription Agreements pursuant to which the Group had assigned the Karce Loan to Ascalade Inc. in consideration for the allotment and issue of Ascalade Inc. Shares and (2) the Assignment and Unit Subscription Agreements pursuant to which the Group had assigned the Karce Advances to Ascalade Inc. in consideration for the issuance of Units. On 31 March 2005 (Canadian time i.e. 1 April 2005 Hong Kong time), Ascalade Inc. had undergone the Consolidation pursuant to which every eight then existing common shares were consolidated into one common share. The Transactions were also completed on 31 March 2005 (Canadian time i.e. 1 April 2005 Hong Kong time) and 904,973 Ascalade Inc. Shares, the Purchase Debentures and Purchase Warrants were issued to the Group.

* *for identification only*

The Company had also announced on 16 June 2005 that the Group had entered into the Transfer Agreements on 15 June 2005 pursuant to which the Group had agreed to sell the Purchase Debentures and Purchase Warrants to Yeebo.

(B) THE TRANSACTIONS

(1) THE ASSIGNMENT AND SHARE SUBSCRIPTION AGREEMENTS

Date:

28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time)

Parties:

(a) the loan assignment agreement

1. T&S
2. ACL
3. Ascalade Communications
4. Ascalade Inc.

(b) the share subscription agreement

1. Dragon
2. Ascalade Inc.

Save as the interests in Ascalade Inc. owned by the Group as stated in this circular, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiry by the Directors, Ascalade Inc. and its ultimate beneficial owner are not connected persons (as defined in the Listing Rules) of the Company.

The subject transaction:

The Group had sold and assigned the Karce Loan to Ascalade Inc. in consideration for the allotment and issue of Ascalade Inc. Shares to the Group. The number of Ascalade Inc. Shares allotted and issued was calculated according to the following formula:

$$A = (B \times C)/D$$

A = the number of Ascalade Inc. Shares allotted and issued
B = the amount of the Karce Loan (in US$)
C = the conversion rate of CAD/US$ posted by the Bank of Canada on the business day immediately preceding completion of the Assignment and Share Subscription
D = CAD6.80 (approximately HK$42.84) (as adjusted by the Consolidation)

As at the date of completion, the Karce Loan amounted to approximately US$5,059,000 (approximately HK$39,460,000) and accordingly, the total number of Ascalade Inc. Shares issued pursuant to the Assignment and Share Subscription was 904,973, representing approximately 12.1% of the total issued Ascalade Inc. Shares as at the Latest Practicable Date (after the Disposals and before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities). The total shareholding interests of the Group in Ascalade Inc. immediately before and after completion of the Transactions were approximately 30.8% and 39.1% respectively. The Group had further acquired approximately 0.6% of the shareholding interest in Ascalade Inc. after completion of the Transactions. Accordingly, the total shareholding interest of the Group in Ascalade Inc. as at the Latest Practicable Date amounts to approximately 39.7% (after the Disposals and before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities).

The Directors confirmed that the consideration was determined at arm's length negotiations and on normal commercial terms with reference to the possible conversion price of Convertible Debentures into Ascalade Inc. Shares pursuant to the Units issued to investors and other parties as stated below.

Conditions:

Completion of the Assignment and Share Subscription Agreements was conditional upon, among others:

(a) The Group shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of the time of completion certifying that all representations and warranties as contained therein are true and correct.

(b) The Group shall have delivered all originals of the relevant loan agreements and other relevant certificates, opinions and documents as reasonably required to Ascalade Inc..

(c) All necessary steps and proceedings as reasonably required by Ascalade Inc. shall have been taken to permit the Karce Loan to be duly transferred and assigned to Ascalade Inc..

(d) The other parties shall have executed and delivered to Ascalade Inc. all documents, agreements or certificates as reasonably required to Ascalade Inc. for the purpose of effecting the sale and assignment of the Karce Loan.

(e) All necessary approvals from the shareholders of the Company in respect of the Assignment and Share Subscription Agreements shall have been obtained.

(f) The Company shall have issued an announcement in respect of the Assignment and Share Subscription Agreements pursuant to the Listing Rules.

(g) Ascalade Inc. shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of the time of completion certifying that all representations and warranties as contained therein are true and correct.

(h) All necessary steps and proceedings as reasonably required by the Group shall have been taken to permit the allotment and issue of the relevant Ascalade Inc. Shares to the Group.

(i) Ascalade Inc. shall have executed and delivered to the Group all documents, agreements or certificates as reasonably required for the purpose of effecting the allotment and issue of the relevant Ascalade Inc. Shares.

Completion:

All conditions were fulfilled and completion had taken place on 31 March 2005.

(2) THE ASSIGNMENT AND UNIT SUBSCRIPTION AGREEMENTS

Date:

28 February 2005 (Canadian time i.e. 1 March 2005 Hong Kong time)

Parties:

(a) the advances assignment agreement

1. T&S
2. ACL
3. Ascalade Communications
4. Ascalade Inc.

(b) the unit subscription agreement

1. Dragon
2. Ascalade Inc.

The subject transaction:

The Group had sold and assigned the Karce Advances to Ascalade Inc. in consideration for the issuance of Units to the Group. The number of Units issued was calculated accordingly to the following formula:

$$E = (FxG)/H$$

E = the number of Units issued
F = the amount of the Karce Advances (in US$)
G = the conversion rate of CAD/US$ posted by the Bank of Canada on the business day immediately preceding completion of the Assignment and Unit Subscription
H = CAD1,000 (approximately HK$6,300)

As at the date of completion, the Karce Advances amounted to approximately US$4,118,000 (approximately HK$32,120,000) and accordingly, the total number of Units issued pursuant to the Assignment and Unit Subscription amounted to 5,009, comprised the Purchase Debentures and Purchase Warrants.

The Directors confirmed that the consideration was determined at arm's length negotiations and on normal commercial terms with reference to the possible issue price of Units to investors and other parties as stated below.

Conditions:

Completion of the Assignment and Unit Subscription Agreements was conditional upon, among others:

(a) The Group shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of the time of completion certifying that all representations and warranties as contained therein are true and correct.

(b) The Group shall have delivered all originals of the relevant advances agreements and other relevant certificates, opinions and documents as reasonably required to Ascalade Inc..

(c) All necessary steps and proceedings as reasonably required by Ascalade Inc. shall have been taken to permit the Karce Advances to be duly transferred and assigned to Ascalade Inc..

(d) The other parties shall have executed and delivered to Ascalade Inc. all documents, agreements or certificates as reasonably required to Ascalade Inc. for the purpose of effecting the sale and assignment of the Karce Advances.

(e) All necessary approvals from the shareholders of the Company in respect of the Assignment and Unit Subscription Agreements shall have been obtained.

(f) The Company shall have issued an announcement in respect of the Assignment and Unit Subscription Agreements pursuant to the Listing Rules.

(g) Ascalade Inc. shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of the time of completion certifying that all representations and warranties as contained therein were true and correct.

(h) All necessary steps and proceedings as reasonably required by the Group shall have been taken to permit the issuance of the relevant Units to the Group.

(i) Ascalade Inc. shall have executed and delivered to the Group all documents, agreements or certificates as reasonably required for the purpose of effecting the issuance of the relevant Units.

Completion:

All conditions were fulfilled and completion had taken place on 31 March 2005.

(3) REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Directors are pleased to announce that Ascalade Inc. had applied to list its shares on the TSX. The Directors were informed that, as at the Latest Practicable Date, the TSX had conditionally approved the listing of the Ascalade Inc. Shares on the TSX under the symbol "ACG" and it was expected that Ascalade Inc. Shares would commence trading on the TSX before 30 June 2005. The Proposed Listing is subject to the fulfilment of all the requirements imposed by the TSX on or before 2 September 2005 (Canadian time i.e. 3 September 2005 Hong Kong time). The Directors understand that if the requirements were not fulfilled on or before the specified time, trading of the Ascalade Inc. Shares on the TSX would be halted. However the Directors were informed that the said requirements were mainly documentary in nature, including distribution of the Ascalade Inc. Shares to a minimum number of public shareholders and no difficulty was expected in meeting them. The Proposed Listing was priced at CAD 5 (approximately HKD 31.5) per Ascalade Inc. Share and eight million Ascalade Inc. Shares will be issued for gross proceeds of CAD 40,000,000 (approximately HK$252,000,000). The underwriters have been granted an option to purchase a further 1,200,000 Ascalade Inc. Shares for a period of 30 days following completion of the Proposed Listing. **The Proposed Listing is subject to fulfilment of all the relevant conditions and requirements and may or may not be materialized. Accordingly, the Shareholders and investors are advised to exercise caution when dealing in the Shares.**

The Proposed Listing is expected to create a synergy effect on the overall management of the business of Ascalade Group as it is expected that the research and development of Ascalade Group can be strengthened, its engineering capacity will be increased and its market recognition in North America will be enhanced. The Directors believe that through the Proposed Listing, Ascalade Group is able to attract extra funding and capital from investors to develop its business and enhance its net assets value and bases.

Further, if the Proposed Listing is accomplished, the investment of the Group in Ascalade Group can be converted into marketable securities and tradable on a recognized stock exchange and thus is able to increase the liquidity and flexibility on the Group's investment in Ascalade Group.

The Directors consider that the terms of the Agreements and the transactions contemplated therein are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors consider that the Transactions did not have any significant immediate effect on (a) the assets and liabilities of the Group as the accounting entries of the Transactions were to debit and credit the account of interest in an associate which did not have any net effect on the assets nor liabilities of the Group and (b) the earnings of the Group as the Transactions did not have any effect on the profit and loss account. However after completion of the Transactions, the Directors expect that the Group's sharing of the future assets and liabilities and profit and loss of Ascalade Inc. will be increased from approximately 30.8% to 39.7% (after the Disposals and before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities).

(4) GENERAL

The Transactions, in aggregate, constitute a major transaction of the Company under Rule 14.06 of the Listing Rules.

Pursuant to Rule 14.40 of the Listing Rules, a major transaction must be made conditional on approval by shareholders. To the understanding of the Directors, no Shareholder shall be required to abstain from voting if the Company were to convene a general meeting for the approval of the Agreements. Pursuant to Rule 14.44(2) of the Listing Rules, written Shareholders' approvals in relation to the Agreements and the transactions contemplated therein had been obtained from Sapphire Profits Limited, Prove Limited, Hu Sen Chun and Li Kwok Wai, who were beneficial Shareholders holding approximately 42%, 3.63%, 2.31% and 2.8% of the issued share capital of the Company respectively (i.e. approximately 50.74% shareholding interest in aggregate) and had the right to attend and vote at a general meeting to approve the Agreements if such a meeting were being convened.

(C) THE DISPOSALS

1. THE DEBENTURE TRANSFER AGREEMENT

Date:

15 June 2005

Parties:

1. Dragon
2. Yeebo

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry by the Directors, Yeebo and its ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company. To the best knowledge of the Directors, Yeebo Group is principally engaging in the business of the manufacturing and trading of liquid crystal display.

The subject transaction:

The Group has agreed to sell and Yeebo has agreed to purchase the Purchase Debentures at a total consideration of approximately US$4,118,135 (approximately HK$32,121,453).

The consideration shall be paid by Yeebo to the Group upon conversion of the Purchase Debentures into Ascalade Inc. Shares and delivery of the original share certificate(s) representing such Ascalade Inc. Shares pursuant to the conversion to Yeebo. Such conversion and delivery are expected to complete within 15 business days after completion of the Debenture Transfer Agreement.

Yeebo shall pay and reimburse all outstanding interest on the Purchase Debentures accrued up till the date of completion of the Debenture Transfer Agreement to the Group within two business days upon receipt.

The Directors confirmed that the consideration was determined on arm's length negotiations and normal commercial terms based on the approximate cost of acquisition of the Purchase Debentures paid by the Group.

Conditions:

Completion of the Debenture Transfer Agreement is conditional upon, among others:

(a) The Group shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of completion certifying that all representations and warranties as contained therein are true and correct.

(b) All necessary steps and proceedings as reasonably required by Yeebo shall have been taken to permit the Purchase Debentures (together with the interest accrued thereon) to be duly transferred and assigned to Yeebo.

(c) The Group shall have executed and delivered to Yeebo all documents, agreements or certificates as Yeebo may reasonably require for the purposes of effecting the transfer of the Purchase Debentures (together with the interest accrued thereon) to Yeebo.

(d) Ascalade Inc. shall have completed the Proposed Listing.

(e) The completion of the Debenture Transfer Agreement shall be contemporaneously with the completion of the Warrant Transfer Agreement.

(f) Yeebo shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of the time of completion certifying that all representations and warranties as contained therein are true and correct.

(g) All necessary steps and proceedings as reasonably required by the Group shall have been taken to permit the Purchase Debentures (together with the interest accrued thereon) to be duly transferred and assigned to Yeebo.

(h) Yeebo shall have executed and delivered an agreement to be bound by the shareholders' agreement among Ascalade Inc. and its shareholders.

(i) Yeebo shall have executed and delivered to the Group all documents, agreements or certificates as the Group may reasonably require for the purposes of effecting the transfer of the Purchase Debentures (together with the interest accrued thereon) to Yeebo.

If any of the above conditions have not been fulfilled or waived in writing by the Group or Yeebo (as the case may be) prior to completion, the Group or Yeebo (as the case may be) may rescind the Debenture Transfer Agreement by written notice to the other party and, in such event, all parties shall be released from all obligations contained thereunder. As at the Latest Practicable Date, save as condition (h) above, none of the conditions have been fulfilled or waived and the Group does not intend to waive any of the above conditions.

Completion:

Completion shall take place no later than 10:00 a.m. on the fifth business day after completion of the Proposed Listing (or such other date and time as agreed between the parties). There is no termination provision contained in the Debenture Transfer Agreement to terminate the same save as the right to rescind the Debenture Transfer Agreement due to non fulfillment of the conditions as mentioned above.

2. THE WARRANT TRANSFER AGREEMENT

Date:

15 June 2005

Parties:

1. Dragon
2. Yeebo

The subject transaction:

Dragon has agreed to sell and Yeebo has agreed to purchase the Purchase Warrants at a total consideration of US$1 (approximately HK$7.8).

The consideration shall be paid by Yeebo to Dragon upon delivery of the original warrant certificate representing the Purchase Warrants to Yeebo. Such delivery is also expected to complete within 15 business days after completion of the Warrant Transfer Agreement.

The Directors confirmed that the consideration was determined on arm's length negotiations and normal commercial terms based on the nominal consideration for the acquisition of the Purchase Warrants paid by the Group.

Conditions:

Completion of the Warrant Transfer Agreement is conditional upon, among others:

(a) The Group shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of completion certifying that all representations and warranties as contained therein are true and correct.

(b) All necessary steps and proceedings as reasonably required by Yeebo shall have been taken to permit the Purchase Warrants to be duly transferred and assigned to Yeebo.

(c) The Group shall have executed and delivered to Yeebo all documents, agreements or certificates as Yeebo may reasonably require for the purposes of effecting the transfer of the Purchase Warrants to Yeebo.

(d) Ascalade shall have completed the Proposed Listing.

(e) The completion of the Warrant Transfer Agreement shall be contemporaneously with the completion of the Debenture Transfer Agreement.

(f) Yeebo shall have executed, delivered and performed all agreements and documents on its part to be performed and shall deliver a certificate as of completion certifying that all representations and warranties as contained therein are true and correct.

(g) All necessary steps and proceedings as reasonably required by the Group shall have been taken to permit the Purchase Warrants to be duly transferred and assigned to Yeebo.

(h) Yeebo shall have executed and delivered an agreement to be bound by the shareholders' agreement among Ascalade Inc. and its shareholders.

(i) Yeebo shall have executed and delivered to the Group all documents, agreements or certificates as the Group may reasonably require for the purposes of effecting the transfer of the Purchase Warrants to Yeebo.

If any of the above conditions have not been fulfilled or waived in writing by the Group or Yeebo (as the case may be) prior to completion, the Group or Yeebo (as the case may be) may rescind the Warrant Transfer Agreement by written notice to the other party and, in such event, all parties shall be released from all obligations contained thereunder. As at the Latest Practicable Date, save as condition (h) above, none of the conditions have been fulfilled or waived and the Group does not intend to waive any of the above conditions.

Completion:

Completion shall take place no later than 10:00 a.m. on the fifth business day after completion of the Proposed Listing (or such other date and time as agreed between the parties). There is no termination provision contained in the Warrant Transfer Agreement to terminate the same save as the right to rescind the Warrant Transfer Agreement due to non fulfillment of the conditions as mentioned above.

3. REASONS FOR AND BENEFITS OF THE DISPOSALS

Though the Directors are confident in the future prospect of Ascalade Inc., the Directors consider that it is a prudent decision to realize part of the Group's investments in Ascalade Inc. through the Disposals so as to balance its possible risk, enhance its liquidity and improve its cash flow within a relatively short period of time given that the Ascalade Inc. Shares owned by the Group will be subject to lock-up after completion of the Proposed Listing. The Directors reckon that it is in the interest of the Group to maintain a sufficient amount of capital in view of the recent unstable global market conditions such as the fluctuation of oil prices and raising interest rates. Moreover, as at the Latest Practicable Date, the Group is holding approximately 39.7% of the shareholding interests in Ascalade Inc. (after the Disposals and before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities) and so will still be able to benefit from the potential growth and development of Ascalade Inc..

The Directors consider that the terms of the Agreements and the transactions contemplated therein are fair and reasonable and in the interests of the Shareholders as a whole.

4. GAIN/LOSS ARISING FROM THE DIPOSALS

Since the Purchase Debentures and Purchase Warrants are to be transferred by Dragon Spirit to Yeebo approximately at costs, the Group does not expect any material gain or loss arising from the Disposals. The Directors intend to use the proceeds arising from the Diposals for general working capital purpose.

The Directors consider that the Disposals do not have any significant immediate effect on the earnings and assets and liabilities of the Group.

5. GENERAL

The Disposals constitute a discloseable transaction of the Company under Rule 14.06 of the Listing Rules.

(D) RELEVANT MAJOR TERMS OF THE CONVERTIBLE DEBENTURES AND WARRANTS

(1) RELEVANT MAJOR TERMS OF THE CONVERTIBLE DEBENTURES:

The relevant major terms of the Convertible Debentures are summarized as follows:

(a) **Maturity** – The Convertible Debentures will mature in November 2006.

(b) **Interest** – The Convertible Debentures will bear a rate of interest of 12% per annum calculated and payable semi-annually in arrears.

(c) **Right to convert into Common Shares** – The Convertible Debentures shall be convertible into Ascalade Inc. Shares at the holder's option at any time until maturity for such number of Ascalade Inc. Shares equal to the principal amount of the Convertible Debentures divided by a conversion price (subject to adjustment(s)) which shall be the lesser of:

(i) a 15% discount of the share price pursuant to completion of the Proposed Listing; and

(ii) CAD6.8 (approximately HK$42.84) per Ascalade Inc. Share (as adjusted by the Consolidation). In the event the Proposed Listing has not been completed, the conversion price will be equal to CAD6.8 (approximately HK$42.84) per Ascalade Inc. Share (as adjusted by the Consolidation).

Subsequent to completion of the Proposed Listing and in the event a holder of the Convertible Debentures exercises conversion rights, Ascalade Inc. shall have the right to settle the conversion in cash (or a combination of cash and Ascalade Inc. Shares) in lieu of Ascalade Inc. Shares unless the holder has expressly indicated in the conversion notice that it does not wish to receive cash in lieu of Ascalade Inc. Shares.

(d) **Redemption and Forced Conversion** – Following completion of the Proposed Listing, Ascalade Inc. shall have the option to redeem the Convertible Debentures, in whole or, from time to time, in part, by issuing and delivering that number of Ascalade Inc. Shares obtained by dividing the principal amount of the outstanding Convertible Debentures by a price equal to 15% discount to the weighted average closing price of Ascalade Inc. Shares on the designated stock exchange during the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given.

(e) **Settlement in Ascalade Inc. Shares on Maturity** – Subsequent to completion of the Proposed Listing, Ascalade Inc. shall have the option to satisfy its obligation to repay the principal amount of the Convertible Debentures, in whole or in part, due at maturity upon prior written notice, by delivering that number of freely tradable Ascalade Inc. Shares obtained by dividing the principal amount of the Convertible Debentures by 95% of the weighted average closing price of Ascalade Inc. Shares on the designated stock exchange during the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as the case may be.

(f) **Purchase for Cancellation** – Ascalade Inc. may purchase the Convertible Debentures from the respective holders for cancellation by tender or private contract at any time, subject to any regulatory approval.

(2) RELEVANT MAJOR TERMS OF THE WARRANTS:

Right to Ascalade Inc. Shares – Each whole Warrant will be exercisable to acquire, subject to adjustment(s), one Ascalade Inc. Share at any time until November 2007 for an exercise price (subject to adjustment(s)) to be determined as follows:

(a) in the event the Proposed Listing has been completed by the time of such exercise, the exercise price per Ascalade Inc. Share shall be equal to a 15% premium to the share price pursuant to completion of the Proposed Listing; or

(b) in the event the Proposed Listing has not been completed by the time of such exercise, the exercise price shall be equal to CAD9.2 (approximately HK$57.96) (as adjusted by the Consolidation) per Ascalade Inc. Share.

(E) INFORMATION OF THE GROUP AND ASCALADE INC.

The Group is principally engaging in the businesses of manufacturing and distribution of electronic calculators and organizers, conductive silicon rubber keypads, printed circuit boards, electronic toys products and cordless telephone products.

Ascalade Inc. is a corporation incorporated in November, 2004 pursuant to the laws of the Province of British Columbia. Ascalade Group is principally engaging in the businesses of (a) design, manufacture and distribution of cordless phones and other telecommunications products; (b) the research and design of consumer electronics products and (c) the sales and marketing of these products.

Based on the audited accounts prepared under Canadian GAAP, the consolidated net profits before taxation and extraordinary items of Ascalade Inc. for the two years ended 31 December 2003 and 31 December 2004 amounted to approximately US$2,922,000 (approximately HK$22,792,000) and US$1,878,000 (approximately HK$14,648,000) respectively and the consolidated net profits after taxation and extraordinary items of Asalade Inc. for the two years ended 31 December 2003 and 31 December 2004 amounted to approximately US$2,415,000 (approximately HK$18,837,000) and US$1,107,000 (approximately HK$8,635,000) respectively.

The Directors also understand that apart from the Purchase Debentures and Purchase Warrants, Ascalade Inc. has also issued the following securities or options ("**Other Securities**") as at the Latest Practicable Date:

(a) 913,500 options issued to directors, officers and employees of Ascalade Group to purchase Ascalade Inc. Shares;

(b) 11,866 Units issued to investors who to the understanding of the Directors, are not connected persons (as defined in the Listing Rules) of the Company;

(c) 103,828 common share purchase warrants issued to agents who to the understanding of the Directors, are not connected persons (as defined in the Listing Rules) of the Company;

(d) 985 Units issued to directors, officers and employees of Ascalade Group; and

(e) an over-allotment option to purchase up to a total of 1,200,000 additional Ascalade Inc. Shares to underwriters.

The total number of Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures and Purchase Warrants amounts to 1,241,200 (rounded down to the nearest whole figure), comprises 1,178,588 Ascalade Inc. Shares pursuant to conversion of the Purchase Debentures based on the conversion price of CAD 4.25 (approximately HK$26.78, being 85% of the proposed share price pursuant to completion of the Proposed Listing) and 62,612 Ascalade Inc. Shares pursuant to exercise of the Purchase Warrants, representing approximately 16.6% of the existing issued share capital of Ascalade Inc. (before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities) and approximately 14.3% of the issued share capital of Ascalade Inc. as enlarged by the conversion or exercise of the Purchase Debentures and Purchase Warrants (before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Other Securities).

The shareholding interests of the Group in Ascalade Inc. are summarized below:

	As at the Latest Practicable Date (after the Disposals and before completion of the Proposed Listing and not including the the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities)	Expected shareholding interest upon completion of the Proposed Listing (after the Disposals and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities)	Expected shareholding interest after (a) the Disposals; (b) completion of the Proposed Listing; (c) full conversion or exercise of the Purchase Debentures and Purchase Warrants and (d) full conversion or exercise of the Other Securities
The approximate shareholding interest in Ascalade Inc. held by the Group	39.7%	19.2%	13.4%

As at the Latest Practicable Date, Ascalade Inc. is an affiliated company of the Company. The Directors expect that upon completion of the Proposed Listing, Ascalade Inc. will become an investment of the Company.

The Ascalade Inc. Shares held by the Group will be subject to the following lock-up arrangements and the Group cannot sell its Ascalade Inc. Shares without prior written consent of the underwriter (consent not to be unreasonable withheld):

(a) 12 months from completion of the Proposed Listing with respect to one-third of its Ascalade Inc. Shares;

(b) 18 months from completion of the Proposed Listing with respect to another third of its Ascalade Inc. Shares; and

(c) 24 months from completion of the Proposed Listing with respect to the remainder of its Ascalade Inc. Shares.

As at the Latest Practicable Date, the Company does not intend to sell its Ascalade Inc. Shares after expiry of the lock-up periods.

(F) FINANCIAL AND TRADING PROSPECTS OF THE GROUP

(1) RESULTS OF THE YEAR ENDED 31 DECEMBER 2004

For the year ended 31 December 2004, turnover of the Group rose by approximately 31.3 per cent. to approximately HK$774,255,000 (2003: approximately HK$589,653,000). As a result of a volatile market and pressure on material prices, the overall gross profit margin was dropped by approximately 3.1%. to approximately 15.7%. (2003: approximately 18.8%).

Earnings Before Interest, Taxation, Depreciation and Amortization ("EBITDA") from the Group's established businesses grew by approximately 50.3% to approximately HK$109,498,000 (2003: approximately HK$72,842,000).

The Group's audited profit attributable to shareholders had also increased by 136.1% to approximately HK$54,415,000 for the year ended 31 December 2004 (2003: approximately HK$23,050,000). These results included share of result of an associate of approximately HK$10,031,000, a profit on partial disposal of interest in an associate of approximately HK$22,568,000 and a negative goodwill release of approximately HK$726,000.

Earnings per share increased from approximately HK4.19 cents for the year ended 31 December 2003 to approximately HK9.88 cents for the year ended 31 December 2004.

(2) FUTURE PLANS AND PROSPECTS

The results of 2004 reflected the overall solid growth of the Group's established businesses and the realisation of profit on disposal of investment in an associate resulting from the share exchange transaction as part of the reorganisation to rationalise the structure of Ascalade Group to prepare for the proposed listing of Ascalade Inc. on the TSX. The Group's established businesses continued to generate strong and growing cash flow. EBITDA from the Group's established businesses grew by 50.3% to approximately HK$109,498,000.

The world economy generally improved in 2004, despite rising US dollar interest rates and a high oil and commodities price. The Directors expect modest continuing improvements in 2005 under similar conditions with continuous strong growth in the PRC and Hong Kong, India and elsewhere in Asia. All of the Group's established businesses are expected to achieve strong operating as well as solid financial performances.

Demand for the Group's core business products has continued to be strong in the first quarter of 2005 and the Group has a full order book for the balance of the first half of 2005. Sales prices continue to be firm, although some pressure is appearing at the Group's low end product range. However, it is important to be cautious given the challenges that the current economic environment is presenting.

The Group will continue to promote its electronic calculators and organisers products and brand through well-executed media campaigns and in-store promotions. The Directors also expect to continue to regain shelf space, although the main improvement will occur in the coming financial year. At the same time of expanding the business, the Group retain a lean operating structure in order to mitigate the impact of any price increases in raw materials or components.

To build sales and profitability for the business in longer term, the Group will secure further licensing arrangements. To defend margins, the Directors will continue to make every effort to reduce cost through finding more local sources of supply, and improving working capital. The Group will also focus more strongly on those areas of the industry that offer the best margins, and explore opportunities in the production of SIM-card readers and health care products.

Stepping into 2005, the world has entered into the preliminary stage of 3G and digital era with continuous introduction of numerous new handset models and other digital products. Capitalising on the strong client relationship and all rounded technical skills, the Group will continue to develop its core businesses to meet different customers' needs. Overall, the Directors are optimistic about the Group's business outlook and performance.

(G) WAIVER APPLICATION TO THE STOCK EXCHANGE IN RELATION TO THE TRANSACTIONS

(1) BACKGROUND

Under Rule 14.67(4)(a)(i) of the Listing Rules, a listed issuer is required to include an accountants' report on the business, company or companies being acquired in accordance with Chapter 4 of the Listing Rules provided that, where any company in question has not or will not become a subsidiary of the listed issuer, the Stock Exchange may be prepared to relax this requirement. In this regard, the Company is required under Chapter 4 of the Listing Rules to include an accountants' report on Ascalade Inc. ("**Accountants' Report**") prepared under, inter alia, HKFRS or International Financial Reporting Standards in this circular.

(2) WAIVER SOUGHT

The Company has applied to the Stock Exchange for a waiver from the strict compliance with Rule 14.67(4)(a)(i) of the Listing Rules on the following grounds:

1. the Company has been using its best endeavor to prepare the Accountants' Report to be included in this circular. However, in the course of preparing the Accountants' Report, the Company has been advised by the Canadian legal adviser, Borden Ladner Gervais LLP, of Ascalade Inc. that disclosure of any financial information of Ascalade Inc. not prepared under Canadian GAAP may result in serious practical and legal consequences to Ascalade Inc. and the Company. In particular, disclosure of any financial information not compiled under Canadian GAAP during or shortly following the period of distribution under Ascalade Inc.'s prospectus – which will continue for at least 30 days after completion of the Proposed Listing – amendments will be required to be made to Ascalade Inc.'s prospectus, which will in turn trigger rescission rights for purchasers under the prospectus and potentially expose Ascalade Inc. to civil liability for misrepresentations under its prospectus should Ascalade Inc.'s share price decline in response to such disclosure. In addition, the Company may also be subject to civil action from Ascalade Inc. or other relevant parties from having effectively initiated disclosure of such non-Canadian GAAP information. In this connection, the Directors are of the view that the Company will not be able to comply strictly with Rule 14.67(4)(a)(i) of the Listing Rules without exposing the Group to the risk of civil actions;

2. the situation the Company encountered is exceptional. The Company is prohibited from including the Accountants' Report in this circular because Ascalade Inc. is a company to be listed on the TSX as at the Latest Practicable Date and therefore is subject to certain specific restrictions in this connection. As mentioned above, violation of these restrictions may have material adverse effect on both Ascalade Inc. and the Company;

3. as at the Latest Practicable Date, the Company is holding approximately 39.7% of shareholding interest in Ascalade Inc. and Ascalade Inc. is an affiliated company and not a subsidiary of the Company. The shareholding interest is expected to be diluted to approximately 19.2% upon completion of the Proposed Listing (after the Disposals and not including the Ascalade Inc. Shares issuable pursuant to the

conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities) and accordingly, Ascalade Inc. will only become an investment of the Company by then. For the time being, the Group does not intend to acquire any further shareholding interest or securities in Ascalade Inc. to the extent that it will become its subsidiary. The Group has even sold the Purchase Debentures and Purchase Warrants to Yeebo as stipulated in this circular; and

4. the Group has never controlled or will not after completion of the Proposed Listing control the board of directors of Ascalade Inc. In view of this position and the shareholding interest of the Group in Ascalade Inc. as explained above, the Group is only an investor and does not take any active role in the operation of Ascalade Inc..

(3) ALTERNATIVE

As an alternative to the Accountants' Report, the Company has included the following information in this circular:

(a) financial information of Ascalade Inc. prepared under Canadian GAAP extracted from the prospectus of Ascalade Inc. included in Appendix 2 of this circular; and

(b) a reconciliation between HKFRS and Canadian GAAP included in Appendix 3 of this circular.

The Directors were also being advised that disclosure of any non-Canadian GAAP financial information at any time might also raise serious concerns of Ascalade Inc.. Based on the abovementioned, the Directors consider that the financial information as contained in Appendix 2 and Appendix 3 of this circular will provide relevant information in relation to Ascalade Inc. to the Shareholders.

(H) ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
By Order of the Board
Karce International Holdings Company Limited
Tong Shek Lun
Chairman and Managing Director

(A) FINANCIAL SUMMARY

Summaries of the consolidated income statement and consolidated balance sheet of the Group for the latest three financial years, as extracted from the published audited financial statements for the years ended 31 December 2002, 2003 and 2004 respectively are set out below:

Consolidated Income Statement

			For the year ended 31 December	
		2004	**2003**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*4*	774,255	589,653	554,548
Cost of sales		(653,038)	(478,877)	(454,633)
Gross profit		121,217	110,776	99,915
Other operating income	*5*	14,613	7,893	13,302
Distribution costs		(18,815)	(13,183)	(12,035)
Administrative expenses		(85,184)	(84,489)	(87,480)
Profit from operations	*6*	31,831	20,997	13,702
Finance costs	*7*	(3,556)	(4,018)	(3,607)
Share of result of an associate		10,031	11,168	124
Negative goodwill released		726	374	–
Profit on partial disposal of interest in an associate	*15*	22,568	–	–
Profit before taxation		61,600	28,521	10,219
Taxation	*9*	(10,292)	(4,295)	(2,018)
Profit before minority interests		51,308	24,226	8,201
Minority interests		3,107	(1,176)	(488)
Profit for the year	*25*	54,415	23,050	7,713
Dividend proposed per share (HK cent)	*10*	1.0	0.5	0.5
Earnings per share	*11*			
Basic (HK cents)		9.88	4.19	1.39
Diluted (HK cents)		9.84	4.19	–

Consolidated Balance Sheet

		For the year ended 31 December		
		2004	**2003**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*12*	334,807	297,107	277,475
Intangible assets		–	–	8,190
Negative goodwill	*13*	(3,215)	(1,120)	(1,494)
Interest in an associate	*15*	111,227	52,206	27,992
Club debenture		1,180	–	–
		443,999	348,193	312,163
CURRENT ASSETS				
Inventories	*16*	112,971	74,251	60,127
Trade and other receivables	*17*	139,449	116,402	94,381
Bills receivable		1,952	2,270	135
Loan and advances to an associate				
– due within one year	*15*	–	26,208	–
Amount due from an associate	*18*	677	40,379	28,028
Tax recoverable		–	12	145
Bank balances and cash		34,868	66,346	68,718
		289,917	325,868	251,534
CURRENT LIABILITIES				
Trade and other payables	*19*	181,532	157,904	131,158
Bills payable		2,702	7,406	334
Tax payable		27,083	22,176	21,081
Dividend payable		–	–	2
Obligations under finance leases				
– due within one year	*20*	9,662	14,355	8,393
Bank borrowings				
– due within one year	*21*	55,667	83,899	8,221
		276,646	285,740	169,189
NET CURRENT ASSETS		13,271	40,128	82,345
TOTAL ASSETS LESS CURRENT LIABILITIES		457,270	388,321	394,508

		For the year ended 31 December		
		2004	**2003**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES				
Obligations under finance leases – due after one year	*20*	7,533	15,546	12,166
Bank borrowings – due after one year	*21*	32,500	16,038	56,075
Deferred tax liabilities	*22*	22,872	16,264	15,436
Loan from a minority shareholder	*23*	–	3,784	–
		62,905	51,632	83,677
MINORITY INTERESTS	*23*	–	6,644	5,416
		394,365	330,045	305,415
CAPITAL AND RESERVES				
Share capital	*24*	55,078	55,078	55,078
Reserves	*25*	339,287	274,967	250,337
		394,365	330,045	305,415

(B) AUDITED FINANCIAL INFORMATION

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2004.

Consolidated Income Statement

		For the year ended 31 December	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
Turnover	*4*	774,255	589,653
Cost of sales		(653,038)	(478,877)
Gross profit		121,217	110,776
Other operating income	*5*	14,613	7,893
Distribution costs		(18,815)	(13,183)
Administrative expenses		(85,184)	(84,489)
Profit from operations	*6*	31,831	20,997
Finance costs	*7*	(3,556)	(4,018)
Share of result of an associate		10,031	11,168
Negative goodwill released		726	374
Profit on partial disposal of interest in an associate	*15*	22,568	–
Profit before taxation		61,600	28,521
Taxation	*9*	(10,292)	(4,295)
Profit before minority interests		51,308	24,226
Minority interests		3,107	(1,176)
Profit for the year	*25*	54,415	23,050
Dividend proposed per share (HK cent)	*10*	1.0	0.5
Earnings per share	*11*		
Basic (HK cents)		9.88	4.19
Diluted (HK cents)		9.84	4.19

Consolidated Balance Sheet

		As at 31 December	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	334,807	297,107
Negative goodwill	*13*	(3,215)	(1,120)
Interest in an associate	*15*	111,227	52,206
Club debenture		1,180	–
		443,999	348,193
CURRENT ASSETS			
Inventories	*16*	112,971	74,251
Trade and other receivables	*17*	139,449	116,402
Bills receivable		1,952	2,270
Loan and advances to an associate – due within one year	*15*	–	26,208
Amount due from an associate	*18*	677	40,379
Tax recoverable		–	12
Bank balances and cash		34,868	66,346
		289,917	325,868
CURRENT LIABILITIES			
Trade and other payables	*19*	181,532	157,904
Bills payable		2,702	7,406
Tax payable		27,083	22,176
Obligations under finance leases – due within one year	*20*	9,662	14,355
Bank borrowings – due within one year	*21*	55,667	83,899
		276,646	285,740
NET CURRENT ASSETS		13,271	40,128
TOTAL ASSETS LESS CURRENT LIABILITIES		457,270	388,321

		As at 31 December	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT LIABILITIES			
Obligations under finance leases			
– due after one year	*20*	7,533	15,546
Bank borrowings			
– due after one year	*21*	32,500	16,038
Deferred tax liabilities	*22*	22,872	16,264
Loan from a minority shareholder	*23*	–	3,784
		62,905	51,632
MINORITY INTERESTS	*23*	–	6,644
		394,365	330,045
CAPITAL AND RESERVES			
Share capital	*24*	55,078	55,078
Reserves	*25*	339,287	274,967
		394,365	330,045

Balance Sheet

		As at 31 December	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT ASSET			
Interests in subsidiaries	*14*	272,979	231,215
CURRENT ASSETS			
Receivable		64	32
Bank balances		11	24
		75	56
CURRENT LIABILITIES			
Payable		413	525
Amount due to a subsidiary		–	93
		413	618
NET CURRENT LIABILITIES		(338)	(562)
		272,641	230,653
CAPITAL AND RESERVES			
Share capital	*24*	55,078	55,078
Reserves	*25*	217,563	175,575
		272,641	230,653

Consolidated Statement of Changes in Equity
For the year ended 31 December 2004

	Total
	HK$'000
As at 1 January 2003	305,415
Revaluation surplus on land and buildings, net of minority share, not recognised in the income statement	2,340
Exchange differences on translation of overseas operations	2,760
Deferred tax liabilities arising on revaluation of land and buildings, net of minority share	(766)
Net gain not recognised in the consolidated income statement	4,334
Final dividend for 2002 paid	(2,754)
Profit for the year	23,050
As at 31 December 2003	330,045
Revaluation surplus on land and buildings, not recognised in the income statement	17,352
Deferred tax liabilities arising on revaluation of land and buildings	(4,693)
Net gain not recognised in the consolidated income statement	12,659
Final dividend for 2003 paid	(2,754)
Profit for the year	54,415
As at 31 December 2004	394,365

Consolidated Statement of Changes in Equity
For the year ended 31 December 2003

	Total
	HK$'000
As at 1 January 2002	
– as originally stated	309,135
– prior period adjustment on adoption of SSAP 12 (Revised)	(14,092)
– as restated	295,043
Revaluation surplus on land and buildings, net of minority share, not recognised in the income statement	4,826
Deferred tax liabilities arising on revaluation of land and buildings, net of minority share	(1,302)
Net gain not recognised in the consolidated income statement	3,524
Final dividend for 2001 paid	(5,571)
Profit for the year	7,713
Shares issued at premium	5,600
Repurchase of shares	(894)
As at 31 December 2002	305,415
Revaluation surplus on land and buildings, net of minority share, not recognised in the income statement	2,340
Exchange differences on translation of overseas operations	2,760
Deferred tax liabilities arising on revaluation of land and buildings, net of minority share	(766)
Net gain not recognised in the consolidated income statement	4,334
Final dividend for 2002 paid	(2,754)
Profit for the year	23,050
As at 31 December 2003	330,045

Consolidated Cash Flow Statement

	For the year ended 31 December 2004 HK$'000	2003 HK$'000
OPERATING ACTIVITIES		
Profit from operations	31,831	20,997
Adjustments for:		
Allowance for doubtful debts	1,856	–
Allowance for obsolete and slow moving inventories	1,223	258
Interest income	(2,265)	(2,325)
Depreciation and amortisation	43,500	43,804
Revaluation (surplus) deficit on land and buildings	(602)	136
(Gain) loss on disposal of property, plant and equipment	(1,264)	279
Impairment loss on property, plant and equipment	–	3,698
Unrealised gain from sales of assets to an associate	1,201	–
Operating cash flows before movements in working capital	75,480	66,847
Increase in inventories	(39,943)	(14,382)
Increase in trade and other receivables	(24,903)	(22,021)
Decrease (increase) in bills receivable	318	(2,135)
Decrease (increase) in amount due from an associate	34,770	(2,251)
Increase in trade and other payables	23,628	26,744
(Decrease) increase in bills payable	(4,704)	7,072
Cash generated from operations	64,646	59,874
Hong Kong Profits Tax (paid) refunded	(291)	100
PRC enterprise income tax paid	(3,249)	(1,174)
NET CASH FROM OPERATING ACTIVITIES	61,106	58,800

	For the year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(58,056)	(44,651)
Acquisition of additional interest in a subsidiary	(4,500)	–
Loan advanced to an associate	(1,333)	(41,193)
Purchase of club debenture	(1,180)	–
Proceeds from disposal of property, plant and equipment	6,539	213
Interest received	2,265	2,325
Development expenditure paid	–	–
Bank balances transferred to an associate	–	–
Investment in an associate	–	–
Acquisition of a subsidiary	–	–
NET CASH USED IN INVESTING ACTIVITIES	(56,265)	(83,306)
FINANCING ACTIVITIES		
New bank loans obtained	60,094	33,019
Repayment of bank loans	(48,113)	(30,577)
(Decrease) increase in trust receipt loans	(24,551)	33,199
Repayment of obligations under finance leases	(18,239)	(10,810)
Interest paid on bank borrowings	(2,893)	(3,501)
Dividend paid	(2,754)	(2,754)
Interest paid on obligations under finance leases	(663)	(517)
Loan from a minority shareholder	–	3,784
Share capital injected by a minority shareholder	–	38
Repurchase of shares	–	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(37,119)	21,881
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,278)	(2,625)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	66,346	68,718
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	253
CASH AND CASH EQUIVALENTS CARRIED FORWARD	34,068	66,346
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	34,868	66,346
Bank overdrafts	(800)	–
	34,068	66,346

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of its subsidiaries and associate are the manufacture of and trading in electronic products, conductive silicon rubber keypads, printed circuit boards, and telecommunication products, respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less accumulated depreciation, amortisation and any identified impairment loss.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent depreciation and amortisation. 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 land and 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, this surplus is credited to the income statement to the extent of the deficit 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.

The carrying value of land use rights is amortised on a straight-line basis over the relevant term of the land use rights or, where shorter, the term of the business licence of the company to which the land use rights are granted.

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

Depreciation and amortisation are provided to write off the cost or valuation of the assets, other than land use rights and construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	**Over the terms of the relevant leases**
Buildings	5%
Leasehold improvements	25%
Plant, machinery and moulds	12.5% – 25%
Furniture, fixtures and office equipment	25%
Motor vehicles	25%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group or, where shorter, the terms of relevant leases.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Club debenture

Club debenture is stated at cost less any identified impairment loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its estimated useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of 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, in which case the impairment loss is treated as revaluation decrease.

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, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

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

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as an obligation under finance lease. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight-line basis over the terms of relevant leases.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Taxation

Taxation 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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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 in the 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.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments:

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

Segment information about these businesses is presented below:

2004

	Electronic calculators and organisers	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING RESULTS						
TURNOVER						
External sales	408,214	171,188	148,163	46,690	–	774,255
Inter-segment sales	9,825	11,137	23,413	–	(44,375)	–
Total	418,039	182,325	171,576	46,690	(44,375)	774,255
RESULT						
Segment result	32,014	1,490	3,007	(3,307)	–	33,204
Other operating income						165
Unallocated corporate expenses						(1,538)
Profit from operations						31,831
Finance costs						(3,556)
Share of result of an associate						10,031
Negative goodwill released						726
Profit on partial disposal of interest in an associate						22,568
Profit before taxation						61,600
Taxation						(10,292)
Profit before minority interests						51,308
Minority interests						3,107
Profit for the year						54,415

2004

	Electronic calculators and organisers	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	363,250	141,381	95,334	22,047		622,012
Unallocated corporate assets						111,904
Consolidated total assets						733,916
LIABILITIES						
Segment liabilities	88,380	47,252	41,622	6,978		184,232
Unallocated corporate liabilities						155,319
Consolidated total liabilities						339,551
OTHER INFORMATION						
Additions to property, plant and equipment and intangible assets	28,469	27,771	12,379	164	–	68,783
Depreciation and amortisation	24,598	9,437	8,702	763	–	43,500
Gain on disposal of property, plant and equipment	475	789	–	–	–	1,264
Revaluation surplus (deficit) on land and buildings	1,333	(731)	–	–	–	602
Allowance recognised (reversed) for obsolete and slow moving inventories	(1,173)	845	1,102	449	–	1,223

2003

	Electronic calculators and organisers	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING RESULTS						
TURNOVER						
External sales	300,116	120,748	133,093	35,696	–	589,653
Inter-segment sales	4,706	9,942	16,730	125	(31,503)	–
Total	304,822	130,690	149,823	35,821	(31,503)	589,653
RESULT						
Segment result	19,401	1,863	13,324	(12,368)	–	22,220
Other operating income						204
Unallocated corporate expenses						(1,427)
Profit from operations						20,997
Finance costs						(4,018)
Share of result of an associate						11,168
Negative goodwill released						374
Profit before taxation						28,521
Taxation						(4,295)
Profit before minority interests						24,226
Minority interests						(1,176)
Profit for the year						23,050

2003

	Electronic calculators and organisers *HK$'000*	Conductive silicon rubber keypads *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
ASSETS						
Segment assets	334,437	112,567	86,695	21,513		555,212
Unallocated corporate assets						118,849
Consolidated total assets						674,061
LIABILITIES						
Segment liabilities	121,391	39,056	42,036	4,700		207,183
Unallocated corporate liabilities						130,189
Consolidated total liabilities						337,372
OTHER INFORMATION						
Additions to property, plant and equipment and intangible assets	32,527	15,835	6,075	827	–	55,264
Depreciation and amortisation	20,186	6,206	8,488	8,924	–	43,804
Impairment loss on property, plant and equipment	2,358	–	1,340	–	–	3,698
Loss on disposal of property, plant and equipment	73	206	–	–	–	279
Revaluation deficit on land and buildings	136	–	–	–	–	136
Allowance (reversal of allowance) for obsolete and slow moving inventories	156	–	(943)	1,045	–	258

Geographical segments:

The Group's customers are principally located in Japan, Hong Kong, America and Europe.

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

	Turnover		Contribution to profit from operations	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong *(note a)*	285,160	157,054	12,151	6,018
Japan *(note b)*	95,286	110,735	4,060	4,243
People's Republic of China, other than Hong Kong ("PRC")	80,693	98,197	3,651	3,389
Europe	122,238	87,815	5,209	3,365
America	26,467	49,380	1,128	1,892
Other Asian countries	145,071	76,894	6,181	2,946
Others	19,340	9,578	824	367
	774,255	589,653	33,204	22,220
Other operating income			165	204
Unallocated corporate expenses			(1,538)	(1,427)
Profit from operations			31,831	20,997

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.

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	92,671	94,202	381	1,197
PRC	529,341	461,010	68,402	54,067
	622,012	555,212	68,783	55,264

5. OTHER OPERATING INCOME

	2004 *HK$'000*	2003 *HK$'000*
Other operating income includes:		
Gain on disposal of property, plant and equipment	1,264	–
Interest income	2,265	2,325
Net rental income	2,764	720
Revaluation surplus on land and buildings	602	–

6. PROFIT FROM OPERATIONS

	2004 *HK$'000*	2003 *HK$'000*
Profit from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	580	594
Underprovision in prior years	–	60
Depreciation and amortisation:		
Property, plant and equipment *(note a)*	43,500	35,614
Intangible assets – development costs	–	8,190
Operating lease rentals	1,585	1,137
Impairment loss on property, plant and equipment	–	3,698
Loss on disposal of property, plant and equipment	–	279
Allowance for doubtful debts	1,856	–
Allowance for obsolete and slow moving inventories	1,223	258
Research and development costs expensed	–	3,049
Revaluation deficit on land and buildings included in administrative expenses	–	136
Staff costs *(note b)*	134,836	103,608

Notes:

	2004	2003
	HK$'000	*HK$'000*
(a) Depreciation and amortisation in respect of property, plant and equipment:		
Owned assets	39,571	32,804
Assets held under finance leases	4,191	3,371
	43,762	36,175
Less: Amount capitalised in moulds	(262)	(561)
	43,500	35,614
(b) Staff costs:		
Directors' remuneration *(Note 8)*	5,973	4,882
Other staff costs	130,008	101,483
	135,981	106,365
Less: Amount capitalised in moulds	(1,145)	(2,757)
	134,836	103,608

7. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	2,893	3,501
Obligations under finance leases	663	517
	3,556	4,018

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration:

	2004 *HK$'000*	2003 *HK$'000*
Fees paid to:		
Independent non-executive directors	360	360
Non-executive directors	240	240
Other emoluments paid to executive directors:		
Salaries and other benefits	5,165	4,116
Retirement benefits scheme contributions	208	166
	5,973	4,882

The directors' remuneration were within the following bands:

	2004 *Number of directors*	2003 *Number of directors*
Nil to HK$1,000,000	6	7
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	2	1
	9	9

During the year, 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.

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(CONTINUED)*

Highest paid employees:

The five highest paid employees of the Group include four (2003: four) executive directors of the Company, details of whose emoluments are included above. The aggregate emoluments of the five highest paid employees for the year were as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Salaries and other benefits	6,116	5,106
Retirement benefits scheme contributions	240	215
	6,356	5,321

The emoluments of the five highest paid employees were within the following bands:

	2004	**2003**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	2	1
	5	5

9. TAXATION

	2004	**2003**
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax:		
Current year	2,659	25
Overprovision in prior years	–	(2)
PRC enterprise income tax	5,800	2,279
	8,459	2,302
Deferred taxation *(Note 22)*	178	54
Taxation attributable to the Company and its subsidiaries	8,637	2,356
Share of taxation attributable to an associate	1,655	1,939
	10,292	4,295

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year. PRC enterprise income tax is calculated at the rates prevailing.

The taxation charge for the year can be reconciled to profit before taxation per the income statement as follows:

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	61,600	28,521
Tax at income tax rate of 27% (2003: 27%)	16,632	7,701
Tax effect of expenses not deductible for tax purposes	3,604	–
Tax effect of income not taxable for tax purposes	(9,072)	(2,371)
Tax effect of tax losses not recognised	2,459	639
Tax effect of share of result of an associate	(1,053)	(1,076)
Tax effect of the undistributed earnings of an associate	302	–
Tax effect on deductible temporary differences not recognised	620	–
Income tax at concessionary rate	(907)	–
Utilisation of tax loss not previously recognised	(594)	–
Effect of different tax rates of group entities operating in other jurisdictions	(1,395)	(13)
Others	(304)	(583)
Overprovision in respect of prior year	–	(2)
Taxation charge for the year	10,292	4,295

As the major operations of the Group are carried out in the PRC, the prevailing PRC enterprise income tax rate is used.

Details of deferred tax liabilities are set out in Note 22.

10. DIVIDEND PROPOSED

The final dividend of HK 1.0 cent (2003: HK 0.5 cent) per share with amount of approximately HK$5,508,000 (2003: HK$2,754,000) has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004 *HK$'000*	2003 *HK$'000*
Earnings for the purposes of basic earnings per share	54,415	23,050
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible loan and advances to an associate	(227)	–
Adjustment to the share of result of an associate based on dilution of its earnings per share	7	–
Earnings for the purposes of diluted earnings per share	54,195	23,050
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	550,776,000	550,776,000

The exercise price of the Company's outstanding share options was higher than the average market price for shares in prior year and was therefore not considered in the presentation of diluted earnings. The Company did not have any outstanding share options during the year or at the balance sheet date.

12. PROPERTY, PLANT AND EQUIPMENT

	Land use rights, leasehold land and buildings	Leasehold improve-ments	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*
THE GROUP							
COST OR VALUATION							
As at 1 January 2004	187,393	3,394	200,337	21,238	8,232	223	420,817
Additions	11,302	15	48,720	3,187	526	5,033	68,783
Reclassification	–	–	163	178	–	(341)	–
Disposals	–	–	(8,488)	(2,968)	(1,126)	–	(12,582)
Revaluation	9,645	–	–	–	–	–	9,645
As at 31 December 2004	208,340	3,409	240,732	21,635	7,632	4,915	486,663
COMPRISING:							
At cost	–	3,409	240,732	21,635	7,632	4,915	278,323
At valuation – 2004	208,340	–	–	–	–	–	208,340
	208,340	3,409	240,732	21,635	7,632	4,915	486,663
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
As at 1 January 2004	–	2,679	102,386	11,823	6,822	–	123,710
Provided for the year	8,309	392	30,041	3,981	1,039	–	43,762
Eliminated on disposals	–	–	(5,197)	(1,098)	(1,012)	–	(7,307)
Eliminated on revaluation	(8,309)	–	–	–	–	–	(8,309)
As at 31 December 2004	–	3,071	127,230	14,706	6,849	–	151,856
NET BOOK VALUES							
As at 31 December 2004	208,340	338	113,502	6,929	783	4,915	334,807
As at 31 December 2003	187,393	715	97,951	9,415	1,410	223	297,107

During the year 2003, the directors conducted a review of the Group's manufacturing and other assets and determined that certain plant, machinery and moulds and office equipment were impaired due to physical damage and technical obsolescence. Accordingly, an impairment loss of HK$3,698,000 was recognised in the income statement.

The net book values of the Group's land use rights and leasehold land and buildings shown above comprise properties held under medium-term leases situated in:

	2004	**2003**
	HK$'000	*HK$'000*
Hong Kong	5,100	4,000
PRC	203,240	183,393
	208,340	187,393

The Group's land use rights and leasehold land and buildings situated in Hong Kong and PRC were revalued at 31 December 2004 by Chesterton Petty Limited, an independent firm of professional property valuers, in their existing uses on an open market value basis and depreciated replacement cost basis, respectively. The resulting revaluation surplus of approximately HK$17,352,000 (2003: HK$2,362,000) and HK$602,000 (2003: deficit of HK$136,000) has been credited to the asset revaluation reserve and the income statement, respectively.

If these land use rights and leasehold land and buildings had not been revalued, they would have been included at historical cost less depreciation and amortisation of approximately HK$147,479,000 (2003: HK$142,294,000).

As at 31 December 2004, the net book values of property, plant and equipment included an amount of approximately HK$28,682,000 (2003: HK$25,987,000) in respect of assets held under finance leases.

In addition, certain of the Group's properties with cost and accumulated depreciation and amortisation of approximately HK$8,743,000 (2003: HK$8,743,000) and approximately HK$4,836,000 (2003: HK$4,431,000) respectively are rented out under operating leases. The depreciation and amortisation charged to the income statement amounted to approximately HK$405,000 (2003: HK$405,000).

13. NEGATIVE GOODWILL

	THE GROUP
	HK$'000
GROSS AMOUNT	
As at 1 January 2004	1,868
Addition	2,821
As at 31 December 2004	4,689
RELEASED TO INCOME	
As at 1 January 2004	748
Released for the year	726
As at 31 December 2004	1,474
CARRYING AMOUNT	
As at 31 December 2004	3,215
As at 31 December 2003	1,120

The negative goodwill of HK$2,821,000, which arose on the Group's acquisition of the 15% equity interest in Dongguan Tai Shan Electronics Co., Ltd. during the year, was amortised over eight years, being the remaining weighted average useful life of its non-monetary depreciable assets.

The remaining negative goodwill is released to income on a straight-line basis over five years.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	**2003**
	HK$'000	*HK$'000*
Unlisted shares	103,710	103,710
Amounts due from subsidiaries	169,269	127,505
	272,979	231,215

The carrying amount of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation in 1997.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company has agreed that the amounts will not be demanded for repayment within the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in Note 34.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Share of net assets	40,243	8,763
Loan and advances to an associate		
Within one year	–	26,208
Between one to two years	70,984	43,443
	70,984	69,651
Less: Amount due within one year shown under current assets	–	(26,208)
Amount due after one year	70,984	43,443
	111,227	52,206

At 31 December 2003, the Group held 49% of the issued share capital of Ascalade Communications Holdings Limited ("ACHL"), a company incorporated in the British Virgin Islands which together with its subsidiaries are engaged in the design, manufacture and sale of electronic, wireless telecommunication products. In November 2004, the Group underwent a share exchange arrangement whereby the Group transferred its equity interest in ACHL to Ascalade Communications Inc. ("ACI"), a company incorporated in Canada in exchange for approximately 30.8% of the issued share capital of ACI. ACI holds the entire equity interest in ACHL since then. As a result of the transactions pursuant to the share exchange, effectively, a 18.2% of the equity interest in ACHL was disposed of by the Group and in return the Group acquired a 30.8% equity interest in ACI, other than ACHL. This has resulted in a profit on partial disposal of interest in an associate of approximately HK$22,568,000 (2003: Nil).

ACI, together with ACHL and other subsidiaries, are engaged in the design, manufacture and sale of electronic, wireless telecommunication products.

The loan and advances to an associate are unsecured and bear interest at LIBOR/prime rates. As at 31 December 2004, the loan and advances plus accrued interest can be assigned to ACI in consideration of the issuance of ACI's shares and convertible debentures and warrants.

The following details have been extracted from the audited consolidated financial statements of ACI and ACHL for the current and prior years, respectively:

	ACI 2004 *HK$'000*	ACHL 2003 *HK$'000*
Results for the year		
Turnover	652,899	483,334
Profit before taxation	14,648	22,792
Profit before taxation attributable to the Group	10,031	11,168
Financial position		
Non-current assets	216,325	68,597
Current assets	287,617	204,044
Current liabilities	(196,107)	(177,328)
Non-current liabilities	(158,130)	(77,428)
Net assets	149,705	17,885
Net assets attributable to the Group	40,243	8,763

As at 31 December 2004, the associate had contingent liabilities in respect of bills discounted with recourse of approximately HK$6,337,000 (2003: HK$12,245,000).

16. INVENTORIES

	THE GROUP	
	2004 *HK$'000*	2003 *HK$'000*
Raw materials	64,439	55,532
Work in progress	12,052	8,423
Finished goods	36,480	10,296
	112,971	74,251
Finished goods carried at net realisable value	3,930	2,812

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

An aged analysis of trade receivables is as follows:

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Not yet due or overdue within 30 days	90,301	70,427
Overdue for 31-60 days	17,156	22,089
Overdue for 61-90 days	10,903	9,722
Overdue for more than 90 days	10,490	10,769
	128,850	113,007
Other receivables	10,599	3,395
	139,449	116,402

18. AMOUNT DUE FROM AN ASSOCIATE

The amount as at 31 December 2004 is unsecured, interest free and has no fixed terms of repayment.

The amount as at 31 December 2003 was unsecured, bore interest at prime rate and had no fixed terms of repayment.

19. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Not yet due or overdue within 30 days	74,908	59,459
Overdue for 31-60 days	15,909	12,359
Overdue for 61-90 days	10,829	13,515
Overdue for more than 90 days	7,517	18,172
	109,163	103,505
Other payables	72,369	54,399
	181,532	157,904

20. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
Amounts payable under finance leases:				
Within one year	10,142	15,079	9,662	14,355
In the second to fifth year inclusive	7,683	15,911	7,533	15,546
	17,825	30,990	17,195	29,901
Less: Future finance costs	(630)	(1,089)	–	–
Present value of lease obligations	17,195	29,901	17,195	29,901
Less: Amount due within one year shown under current liabilities			(9,662)	(14,355)
Amount due after one year			7,533	15,546

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is three years. The average effective borrowing rate was 2.76% for the year. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

As at 31 December 2004, the Group's obligations under finance leases include an amount of approximately HK$17,195,000 (2003: HK$16,613,000) in respect of finance lease arrangements entered into by the Group for the acquisition of assets owned by the Group.

As at 31 December 2003, the Group's obligations under finance leases included an amount of HK$13,288,000 in respect of finance lease arrangements for the acquisition of assets owned by a subsidiary of an associate. Interest on obligations under such finance leases of approximately HK$296,000 for that year was borne by the associate.

21. BANK BORROWINGS

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Bank borrowings are secured and comprise:		
Bank loans	73,302	61,321
Trust receipt loans	14,065	38,616
Bank overdrafts	800	–
	88,167	99,937
The bank borrowings are repayable as follows:		
Within one year	55,667	83,899
Between one to two years	20,000	16,038
Between two to five years	12,500	–
	88,167	99,937
Less: Amount due within one year shown under current liabilities	(55,667)	(83,899)
Amount due after one year	32,500	16,038

As at 31 December 2003, the Group's bank borrowings included trust receipt loans of approximately HK$24,317,000 which were drawn by the Group and on lent to a subsidiary of an associate. Interest on such trust receipt loans of approximately HK$279,000 for that year was borne by the subsidiary of the associate.

22. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation	Revaluation of land and buildings	Undistributed earnings of associate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
As at 1 January 2003	70	15,366	–	15,436
Charge to equity	–	774	–	774
Charge to income	48	–	–	48
Effect of change in tax rate charge to income statement	6	–	–	6
As at 31 December 2003	124	16,140	–	16,264
Arising on acquisition of an associate	–	–	1,737	1,737
Credit to equity	–	4,693	–	4,693
(Charge) Credit to income	(124)	–	302	178
As at 31 December 2004	–	20,833	2,039	22,872

As at 31 December 2004, the Group has estimated unused tax losses of approximately HK$27,518,000 (2003: HK$20,611,000) available for offsetting 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.

23. MINORITY INTERESTS AND LOAN FROM A MINORITY SHAREHOLDER

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Minority share of net assets	–	6,644
Loan from a minority shareholder	–	3,784
	–	10,428

The loan from minority shareholder was unsecured and interest-free.

24. SHARE CAPITAL

	Number of shares 2004 & 2003	Amount 2004 & 2003 *HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each	550,776,000	55,078

25. RESERVES

	Share premium *HK$'000*	Capital reserve *HK$'000*	Special reserve *HK$'000*	Statutory reserves *HK$'000*	Asset revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Goodwill reserve *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
THE GROUP										
As at 1 January 2003	82,364	35,597	19,487	6,553	40,799	(1,847)	(31,539)	922	98,001	250,337
Revaluation surplus on land and buildings	–	–	–	–	2,362	–	–	–	–	2,362
Exchange differences on translation of overseas operations	–	–	–	–	–	2,760	–	–	–	2,760
Minority share of post-acquisition reserve	–	–	–	–	(22)	–	–	–	–	(22)
Deferred tax liabilities arising on revaluation of land and buildings	–	–	–	–	(774)	–	–	–	–	(774)
Minority share of deferred tax liabilities arising on revaluation of land and buildings	–	–	–	–	8	–	–	–	–	8
Final dividend for 2002 paid	–	–	–	–	–	–	–	–	(2,754)	(2,754)
Profit for the year	–	–	–	–	–	–	–	–	23,050	23,050
As at 31 December 2003	82,364	35,597	19,487	6,553	42,373	913	(31,539)	922	118,297	274,967
Revaluation surplus on land and buildings	–	–	–	–	17,352	–	–	–	–	17,352
Deferred tax liabilities arising on revaluation of land and buildings	–	–	–	–	(4,693)	–	–	–	–	(4,693)
Final dividend for 2003 paid	–	–	–	–	–	–	–	–	(2,754)	(2,754)
Profit for the year	–	–	–	–	–	–	–	–	54,415	54,415
As at 31 December 2004	82,364	35,597	19,487	6,553	55,032	913	(31,539)	922	169,958	339,287

	Share premium	Contributed surplus	Capital redemption reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY					
As at 1 January 2003	82,364	68,510	922	12,356	164,152
Final dividend for 2002 paid	–	–	–	(2,754)	(2,754)
Profit for the year	–	–	–	14,177	14,177
As at 31 December 2003	82,364	68,510	922	23,779	175,575
Final dividend for 2003 paid	–	–	–	(2,754)	(2,754)
Profit for the year	–	–	–	44,742	44,742
As at 31 December 2004	82,364	68,510	922	65,767	217,563

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.

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.

The statutory reserves of the Group represent reserves required by the relevant PRC laws applicable to the Company's PRC subsidiaries.

The retained profits of the Group include an amount of approximately HK$17,120,000 (2003: HK$8,744,000) retained by an associate of the Group.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition pursuant to the Group's reorganisation.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2004	2003
	HK$'000	*HK$'000*
Contributed surplus	68,510	68,510
Retained profits	65,767	23,779
	134,277	92,289

26. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of the acquisition of assets owned by the Group with a total capital value at the inception of the leases of approximately HK$10,465,000 (2003: HK$10,052,000).

In 2003, the Group also entered into finance lease arrangements in respect of the acquisition of assets owned by a subsidiary of an associate with a total capital value at the inception of the leases of approximately HK$10,100,000. The amount was included in amount due from an associate.

27. SHARE OPTION SCHEMES

Pursuant to the Company's share option scheme (the "Old Share Option Scheme") which was adopted on 14 February 1998, the board of directors of the Company may grant options to eligible employees, including directors, of the Company and any of its subsidiaries to subscribe for shares in the Company.

As at 31 December 2004, there were no outstanding share options granted under the Old Spare Option Scheme. All of the options granted in prior year were lapsed on 23 July 2003.

Details of movements during the year and prior year in the Company's share options which were granted on 24 July 2000 pursuant to the Old Share Option Scheme at an exercise price of HK$0.528 per share are as follows:

	Number of share to be issued upon exercise of the share options				
Capacity	**Balance as at 1.1.2003**	**Lapsed during the year**	**Balance as at 31.12.2003**	**Lapsed during the year**	**Balance as at 31.12.2004**
Directors	4,324,000	(4,324,000)	–	–	–
Employees	3,824,000	(3,824,000)	–	–	–
	8,148,000	(8,148,000)	–	–	–

The Old Share Option Scheme was terminated pursuant to the annual general meeting held by the Company on 29 May 2002 and a new share option scheme (the "Share Option Scheme") was adopted on the same date. The Share Option Scheme complied with the amended rules of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange. Except that the Company can no longer grant any further share options under the Old Share Option Scheme, all share options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect.

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. Pursuant to the Share Option Scheme, 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 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 share 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 options have been granted pursuant to the Share Option Scheme since its adoption.

28. 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 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.

During the year, the retirement benefits scheme contributions are approximately HK$885,000 (2003: HK$1,483,000). There was no forfeited contributions.

As at 31 December 2004, the Group did not have any forfeited contributions available to offset future employers' contributions to the ORSO Scheme.

29. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in respect of banking facilities utilised by:				
– subsidiaries	–	–	62,567	46,022
– an associate	101,064	32,436	101,064	32,436
	101,064	32,436	163,631	78,458

30. CAPITAL COMMITMENTS

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	1,226	3,356

The Company did not have any significant capital commitment.

31. OPERATING LEASE COMMITMENTS

The Group as lessee:

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

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Within one year	433	1,092
In the second to fifth year inclusive	165	523
Over five years	21	68
	619	1,683

Leases are negotiated for terms range from one to seven years at fixed monthly rentals.

The Company did not have any operating lease commitment.

The Group as lessor:

Certain of the Group's properties have been rented out under operating leases. These properties have committed tenants for one to five years.

As at the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004	**2003**
	HK$'000	*HK$'000*
Within one year	141	141
In the second to fifth year inclusive	319	460
	460	601

32. PLEDGE OF ASSETS

As at 31 December 2004, the Group's land and buildings with carrying value of HK$180,910,000 (2003: HK$157,730,000) were pledged to banks to secure general banking facilities granted to the Group.

33. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with the associate and its subsidiaries:

	2004	**2003**
Nature of transaction	*HK$'000*	*HK$'000*
Sales by the Group *(note a)*	38,057	31,858
Interest charged by the Group *(note b)*	2,100	2,121
Subcontracting fee income charged by the Group *(note c)*	2,537	731
Rental income charged by the Group *(note c)*	2,562	721
Computer system expenditure charged by the Group *(note c)*	3,074	–
Property, plant and equipment transferred by the Group *(note c)*	14,103	4,861

The above transactions were entered into on the following bases:

a. Sales transactions were carried out at market price.

b. Interest was charged at LIBOR or prime rate on the amounts owed by an associate.

c. Subcontracting fee income, rental income, computer system expenditure and sales of property, plant and equipment were carried out at rates/amounts agreed by the parties involved.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are as follows:

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Champeace Investment Limited	Hong Kong	HK$2 Ordinary shares	100%	Inactive
China Ample Investments Limited	British Virgin Islands	US$1 Ordinary shares	100%	Inactive
Dongguan Humen Taida Electric Co., Ltd.	PRC	HK$103,367,589 Registered capital	100%	Manufacture and sale of electronic calculators, electronic organisers and related products
Dongguan Karce Electronics Co., Ltd.	PRC	Rmb3,000,000 Registered capital	100%	Manufacture and sale of electronic calculators, electronic organisers and related 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 Tehsutec Electronic Company Limited	PRC	HK$8,000,000 Registered capital	100%	Manufacture and sale of conductive silicon rubber products
Dongguan Tai Shan Electronics Co., Ltd. ("Tai Shan")	PRC	HK$26,224,000 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%	Sourcing of silicon rubber components
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

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Karce Co. Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic calculators, electronic organisers and related products
Karce Communications Limited	British Virgin Islands	US$2 Ordinary shares	100%	Inactive
Karce Electronics Limited (formerly known as Sunmaster Co., Limited)	Hong Kong	HK$2 Ordinary shares	100%	Provision of administrative and management services
Karce Electronics Toys Limited	Hong Kong	HK$20,000 Ordinary shares	100%	Manufacture and trading of electronic toys
Master Key Industrial Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic calculators, electronic organisers and related products
On Shing Holdings Company Limited	British Virgin Islands	US$10,000 Ordinary shares	100%	Investment holding
On Shing Telephone Keypads Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Manufacture and sale of telephone keypad products
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 and trading in electronic calculators
T & S Industrial Company Limited	Hong Kong	HK$200,000 Ordinary shares	100%	Provision of purchasing agency 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

Only Redditch Enterprises Limited is directly held by the Company.

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 2004 or at any time during the year.

35. SUBSEQUENT EVENTS

(1) 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, an indirect wholly-owned subsidiary of the Company, at a consideration of HK$12,000,000. The gain arising from the disposal of approximately HK$2,974,000 will be recorded in the year ending 31 December 2005. Details of the transaction has been disclosed in a circular of the Company dated 27 January 2005.

(2) On 31 March 2005, the Group assigned to the associate the loan and advances as mentioned in note 15 above in consideration of the issuance of CDN$5,009,000 of convertible debentures, 62,612 warrants and 904,973 common shares of the associate. The Group's attributable equity interest in ACI has since then increased from approximately 30.8% to approximately 39.2%.

C. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest audited financial statements of the Group were made up.

D. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$95 million comprising unsecured bank overdrafts of approximately HK$4 million, secured bank loans of approximately HK$75 million and obligations under finance leases of approximately HK$16 million. In addition, the Group had contingent liabilities of approximately HK$77 million, representing guarantees given to banks in respect of general facilities granted to an associate.

Save as aforesaid and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 30 April 2005 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

The Directors are not aware of any material change in the indebtedness and contingent liabilities of the Group since 1 May 2005.

E. WORKING CAPITAL

The Directors are of the opinion that, based on the expected cash flows, and taking into account the internal resources of the Group and the expected cash flows arising from the Disposals, and assuming that the banking facilities of the Group will not be withdrawn, the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances within the next 12 months from the date of this circular.

Set out below is a summary of the audited consolidated balance sheets of Ascalade Communications Inc. as at 31 December 2004 and 2003 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three year period ended 31 December 2004 together with the relevant notes in the accounts as extracted on pages F–3 to F–22 from the prospectus of Ascalade Communications Inc. dated 17 June 2005. Ascalade Communications Inc's prospectus can be viewed on the internet at www.sedar.com.

These financial information have been prepared and presented in accordance with Canadian Generally Accepted Accounting Principles.

CONSOLIDATED BALANCE SHEETS

		31 March	**31 December**	
		2005	**2004**	**2003**
		(unaudited)		
	Notes	*US$'000*	*US$'000*	*US$'000*
Assets				
Current assets:				
Cash and cash equivalents		2,188	4,657	125
Accounts receivable		9,074	14,192	8,183
Investment tax credits receivable		887	891	–
Inventory	4	18,742	16,887	13,573
Due from related parties	5	496	–	5,709
Prepaid expenses		363	247	150
		31,750	36,874	27,740
Property and equipment	6	12,731	12,826	5,462
Future income taxes	13	1,961	2,035	–
Other assets	7	1,561	1,204	–
Other intangible assets	8	4,432	4,680	3,333
Goodwill	8	6,989	6,989	–
		59,424	64,608	36,535
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities		11,860	10,838	8,838
Current portion of long-term debt	9	9,445	14,217	4,516
Due to related parties	11	87	87	18,226
		21,392	25,142	31,580
Future income taxes	13	1,165	1,553	410
Long-term debt, net of current portion	9	1,186	1,038	612
Convertible debentures	10	13,319	8,742	–
Due to related parties	11	–	8,940	1,640
		15,670	20,273	2,662
		37,062	45,415	34,242
Shareholders' equity:				
Share capital	12	18,915	13,856	5
Warrants	12	679	625	–
Convertible debentures conversion option		1,222	1,317	–
Retained earnings		1,546	3,395	2,288
		22,362	19,193	2,293
		59,424	64,608	36,535
Commitments	17			
Subsequent events	19			

CONSOLIDATED STATEMENTS OF OPERATIONS

		Three months ended 31 March		Year ended 31 December		
		2005	2004	2004	2003	2002
		(unaudited)	(unaudited)			
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue		17,051	18,407	83,705	61,985	12,747
Cost of sales (including depreciation of $416 and $250 for the three months ended 31 March 2005 and 2004, respectively and $1,322, $503, and $73, for the year ended 2004, 2003 and 2002, respectively)		15,174	14,828	70,570	52,777	10,514
		1,877	3,579	13,135	9,208	2,233
Expenses						
Sales, marketing and distribution		506	319	1,513	1,029	334
Research, design and product development		505	360	1,562	1,654	411
General and administrative		1,010	416	1,746	1,010	1,045
Depreciation and amortization		1,214	845	4,189	1,933	276
		3,235	1,940	9,010	5,626	2,066
Earnings (loss) before other expenses and income taxes		(1,358)	1,639	4,125	3,582	167
Other expenses						
Reorganization costs		–	–	1,089	–	–
Interest expense		790	130	1,010	434	132
Foreign exchange loss		15	62	148	226	3
		805	192	2,247	660	135
Earnings (loss) before income taxes		(2,163)	1,447	1,878	2,922	32
Income taxes	13					
Current		–	125	(104)	256	–
Future		(314)	129	875	251	159
		(314)	254	771	507	159
Net earnings (loss)		(1,849)	1,193	1,107	2,415	(127)
Net earnings (loss) per share						
Basic		$(0.28)	$0.29	$0.25	$0.59	$(0.03)
Diluted		$(0.28)	$0.29	$0.25	$0.59	$(0.03)
Weighted average number of common shares	2(p)					
Basic		6,562,500	4,125,000	4,412,157	4,125,000	4,125,000
Diluted		6,562,500	4,125,000	4,423,932	4,125,000	4,125,000

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three months ended 31 March 2005 (unaudited), years ended 31 December 2004, 2003 and 2002

		Share Capital		Warrants		Convertible Debenture Conversion	Retained Earnings	Shareholders'
		Shares	Amount	Number	Amount	Option	(Deficit)	Equity
	Notes		*US$'000*		*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance, 1 January 2002		4,125,000	5	–	–	–	–	5
Issued for cash		–	–	–	–	–	–	–
Net loss		–	–	–	–	–	(127)	(127)
Balance, 31 December 2002		4,125,000	5	–	–	–	(127)	(122)
Net earnings		–	–	–	–	–	2,415	2,415
Balance, 31 December 2003		4,125,000	5	–	–	–	2,288	2,293
Issued for services		375,000	2,081	–	–	–	–	2,081
Issued on acquisition of Ascalade Technologies Inc.	3	2,062,500	11,770	158,579	–	568	–	12,338
Issued upon convertible debenture financing	10	–	–	252,153	625	749	–	1,374
Net earnings		–	–	–	–	–	1,107	1,107
Balance, 31 December 2004		6,562,500	13,856	410,732	625	1,317	3,395	19,193
Expiry of warrants		–	–	(158,579)	–	–	–	–
Issued for amount due to related parties	10, 11(a)	904,973	5,059	62,612	45	(202)	–	4,902
Issued upon convertible debenture financing	10	–	–	12,312	9	107	–	116
Net loss		–	–	–	–	–	(1,849)	(1,849)
Balance, 31 March 2005 (unaudited)		7,467,473	18,915	327,077	679	1,222	1,546	22,362

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Three months ended 31 March		Year ended 31 December		
		2005	2004	2004	2003	2002
		(unaudited)	(unaudited)			
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Cash flow from operating activities						
Net earnings (loss)		(1,849)	1,193	1,107	2,415	(127)
Items not involving cash						
Accretion of non-cash interest		232	–	68	–	–
Amortization of financing costs		123	–	57	–	–
Reorganization costs paid in common shares		–	–	1,089	–	–
Amortization		1,132	803	3,958	1,885	263
Depreciation		498	292	1,553	551	86
Future income taxes		(314)	254	875	251	159
Impairment loss on plant and equipment		–	–	–	116	–
Changes in operating assets and liabilities	18	3,693	2,025	(7,457)	(7,960)	(2,270)
Net cash provided by (used in) operating activities		3,515	4,567	1,250	(2,742)	(1,889)
Cash flow from investing activities						
Addition to design and product development costs		(805)	(1,420)	(5,305)	(3,680)	(1,800)
Net additions to equipment		(113)	(457)	(1,197)	(1,914)	(1,284)
Other		–	–	–	–	64
Net cash used in investing activities		(918)	(1,877)	(6,502)	(5,594)	(3,020)
Cash flow from financing activities						
Proceeds from issuance of convertible debentures		318	–	9,054	–	–
Repayment of capital lease obligations		(82)	(198)	(632)	(92)	–
Advances (to) from related parties		(388)	(3,710)	(7,100)	5,755	5,102
Issuance of common shares, net of share issue costs		–	–	(88)	–	5
Proceeds from credit facilities		(4,914)	1,985	8,550	2,600	–
Net cash provided by financing activities		(5,066)	(1,923)	9,784	8,263	5,107
Increase (decrease) in cash and cash equivalents		(2,469)	767	4,532	(73)	198
Cash and cash equivalents, beginning of period		4,657	125	125	198	–
Cash and cash equivalents, end of period		2,188	892	4,657	125	198
Supplemental cash flow information						
Interest paid		231	130	768	434	132
Income taxes paid		–	–	–	–	–

		Three months ended 31 March		Year ended 31 December		
		2005	**2004**	**2004**	**2003**	**2002**
		(unaudited)	(unaudited)			
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Non-cash investing and financing disclosures:						
Shares issued on acquisition of net assets of Ascalade		–	–	12,772	–	–
Shares issued for reorganization services		–	–	1,089	–	–
Property and equipment additions financed by capital lease		369	–	624	916	–
Property and equipment additions financed by advances from related parties		–	459	1,808	1,918	–
Assumption of capital lease obligations in repayment of related party advances		–	–	632	135	–
Shares and warrants issued for amount due to related party		5,104	–	–	–	–
Issuance of convertible debentures for amounts due from related parties		496	–	–	–	–
Convertible debentures issued for advances owing to related party		4,118	–	–	–	–

Notes to the Consolidated Financial Statements

(Years ended 31 December 2004 and 2003 (Information as at and for the three months ended 31 March 2005 and 2004 is unaudited))

1. BASIS OF PRESENTATION

Ascalade Communications Inc. (the "Company") designs and manufactures wireless communications products for branded distributor and telecommunications companies. The Company's current products include cordless phones, cordless VoIP phones (including WiFi handsets), wireless enterprise conferencing products and wireless baby monitors. The Company's vertically integrated design, manufacturing and distribution offices are located in Richmond (Canada), Dongguan (China), Hong Kong and London (England).

The Company was incorporated on 2 November 2004 under the laws of British Columbia, Canada. On 19 November 2004, the Company completed a reorganization whereby the Company acquired 100% of the issued and outstanding share capital of Ascalade Communications Holdings Limited ("Ascalade Holdings") and Ascalade Technologies Inc. ("Ascalade Technologies", formerly Arkon Networks Inc.) in exchange for 4,125,000 and 2,062,500 common shares, respectively, of the Company. The reorganization has been accounted for as a business combination whereby the purchase method has been used with Ascalade Holdings being the accounting parent and reflected as a continuity of interest of Ascalade Holdings. These consolidated financial statements reflect the historical results of Ascalade Holdings and subsequent to the reorganization consolidate the operations of Ascalade Technologies (Note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Ascalade Technologies (Canada), Ascalade Holdings (BVI), Apex Glory Investments Limited (BVI), Ascalade Communications Limited (Hong Kong), Ascalade Communications (Europe) Limited (UK), Ascalade Technologies Ltd. (BVI), and Ascalade Assets Limited (Hong Kong).

(b) Foreign currency translation

The reporting and functional currency of the Company is the United States dollar.

Foreign currency transactions entered into directly by the Company, as well as the accounts of the integrated foreign subsidiary operations, are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates and other balance sheet items are translated at historical exchange rates. Income statement items are translated at the rate in effect at the time of the transaction.

(c) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and notes thereto. Significant areas requiring the use of management estimates include, but are not limited to, inventory obsolescence provisions, allowance for doubtful accounts, assessment of the recoverability of long-lived assets, the valuation of future income tax assets, assessment of the recovery of investment tax credits receivable, allocation of production costs to inventory, useful lives for depreciation and amortization, assessment as to the recoverability of goodwill and other intangibles assets, taxes, warranties and contingencies. Actual amounts may ultimately differ from these estimates.

(d) Cash and cash equivalents

Cash equivalents include short-term deposits, which are all liquid securities with terms to maturity of three months or less when acquired.

(e) Investment tax credits

Investment tax credits are recorded using the cost-reduction method whereby the credits are deducted from the cost of the related asset or expenditure when there is reasonable assurance that the investment tax credit will be realized.

(f) Inventory

Raw materials inventory is stated at the lower of cost and replacement cost, with cost being determined using the first-in, first-out method. Finished goods and work-in-process inventory include materials, labour and manufacturing overhead and are stated at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. A provision for obsolescence for slow-moving items is estimated by management based on historical and expected future sales and is included in cost of sales.

(g) Investments

Investments are accounted for under the cost method of accounting, as the Company does not have the ability to exercise significant influence. Under the cost method, investments are carried at cost less any provisions for other than temporary loss in value.

(h) Debt issue costs

Debt issue costs represent the unamortized cost of obtaining debt financing. Amortization is provided on a straight-line basis over the term of the related debt and is included in interest expense for the year.

(i) Property and equipment

Property and equipment are stated at cost less applicable tax credits. Amortization of property and equipment is recorded on a straight-line basis at the following annual rates, which approximate the useful life of the assets:

Building	25 years
Plant and machinery	4 to 8 years
Equipment	2 to 10 years
Leasehold improvements	4 years

Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful life.

(j) Impairment of long-lived assets

The Company monitors the recoverability of long-lived assets based on estimates using factors such as expected future asset utilization, economic outlook and future cash flows expected to result from the use of the related assets or be realized on sale. The Company recognizes an impairment loss if the projected undiscounted aggregate future cash flows are less than the carrying amount. The amount of impairment charge, if any, is defined as the excess of the carrying value over the expected future undiscounted cash flows. Effective 1 January 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3063, Impairment of Long-Lived Assets. In order to determine the impairment charge, the Company compared the carrying value to the fair value of the long-lived asset instead of undiscounted future cash flows. There was no impact on the impairment due to this change as at 1 January 2004.

(k) Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable assets acquired and liabilities assumed.

Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying value exceeds the fair value of goodwill, an impairment loss would be recognized in an amount equal to the excess.

(l) Revenue recognition

The Company recognizes sales revenue when goods are shipped and title passes, there is persuasive evidence of an arrangement, collection is probable, and the fee is fixed or determinable. Provisions are established for estimated product returns and warranty costs at the time the revenue is recognized. The Company records deferred revenue when cash is received in advance of the revenue recognition criteria being met. As at 31 March 2005 and 31 December 2004 and 2003, the Company had no deferred revenue.

(m) Research, design and product development

Research costs are expensed as incurred. Design and product development costs are expensed as incurred unless certain stringent criteria are met. These criteria relate to: the use of proven technologies to improve industrial design and product features; a track record and process of defining identifiable markets; and management's intention and ability to take the product to market in a relatively short period of time (usually less than one year). Capitalized design and product development costs are tracked on a project by project basis. The Company applies stringent criteria in determining the capitalization of such costs. Such costs generally include third party contracted costs and other direct costs. Where capitalized project costs exceed the expected related revenues less estimated production, selling and administrative costs and additional design and product development costs, the excess capitalized project costs are charged to operations.

Capitalized development costs are amortized commencing on commercial production or use of the product on a straight-line basis over a period of two years. The Company incurred an amortization charge related to capitalized development costs of $1,132,000 for the three months ended 31 March 2005 (31 March 2004 – $803,000) and $3,958,000 for the year ended 31 December 2004 (2003 – $1,885,000; 2002 – $263,000). During the three months ended 31 March 2005 $884,000 has been capitalized (31 March 2004 – $1,420,000), $5,305,000 year ended 31 December 2004, 2003 – $3,680,000; 2002 – $1,800,000).

(n) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company recognizes and measures, as assets and liabilities, income taxes currently payable or recoverable as well as future taxes which will arise from the realization of assets or settlement of liabilities at carrying amounts which differ from their tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered to be more likely than not. Future tax assets and liabilities are presented net by current and non-current classifications except to the extent that they cannot be offset due to different tax jurisdictions.

(o) Stock-based compensation

The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board has amended section 3870, *"Stock-Based Compensation and Other Stock-Based Payments"*, to require the fair value method to be applied to all employee stock-based compensation awards for fiscal years beginning on or after 1 January 2004. Under the prospective method of adoption selected by the Company, the fair value method is applied to all employee awards granted on or after 1 January 2003.

There were no stock options granted or outstanding prior to the acquisition of Ascalade Technologies on 19 November 2004.

(p) Earnings (loss) per share

Basic net earnings (loss) per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

Diluted net earnings (loss) per share is computed using the treasury stock method, which assumes that all dilutive options and warrants were exercised at the beginning of the period and the proceeds to be received were applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants and when the Company generates income from operations.

For the periods presented all warrants are anti-dilutive, as the market price of the common shares does not exceed the exercise price of the warrants. Although the number of common shares required to settle the debenture obligation is not yet fixed for dilutive purposes, the calculations assume the conversion of the convertible debentures based on the most dilutive terms.

The table below is a reconciliation of the denominator used in the calculation of the weighted average number of basic and diluted earnings per common share outstanding. There is no impact on the numerator.

	Three months ended 31 March		Year ended 31 December		
Denominator	**2005**	**2004**	**2004**	**2003**	**2002**
	(unaudited)	(unaudited)			
Weighted average number of common shares outstanding – basic	6,562,500	4,125,000	4,412,157	4,125,000	4,125,000
Assumed exercise of stock options	–	–	11,775	–	–
Weighted average number of common shares outstanding – diluted	6,562,500	4,125,000	4,423,932	4,125,000	4,125,000

The calculations do not include the assumed conversion of the convertible debenture as its effect would be anti-dilutive.

3. ACQUISITION

On 19 November 2004, the Company completed a reorganization whereby the Company acquired 100% of the issued and outstanding share capital of Ascalade Holdings (a manufacturing, distribution and marketing company) and Ascalade Technologies (a designer of wireless communication products) in exchange for 4,125,000 and 2,062,500 common shares, respectively, of the Company. The Company also issued 375,000 common shares for certain services directly related to the acquisition and certain other consulting services having a fair value of $992,000 and $1,089,000, respectively. The consideration paid relating directly to the acquisition has been reflected as a transaction cost and included in the cost of the acquisition. Those costs relating to consulting services are reflected in operations. The reorganization has been accounted for as a business combination whereby the purchase method has been used with Ascalade Holdings, identified as the accounting parent and reflected as a continuity of interest of Ascalade Holdings.

The total consideration paid by the Company, including transaction costs, was allocated to the net identifiable assets acquired based on management's preliminary assessment as to the estimated fair values on the acquisition date. This preliminary assessment is subject to change upon management's final determination of the fair value of the assets acquired and liabilities assumed.

	US$'000
Purchase price (including transaction costs of $1,086,000) allocated as follows:	
Accounts receivable	1,018
Investment tax credits recoverable	903
Prepaid expenses	25
Property and equipment	4,656
Future income tax assets	1,917
Investments	247
Bank loans	(1,301)
Accounts payable and accrued liabilities	(1,075)
Due to related parties	(373)
Future income tax liabilities	(150)
Goodwill	6,989
	12,856

These consolidated financial statements reflect the operations of Ascalade Technologies from the date of acquisition, 19 November 2004.

4. INVENTORY

	31 March		
	2005	**2004**	**2003**
	US$'000	*US$'000*	*US$'000*
	(unaudited)		
Raw materials	10,141	9,014	6,645
Work-in-progress	3,700	2,834	2,060
Finished goods	4,901	5,039	4,868
	18,742	16,887	13,573

5. DUE FROM RELATED PARTIES

As at 31 March 2005 the Company was owed $496,000 from two independent directors relating to the convertible debenture financing on 31 March 2005 (See note 10). This amount has subsequently been collected.

6. PROPERTY AND EQUIPMENT

31 March 2005 (unaudited)	Cost	Accumulated Depreciation	Net Book Value
	US$'000	*US$'000*	*US$'000*
Land	1,327	–	1,327
Building	2,543	236	2,307
Leasehold improvements	514	96	418
Plant and machinery	9,578	2,322	7,256
Equipment	3,227	1,804	1,423
	17,189	4,458	12,731

31 December 2004	Cost	Accumulated Depreciation	Net Book Value
	US$'000	*US$'000*	*US$'000*
Land	1,327	–	1,327
Building	2,543	211	2,332
Leasehold improvements	485	65	420
Plant and machinery	9,184	1,951	7,233
Equipment	3,168	1,654	1,514
	16,707	3,881	12,826

31 December 2003	Cost	Accumulated Depreciation	Net Book Value
	US$'000	*US$'000*	*US$'000*
Plant and machinery	6,018	694	5,324
Equipment	198	60	138
	6,216	754	5,462

As at 31 March 2005, the net book value of property and equipment included an amount of approximately $3,212,000 (31 December 2004 – $2,784,000, 2003 – $957,000) in respect of assets held under capital lease arrangements entered into by the Company.

7. OTHER ASSETS

	31 March 2005	2004	2003
	US$'000 (unaudited)	*US$'000*	*US$'000*
Investment, at cost	247	247	–
Debt issue costs (net of accumulated amortization of $180,000 – 31 March 2005, $57,000 – 31 December 2004)	834	957	–
Deferred share issue costs	480	–	–
	1,561	1,204	–

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	31 March 2005 US$'000 (unaudited)	2004 US$'000	2003 US$'000
Goodwill	6,989	6,989	–
Other intangible assets			
Design and product development costs	11,670	10,786	5,481
Accumulated amortization	7,238	6,106	2,148
	4,432	4,680	3,333

9. LONG-TERM DEBT

	Notes	31 March 2005 US$'000 (unaudited)	2004 US$'000	2003 US$'000
Credit facilities	9(a)	8,343	13,257	4,169
Obligations under capital lease	9(b)	2,288	1,998	959
		10,631	15,255	5,128
Less: Current portion		9,445	14,217	4,516
		1,186	1,038	612

(a) Credit facilities

Together with a shareholder and certain of its subsidiaries, the Company has the benefit of approximately $35.9 million in operating credit facilities with banks in Hong Kong with interest rates ranging from 3% (HIBOR plus 1.75%) to 5% (prime) for Hong Kong dollars and 4.95% (LIBOR plus 2%) to 5.5% (prime) for United States dollars. Under the terms of certain of these facilities the Company has provided cross guarantees with respect to the borrowings of the other parties. As of 31 March 2005, the maximum amount for which the Company could be liable under these cross guarantees is approximately $29.4 million (31 December 2004 – $27.5 million). As of 31 March 2005, the Company has borrowed $7,970,000 (31 December 2004 – $12,874,000, 2003 – $4,169,000) against these facilities and was subject to guarantees on borrowings of the related parties of $2,679,000 (31 December 2004 – $4,222,000, 2003 – $418,000). All facilities are due on demand and, accordingly, have been classified as current liabilities.

In addition, the Company has a Cdn$2.2 ($1.8) million credit facility which includes an operating loan, term loan and foreign exchange loan. The term loan is due on demand and bears interest at the bank's prime rate plus 0.5%. The loan is scheduled for repayment of principal and interest, maturing November 2013. The loan is secured by a general security agreement over certain of the Company's assets and a Cdn.$4.0 million demand mortgage on the Company's land and buildings. The operating loan is due on demand and bears interest at the bank's prime rate plus 0.5%. The loan is secured under the same facility terms as the term loan. The foreign exchange loan facility is for the purpose of purchasing forward exchange contracts and is secured under the same facility terms as the term loan plus terms of the foreign exchange contract agreements. As at 31 March 2005, the Company had borrowed $373,000 (31 December 2004 – $383,000, 2003 – nil) under these facilities.

(b) Obligations under capital leases

Minimum future payments under capital leases for plant and equipment are as follows:

	31 March 2005 *US$'000* (unaudited)	31 December 2004 *US$'000*
2005	1,165	1,000
2006	879	790
2007	324	268
Total minimum lease payments	2,368	2,058
Less: Amount representing interest at 31 March 2005 – 3.0%, 31 December 2004 – 2.5%	80	60
Present value of lease obligations	2,288	1,998

The Company has acquired certain of its plant and equipment under capital leases. The average lease term is three years. The average effective borrowing rate was 2.5% for the year. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

10. CONVERTIBLE DEBENTURES

On 19 November and 16 December 2004, the Company completed a brokered private placement totaling 11,866 units (the "Units"), at a price of Cdn$1 per Unit, for gross proceeds of Cdn$11,866,000 ($9,908,000). Each Unit is comprised of Cdn$1 principal amount of 12% convertible subordinated debentures of the Company, maturing two years from the date of issue and 12.5 detachable common share purchase warrants exercisable for three years from the date of issue. In addition, the Agents for these private placements were issued a total of 103,826 warrants as partial consideration for their services for the private placements.

The convertible debentures are convertible at the lesser of (a) a 15% discount to any initial public offering ("IPO") or reverse take-over ("RTO") price per share; or (b) Cdn$6.80 per share (the "Conversion Price"). The convertible debentures will bear interest at a rate of 12% per annum, payable semi-annually in cash or, after the completion of an IPO or RTO, using proceeds from a common share offering. If the Company does not complete an IPO or RTO by 18 May 2005, the Conversion Price will be adjusted downward by 6% and by an additional 2% per month thereafter in which an IPO or RTO has not occurred, up to a maximum downward adjustment to the Conversion Price of 12%.

Following the completion of an IPO or RTO, the Company will have the option to redeem the convertible debentures, in whole or in part, by issuing and delivering that number of freely tradeable common shares obtained by dividing the principal amount of the convertible debentures by a price equal to a 15% discount to the weighted average closing price of the common shares on the Toronto Stock Exchange during the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given or, if the Company's common shares are not listed on any stock exchange during such period, at a price determined by the directors of the Company and approved by the Trustee of the convertible debentures.

For accounting purposes, the Company assigned a value to the holders embedded conversion option and warrants using the residual value approach. The conversion option and warrants are separately disclosed in shareholders' equity. The liability component of convertible debentures is accreted to its face value through the recording of additional non-cash interest.

The warrants are exercisable for a period of three years at a price equal to a 15% premium to any IPO or RTO price per share. If Ascalade does not complete an IPO or RTO, the exercise price will be equal to Cdn$9.20 per common share.

Debt issue costs of $1,014,000 are being amortized into operations over the term of the debentures. The effective yield (including all interest, finance costs and debt issue costs) on the convertible debentures is 24%.

On 31 March 2005, the Company issued a further 5,994 Units, representing Cdn$5,994,000 ($4,932,000) of convertible debentures and 74,924 warrants (having terms described above), to certain subsidiaries of a shareholder for the assignment of $4,118,000 of advances owing from the Company (Note 11) and to certain directors, officers, and employees for gross proceeds of Cdn$985,000 ($814,000).

11. DUE TO RELATED PARTIES

(a) As of 31 March 2005, loans and advances in the amount of $87,000 (2004 – $9,187,000, 2003 – $19,866,000) are due to certain subsidiaries or a shareholder of the Company, are unsecured and bear interest at Hong Kong prime rate or LIBOR.

Under the terms of the reorganization (Note 1), certain loans and advances plus accrued interest may be assigned to the Company in consideration for the issuance of common shares and units (Note 10). The modification of this debt instrument was not considered a settlement for purposes of Canadian generally accepted accounting principles. Using the residual value approach, the Company assigned a value to the equity components, which are disclosed separately in shareholders' equity. The liability component of the modified loan and advance is accreted to its face value through the recording of additional non-cash interest.

On 31 March 2005, certain subsidiaries of a shareholder assigned to the Company approximately $9,177,000 of loans and advances owing from the Company in exchange for the issuance of 5,009 Units (Note 10) and 904,973 common shares.

(b) On 31 December 2004, loans totaling $388,000 (2003 – $Nil) were due to shareholders of the Company, secured by a second security interest on certain assets of the Company, and bearing interest at Canadian prime rate.

On 31 March 2005, the Company repaid $388,000 of loans due to related parties.

12. SHARE CAPITAL

(a) Authorized

Unlimited common shares

Unlimited preferred shares

On 31 March 2005, the Company consolidated its outstanding common shares on the basis of one new common share for every eight existing common shares. These financial statements reflect the share capital consolidation on a retroactive basis. Hence, the number of common shares, options, warrants and earnings per share calculation reflect the impact of the share capital consolidation.

On 31 March 2005, the Company issued 904,973 common shares for the assignment of $5,059,000 loan owing from the Company to certain subsidiaries of a shareholder (Note 11).

(b) Employee stock options

As a result of the business combination on 19 November 2004, 127,152 vested options held by certain employees of the acquired company with a weighted average exercise price of $4.39 were assumed. The fair value of such options was determined to be nominal. All options expired unexercised on or before 31 December 2004.

On 31 March 2005, the Company adopted an incentive share option plan (the "Plan") which provides for a maximum 1,100,000 of the Company's outstanding common share options to be granted to participants. The exercise price of each option cannot be less than the fair value of the common stock on the date of grant with terms to a maximum of ten years and vesting as determined by the Board.

The Company granted a total of 913,500 options with an exercise price of Cdn$6.80 per common share, vesting over three years, expiring six years from the date of grant. Under the minimum value method, the fair value of the options granted was determined to be Cdn$0.55 per share. As at 31 March 2005, no options were exercisable.

(c) Warrants

At 31 December 2004, 410,732 warrants to acquire common shares were outstanding as follows:

(i) As a result of the business combination on 19 November 2004, 158,579 warrants with an exercise price of $11.20 were assumed. The fair value of the warrants was determined to be nominal. These warrants expired unexercised on 15 January 2005 and 23 February 2005; and

(ii) In connection with the convertible debt financing, the Company issued 252,153 warrants (including 103,826 Agent's warrants), exercisable at Cdn$9.20 per share, and expiring on 19 November 2007.

In connection with the convertible debt financing on 31 March 2005, the Company issued 74,924 warrants exercisable at Cdn$9.20 per share, expiring on 19 November 2007.

(d) Defined contribution pension plan

The Company has a defined contribution pension plan for its employees. During the three months ended 31 March 2005, the Company expensed $22,000 (three months ended 31 March 2004 – $14,000, year end 31 December 2004 – $54,000, 2003 – $52,000) for the defined contribution plan.

13. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 35.62% (2004 – 35.62%, 2003 – 35.62%, 2002 – 35.62%) to income before income taxes. The reasons for the differences are as follows:

	Three months ended 31 March		Year ended 31 December		
	2005	**2004**	**2004**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Computed tax expense (recovery)	(770)	515	669	1,041	11
Income taxed at different rates in foreign jurisdictions	438	(261)	(621)	(529)	(6)
Change in valuation allowance and other	–	–	311	(5)	154
Non-deductible items	18	–	412	–	–
	(314)	254	771	507	159

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities at 31 December 2004 are presented below:

	31 March 2005	2004	2003
	US$'000	*US$'000*	*US$'000*
	(unaudited)		
Future tax assets:			
Tax loss carryforwards	306	118	–
Investment tax credits, net	2,282	2,552	–
	2,588	2,670	–
Valuation allowance	(627)	(635)	–
	1,961	2,035	–
Future tax liabilities:			
Property and equipment and intangibles	(1,165)	(1,553)	(410)
Net future tax asset	796	482	(410)

Due to the uncertainty surrounding the realization of future income tax assets, the Company has recorded a valuation allowance against certain of its future income tax assets.

The Company has investment tax credits of $2,898,000 at 31 March 2005 (31 December 2004 – $2,855,000) available to offset income taxes payable in the future. The investment tax credits begin to expire commencing 2007.

As at 31 March 2005, the Company has non-capital losses of $804,000 (31 December 2004 – $275,000) which can be used to reduce future taxable income and capital losses of approximately $55,000, which can be used to reduce future capital gains. These losses will begin to expire in 2008.

14. FINANCIAL INSTRUMENTS

(a) Fair value

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to related parties. The carrying value of these instruments approximates their fair value due to their immediate or short-term to maturity or their ability for liquidation at comparable amounts.

The Company's long-term debt is also a financial instrument. The carrying value of this instrument approximates its fair value. Fair value was determined based on estimated future cash flows discounted using the current market rate for debt under similar circumstances with similar terms and remaining maturities.

(b) Foreign exchange risk

Foreign currency risk reflects the risk that the Company's earnings will decline due to fluctuations in exchange rates. The majority of the Company's sales and purchases are made in US dollars, Hong Kong dollars and China RMB. The exchange rate of Hong Kong dollars and China RMB is fixed to the US dollar. Certain of the Company's costs and the Company's long-term debt are denominated in Canadian dollars. Accordingly, the Company is exposed to foreign currency fluctuations. The Company has not entered into foreign currency hedges at 31 March 2005 and 31 December 2004.

(c) Interest rate risk

The Company does not have any outstanding interest rate hedges at 31 March 2005 and 31 December 2004. The exposure to upward interest rate movements from bank indebtedness is monitored by the Company on a regular basis.

(d) Credit risk, concentration of sales, and economic dependence

Credit risk reflects the risk that the Company may be unable to recover accounts receivable. The Company is exposed to credit risk as a substantial portion of its revenue is generated from a limited number of customers. The Company manages its credit risk by closely monitoring the granting of credit. As at 31 March 2005, accounts receivable include $4,893,000 (31 December 2004 – $8,953,000, 2003 – $2,991,000) due from 4 (31 December 2004 – 4, 2003 – 2) customers. Revenue for the three months ended 31 March 2005 includes $4,247,000 (three months ended 31 March 2004 – $4,365,000, year ended 31 December 2004 – $22,097,000; 2003 – $24,445,000; 2002 – $7,277,000) earned from sales to its two largest customers, who each represent 16% and 9% of sales (three months ended 31 March 2004 – 12% and 12%, year ended 31 December 2004 – 13% and 13%, 2003 – 29% and 11%, 2002 – 39% and 18%).

15. SEGMENTED INFORMATION

The Company operates in the wireless communications industry. Management of the Company makes decisions about allocating resources based on this single operating segment.

Revenue by product is as follows:

	Three months ended 31 March		Year ended 31 December		
	2005	**2004**	**2004**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Cordless phones	15,661	16,225	77,087	61,179	12,747
Enterprise conference phones	60	2,161	3,614	806	–
Baby monitor	1,301	–	2,805	–	–
Other	29	21	199	–	–
	17,051	18,407	83,705	61,985	12,747

Geographic information is as follows:

	Three months ended 31 March		Revenue from External Customers Year ended 31 December		
	2005	**2004**	**2004**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Europe	14,458	12,719	68,151	52,744	12,097
North America	859	4,421	9,364	7,707	79
Asia	1,292	686	3,066	1,534	571
Other	442	581	3,124	–	–
	17,051	18,407	83,705	61,985	12,747

As at 31 March 2005 and 31 December 2004, approximately 43% of the Company's long-lived assets are in Canada and 57% are in China.

16. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed in Notes 5, 9, and 11 the Company had undertaken the following transactions with related parties:

(a) The Company had the following transactions with Ascalade Technologies prior to its acquisition during the year (Note 3). Ascalade Technologies was controlled by a director, significant shareholder, and senior executive of the Company.

	Three months ended 31 March	Year ended 31 December		
	2004	2004	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*
	(unaudited)			
Development fees paid	1,420	4,948	3,680	1,800
Sales commissions	–	–	178	–
Purchases of materials	–	–	31	–

(b) The Company had the following transactions directly with a significant shareholder or one of its subsidiaries. All transactions were recorded at the exchange amount.

	Three months ended 31 March		Year ended 31 December		
	2005	2004	2004	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Purchase of materials	1,095	1,866	4,879	4,084	968
Interest paid	80	65	271	272	124
Subcontracting fees paid	105	–	325	94	193
Rental fees paid	148	70	328	92	15
Purchase of equipment	–	–	1,808	1,918	–
Assignment of capital leases to the Company	–	–	632	135	–
Purchase of certain assets, net	329	–	–	–	2,139
Compensation paid	–	–	–	–	811

These related party transactions were recorded at the exchange amount, which is the amount of considerations paid or received as established and agreed to by the related parties.

17. COMMITMENTS

In addition to certain loan guarantees, future minimum payments under various purchasing commitments and operating lease agreements for each of the next five fiscal years are approximately as follows:

	31 March 2005	31 December 2004
	US$'000	*US$'000*
	(unaudited)	
2005	8,332	8,779
2006	49	49
2007	4	4
2008	4	4
Thereafter	–	–
	8,389	8,836

18. CHANGES IN OPERATING ASSETS AND LIABILITIES

	Three months ended 31 March		Year ended 31 December		
	2005	2004	2004	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(unaudited)	(unaudited)			
Accounts receivable	5,122	826	(4,991)	(3,962)	(1,916)
Inventory	(1,855)	–	(3,314)	(9,110)	(3,079)
Prepaid expenses	(116)	(76)	(72)	–	–
Accounts payable and accrued liabilities	542	1,275	920	5,112	2,725
	3,693	2,025	(7,457)	(7,960)	(2,270)

19. SUBSEQUENT EVENTS

The Company filed a prospectus on 17 June 2005 relating to a proposed initial public offering of common shares.

The consolidated financial statements of Ascalade Inc. as set out in Appendix 2 have been prepared and presented in accordance with Canadian GAAP, which differ in certain significant respects from those prepared under HKFRS.

The Group has not prepared a complete reconciliation of the financial information or financial statements and related footnote disclosures included in this Circular from Canadian GAAP to HKFRS.

To the best information of the Group and by reading the significant accounting policies of Ascalade Inc., set out below is a reconciliation of the significant differences from amounts reported under Canadian GAAP (extracted from the audited financial statements of Ascalade Inc. as set out in Appendix 2 of this circular) to the amounts determined under HKFRS in respect of (i) consolidated profit attributable to shareholders for each of the three years ended 31 December 2004 and (ii) consolidated net assets as of 31 December 2003 and 2004:

	Consolidated (loss) profit attributable to shareholders for the year ended 31 December			Consolidated net assets as of 31 December	
	2002	**2003**	**2004**	**2003**	**2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Under Canadian GAAP (audited)	(127)#	2,415#	1,107#	2,293*	19,193*
Impact of HKFRS adjustments:					
– Amortisation of goodwill arising from the acquisition of a subsidiary *(note i)*	–	–	(163)	–	(163)
– Derecognition of the conversion option of convertible debentures and warrants and loan and advances from related parties *(note ii)*	–	–	(29)	–	(1,971)
Under HKFRS (unaudited)	(127)	2,415	915	2,293	17,059

The above figures have been included for reference purposes only.

This represents net earnings (loss) per Canadian GAAP.

* This represents shareholders' equity per Canadian GAAP.

Notes:

(i) Amortisation of goodwill

Under Canadian GAAP, goodwill is not amortised, but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying value exceeds the fair value of goodwill, an impairment loss would be recognised in an amount equal to the excess.

Under HKFRS, the goodwill arising from acquisition of subsidiaries is capitalised and amortised on a straight line basis over its economic useful life.

(ii) Recognition of conversion option and warrants

Under Canadian GAAP, the conversion option and warrants are separately disclosed in shareholders' equity. The liability component of convertible debentures and of the loan and advances from related parties are accreted to its face value through the recording of additional non-cash interest. Debt issue costs are being amortised into operations over the term of the convertible debentures.

Under HKFRS, convertible debentures/loan and advances from related parties with convertible option are separately disclosed and regarded as liabilities unless conversion actually occurs. The costs incurred in connection with the issue of convertible debentures are deferred and amortised on straight line basis over the lives of the convertible debentures from the date of issue of the debentures to the redemption date.

PRO FORMA FINANCIAL INFORMATION UPON COMPLETION OF THE TRANSACTIONS

The information set out below is for information purposes only and does not form part of the financial information of the Group and Ascalade Inc., as set out in Appendices 1 and 2 to this circular respectively.

After completion of the Transactions, the shareholding interest of the Group in Ascalade Inc. was increased to 39.1% as at the Latest Practicable Date (after the Disposals and before completion of the Proposed Listing and not including the Ascalade Inc. Shares issuable pursuant to the conversion or exercise of the Purchase Debentures, Purchase Warrants and Other Securities).

To provide additional financial information, the pro forma statement of net assets and liabilities of the Group as at 31 December 2004 have been prepared as if the Transactions had been undertaken by the Group as at 31 December 2004.

The pro forma financial information of the Group presented below do not purport to present what the financial information would actually have been if the Transactions had been completed as at 31 December 2004, or to project the financial information for any future period and are included for information purposes only.

The pro forma financial information of the Group also do not purport to present the effect of the disposals of the Purchase Debentures and Purchase Warrants to Yeebo pursuant to the Transfer Agreements as it does not form part of the Transactions.

The pro forma financial information should be read in conjunction with the historical financial information of the Group and other financial information included elsewhere in this circular.

PRO FORMA STATEMENT OF ASSETS AND LIABILITIES IN RELATION TO THE TRANSACTIONS

Set out below is the proforma statement of assets and liabilities of the Group based on the audited consolidated balance sheet of the Group as at 31 December 2004, as set out in the financial information of the Group in Appendix 1 to this circular, and adjusted to reflect the effect of the Transactions as if the Transactions had been completed on 31 December 2004:

	Consolidated net assets as at 31 December 2004 HK$'000	Assign the Karce Loan to Ascalade Inc. in consideration for the allotment and issue of Ascalade Inc. Shares HK$'000	*(Note 1)* Share of net assets of Ascalade Inc. plus goodwill arising on the acquisition HK$'000	Assign the Karce Advances to Ascalade Inc. in consideration of the issuance of Units HK$'000	*(Note 2)* Investments in Convertible Debentures and Warrants HK$'000	Proforma consolidated statement of assets and liabilities as at after the Transactions HK$'000
NON-CURRENT ASSETS						
Property, plant and equipment	334,807					334,807
Negative goodwill	(3,215)					(3,215)
Interest in an associate	111,227	(39,460)	39,460	(32,121)	32,121	111,227
Club debenture	1,180					1,180
	443,999					443,999
CURRENT ASSETS						
Inventories	112,971					112,971
Trade and other receivables	139,449					139,449
Bills receivable	1,952					1,952
Amount due from an associate	677					677
Bank balances and cash	34,868					34,868
	289,917					289,917
CURRENT LIABILITIES						
Trade and other payables	181,532					181,532
Bills payable	2,702					2,702
Tax payable	27,083					27,083
Obligations under finance leases – due within one year	9,662					9,662
Bank borrowings – due within one year	55,667					55,667
	276,646					276,646
NET CURRENT ASSETS	13,271					13,271
TOTAL ASSETS LESS CURRENT LIABILITIES	457,270					457,270

Notes:

1. As at 31 December 2004, the shareholding interests of the Group in Ascalade Inc. is 30.8%, which is increased to 39.1% upon completion of the Transactions.

2. The total number of Units issued pursuant to the Assignment and Unit Subscription amounted to 5,009, comprising the Purchase Debentures and Purchase Warrants.

	Consolidated net assets as at 31 December 2004 *HK$'000*	Assign the Karce Loan to Ascalade Inc. in consideration for the allotment and issue of Ascalade Inc. Shares *HK$'000*	*(Note 1)* Share of net assets of Ascalade Inc. plus goodwill arising on the acquisition *HK$'000*	Assign the Karce Advances to Ascalade Inc. in consideration of the issuance of Units *HK$'000*	*(Note 2)* Investments in Convertible Debentures and Warrants *HK$'000*	Proforma consolidated statement of assets and liabilities as at after the Transactions *HK$'000*
NON-CURRENT LIABILITIES						
Obligations under finance leases						
– due after one year	7,533					7,533
Bank borrowings						
– due after one year	32,500					32,500
Deferred tax liabilities	22,872					22,872
	62,905					62,905
NET ASSETS	394,365					394,365

REPORT ON PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the proforma financial information of the Group as set out in the paragraph headed "Pro forma Statement of Assets and Liabilities in relation to the Transactions"

Deloitte.

30 June 2005

The Board of Directors
Karce International Holdings Company Limited
29/F., Units 1-2, Cable TV Tower
No. 9 Hoi Shing Road, Tsuen Wan
New Territories
Hong Kong

Dear Sirs,

We report on the pro forma financial information of Karce International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix 3 to the circular dated 30 June 2005 (the "Circular") issued by the Company in connection with the transaction relating to the assignment of loan of US$5,000,000 and advances of US$4,000,000 together with all accrued and unpaid interest thereon by the Group to Ascalade Communications Inc. ("Ascalade Inc.") in the consideration of the allotment and issuance of 904,973 common shares, CAD5,009,000 of convertible debentures and 62,612 warrants of Ascalade Inc. (the "Transactions") which has been prepared, for illustrative purposes only, to provide information about how the Transactions might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information 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 work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the basis set out in Appendix 3 to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative financial position of the Group had the Transactions been completed as at 31 December 2004, or any future date.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the pro forma information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors

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

Directors' interests in the Shares

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

The above Shares were held by Sapphire Profits Limited, a substantial shareholder of the Company. Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina owned 90.41%, 3.46%, 3.46% and 2.67% of the issued share capital of Sapphire Profits Limited respectively.

(b) Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, none of the Directors were aware of any person (other than a Director or chief executive of the Company), who had an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or would be 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 members of the Group.

Name	Number of Shares held (Long position)	Percentage of issued share capital of the Company
Sapphire Profits Limited	231,180,000	42%
Perfect Treasure Investment Limited	88,100,000	16%

3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and, so far as the Directors were aware, no litigation or arbitration of material importance was pending or threatened against the Group.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the Company had entered into service contract with each of the executive Directors for a term of three years and appointment letter with each of the non-executive Directors and each of the independent non-executive Directors for a term of one year.

Save as disclosed above, none of the Directors has service contract with any member of the Group which is not expiring or determinable within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) has any interest in a business, which competed or may compete with the business of the Group.

7. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any asset which had been acquired, or dispose of by, or leased to any member of the Group, or is proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2004, the date to which the latest published audited financial statements of the Group were made up.

8. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors is materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group within the two years preceding the date of this circular and which are or may be material:

(a) the《房地產轉讓合同》(Property Transfer Contract) dated 27 August 2004 entered into between 東莞液視通半導體有限公司 (Dongguan Ye Shi Tong Semi-Conductor Company Limited) and the Group for the acquisition of the property and the underlying land use rights situated at 東莞市沙田鎮稔州管理區 (Dongguan City Shatin Town Ren Zhou Management Zone);

(b) the advance agreement dated 30 September 2004 (as amended by an advances amendment agreement dated 19 November 2004) entered into between ACL and T&S to confirm the terms of the Karce Advances;

(c) the share exchange agreement dated 4 November 2004 entered into between Ascalade Inc and the Group in respect of the transfer of 49% equity interest in Ascalade Communications in exchange for approximately 30.8% equity interest in Ascalade Inc.;

(d) the loan advancement agreement dated 19 November 2004 entered into between ACL and T&S to amend certain terms of the loan agreement dated 14 August 2002 in relation to the Karce Loan;

(e) the shareholders' agreement dated 19 November 2004 entered into between the Group and other shareholders of Ascalade Inc. to record the general principles in relation to the operations of Ascalade Inc.;

(f) the 出資轉讓合同 (Equity Interests Transfer Agreement) dated 4 January 2005 entered into between Power Universe International Limited and the Group in relation to the sale of the entire equity interests in 東莞德鉅電子有限公司 (Dongguan Tehsutec Electronic Company Limited);

(g) the Assignment and Share Subscription Agreements;

(h) the Assignment and Unit Subscription Agreements;

(i) the Debenture Transfer Agreement; and

(j) the Warrant Transfer Agreement.

10. PROCEDURES FOR DEMANDING A POLL

Pursuant to the existing Bye-law No.66 of the bye-laws of the Company, at any general meeting, a resolution put to the vote of the 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 such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised 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 authorised 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 authorised 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.

11. QUALIFICATION OF EXPERTS

The following is the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Borden Ladner Gervais LLP	Canadian legal adviser

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Borden Ladner Gervais LLP is not interested beneficially in the securities of the Company or its subsidiaries and does not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Borden Ladner Gervais LLP does not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to the Company or its subsidiaries or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries since 31 December 2004, being the date up to which the latest published audited accounts of the Group were made up.

Each of Deloitte Touche Tohmatsu and Borden Ladner Gervais LLP has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports, opinions, advice and/or references to its name, in the form and context in which they respectively appear.

12. GENERAL

(a) The company secretary as well as the qualified accountant of the Company is Mr. Wong Hei Chiu. Mr. Wong holds a bachelor's degree in business administration from Lingnan University, Hong Kong. He is a Certified Public Accountant, a fellow member of The Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principle place of business of the Company in Hong Kong is located at Units 1 and 2, 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

(c) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal office at Units 1 and 2, 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong from the date of this circular up to and including 13 July 2005 (both days inclusive):

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

(b) the directors' service contracts referred to in paragraph 5 above;

(c) the material contracts referred to in paragraph 9 above;

(d) the financial information of the Group, the text of which is set out in Appendix 1 to this circular;

(e) the financial information of Ascalade Inc., the text of which are set out in Appendix 2 to this circular;

(f) the letter from Deloitte Touche Tohmatsu report on the pro forma financial information, the text of which is set out in Appendix 4 to this circular;

(g) the letters of consent from Deloitte Touche Tohmatsu and Borden Ladner Gervais LLP referred to in paragraph 11 above;

(h) the annual reports of the Company for each of the two years ended 31 December 2003 and 2004 respectively;

(i) the interim report of the Company for the six months ended 30 June 2004;

(j) the circular of the Company dated 21 September 2004 in relation to a discloseable transaction (acquisition of property);

(k) the circular of the Company dated 27 January 2005 in relation to a discloseable transaction (disposal of subsidiary);

(l) the reconciliation between HKFRS and Canadian GAAP, the text of which is set out in Appendix 3 of this circular; and

(m) this circular.