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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

HIGHLIGHTS

The Group's turnover increased by approximately 9.1% to approximately HK$705,859,000.

Profit for the year dropped by approximately 91.3% to approximately HK$2,431,000.

Profit for the year excluding impairment loss on available-for-sale investment decreased by approximately 30.7% from approximately HK$28,036,000 of the year in 2005 to approximately HK$19,431,000.

Bank balances and cash was approximately HK$65,890,000.

Total net assets was approximately HK$416,487,000.

Total indebtedness (including bank loans and obligations under finance leases contracts) of the Group were approximately HK$44,320,000, representing approximately 10.6% of the total shareholders' equity.

Basic earnings per share was approximately HK0.44 cents.

ANNUAL RESULTS

The board of directors (the "Directors") of Karce International Holdings Company Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006, together with the comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	2005 *HK$'000*
Revenue	*3*	**705,859**	647,004
Cost of sales		**(585,383)**	(522,049)
Gross profit		**120,476**	124,955
Other income	*4*	**5,706**	7,860
Distribution costs		**(12,362)**	(11,287)
Administrative and other operating expenses		**(88,717)**	(87,019)
Finance costs	5	**(3,603)**	(3,622)
Impairment loss on available-for-sale investment		**(17,000)**	—
Share of loss of an associate		**—**	(5,453)
Gain on disposal of a subsidiary		**—**	2,227
Gain on deemed disposal of interest in an associate		**—**	1,106
Profit before taxation	*6*	**4,500**	28,767
Taxation	*7*	**(2,069)**	(731)
Profit for the year		**2,431**	28,036
Dividend	*8*	**5,460**	5,508
Earnings per share	*9*		
Basic *(HK cents)*		**0.44**	5.09
Diluted *(HK cents)*		**N/A**	5.02

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investment properties		**63,542**	61,241
Property, plant and equipment		**237,195**	222,551
Prepaid lease payments		**17,573**	17,775
Available-for-sale investment		**54,079**	95,345
Club debenture		**1,180**	1,180
		373,569	398,092
CURRENT ASSETS			
Inventories		**107,315**	72,865
Trade and other receivables	*10*	**116,206**	113,306
Bills receivable	*10*	**4,199**	3,571
Derivative financial instruments		**279**	—
Amount due from a related company		**—**	7,806
Bank balances and cash		**65,890**	92,064
		293,889	289,612
CURRENT LIABILITIES			
Trade and other payables	*11*	**160,848**	143,611
Bills payable	*11*	**3,112**	3,988
Derivative financial instruments		**2,311**	—
Tax liabilities		**20,715**	22,201
Obligations under finance leases — due within one year		**5,875**	6,573
Bank loans — due within one year		**12,833**	23,000
		205,694	199,373
NET CURRENT ASSETS		**88,195**	90,239
		461,764	488,331
CAPITAL AND RESERVES			
Share capital		**54,436**	55,078
Reserves		**362,051**	386,368
		416,487	441,446

NON-CURRENT LIABILITIES		
Obligations under finance leases — due after one year	**5,528**	3,787
Bank loans — due after one year	**20,084**	24,500
Deferred tax liabilities	**19,665**	18,598
	45,277	46,885
	461,764	488,331

Notes:

1. BASIS OF PREPARATION

The audited consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 — Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 January 2009*
[3] *Effective for annual periods beginning on or after 1 March 2006*
[4] *Effective for annual periods beginning on or after 1 May 2006*
[5] *Effective for annual periods beginning on or after 1 June 2006*
[6] *Effective for annual periods beginning on or after 1 November 2006*
[7] *Effective for annual periods beginning on or after 1 March 2007*
[8] *Effective for annual periods beginning on or after 1 January 2008*

3. SEGMENT INFORMATION

Business segments:

For management purposes, the Group is currently organised into three principal operating divisions — electronic products (mainly electronic calculators and organizers), conductive silicon rubber keypads and printed circuit boards.

Segment information about these businesses is presented below:

2006

	Electronic products *HK$'000*	Conductive silicon rubber keypads *HK$'000*	Printed circuit boards *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE						
External sales	476,623	101,241	127,995	—	—	705,859
Inter-segment sales	2,052	13,396	25,714	—	(41,162)	—
Total	478,675	114,637	153,709	—	(41,162)	705,859
RESULT						
Segment result	33,306	5,480	(11,057)	—	—	27,729
Unallocated corporate expenses						(2,626)
Finance costs						(3,603)
Impairment loss on available-for-sale investment						(17,000)
Profit before taxation						4,500
Taxation						(2,069)
Profit for the year						2,431
ASSETS						
Segment assets	403,828	110,409	97,355	—		611,592
Unallocated corporate assets						55,866
Consolidated total assets						667,458
LIABILITIES						
Segment liabilities	101,723	25,744	38,524	—		165,991
Unallocated corporate liabilities						84,980
Consolidated total liabilities						250,971

OTHER INFORMATION						
Additions to property, plant and equipment	16,311	9,299	15,430	—		41,040
Depreciation of property, plant and equipment	16,778	7,048	7,135	—		30,961
Amortisation of prepaid lease payments	334	84	27	—		445
Allowance recognised (reversed) for obsolete and slow moving inventories	(1,240)	285	(1,439)	—		(2,394)
Allowance recognised (reversed) for doubtful debts	—	1,927	(65)	—		1,862
Loss on disposal of property, plant and equipment	425	175	426	—		1,026

2005

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Other operations	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	419,720	80,299	143,387	3,598	—	647,004
Inter-segment sales	1,992	12,548	20,113	747	(35,400)	—
Total	421,712	92,847	163,500	4,345	(35,400)	647,004
RESULT						
Segment result	48,113	4,799	(7,970)	(7,236)	—	37,706
Unallocated other income						1,820
Unallocated corporate expenses						(2,790)
Finance costs						(3,622)
Share of loss of an associate						(5,453)
Gain on deemed disposal of interest in an associate						1,106
Profit before taxation						28,767
Taxation						(731)
Profit for the year						28,036

ASSETS					
Segment assets	382,292	113,448	93,836	2,783	592,359
Unallocated corporate assets					95,345
Consolidated total assets					687,704
LIABILITIES					
Segment liabilities	84,086	21,941	39,939	1,632	147,598
Unallocated corporate liabilities					98,660
Consolidated total liabilities					246,258
OTHER INFORMATION					
Additions to property, plant and equipment	17,867	11,228	10,432	—	39,527
Depreciation of property, plant and equipment	17,897	5,520	9,180	779	33,376
Amortisation of prepaid lease payments	329	82	26	—	437
Allowance recognised (reversed) for obsolete and slow moving inventories	4,208	(279)	72	(1,204)	2,797
Allowance recognised (reversed) for doubtful debts	797	728	(152)	4,690	6,063
Gain on disposal of property, plant and equipment	2,679	1,051	—	—	3,730

Geographical segments:

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

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

	Revenue	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong *(note a)*	**279,557**	244,214
Europe	**110,606**	102,294
Other Asian countries	**106,747**	84,775
PRC	**90,204**	85,134
Japan *(note b)*	**78,138**	69,699
America	**28,325**	46,269
Others	**12,282**	14,619
	705,859	647,004

Notes:

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

(b) The Directors believe that a substantial portion of the Group's sales attributable to the Japanese market was subsequently resold to the European and American markets.

4. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Other income includes:		
Bank interest income	**3,661**	1,820
Gain on fair value change on derivative financial instruments	**—**	1,234
Gain on disposal of property, plant and equipment	**—**	3,730
Increase in fair value of investment properties	**1,090**	—
Revaluation surplus on buildings	**86**	224

5. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	**2,919**	2,907
Obligations under finance leases	**684**	715
	3,603	3,622

6. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,321**	1,335
Depreciation:		
Owned assets	**26,449**	29,047
Assets held under finance leases	**4,512**	4,329
Amortisation of prepaid lease payments	**445**	437
Allowance for doubtful debts	**1,862**	6,063
Cost of inventories recognised as expense	**585,383**	522,049
(Reversal) allowance for obsolete and slow moving inventories	**(2,394)**	2,797
Staff costs	**141,477**	123,888
Operating lease rentals	**2,040**	1,543
Loss on disposal of property, plant and equipment	**1,026**	—
Foreign exchange losses, net	**1,594**	1,977
Loss on fair value change on derivative financial instruments	**585**	—
Decrease in fair value of investment properties	**—**	1,109
and after crediting:		
Gross rental income from investment properties	**7,325**	7,095
Less: direct operating expenses from investment properties that generate rental income during the year	**(495)**	(328)
	6,830	6,767

7. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax:		
Current year	**2,223**	2,160
Overprovision in prior year	**(457)**	—
PRC enterprise income tax:		
Current year	**966**	3,047
Overprovision in prior years	**(957)**	(2,595)
	1,775	2,612
Deferred taxation	**294**	(1,881)
	2,069	731

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

PRC enterprise income tax is calculated at the rates prevailing in relevant region of PRC.

8. DIVIDEND PROPOSED

A final dividend of HK1.0 cent (2005: HK1.0 cent) per share with an amount of approximately HK$5,460,000 (2005: approximately HK$5,508,000) has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**2,431**	28,036
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible debentures and advance to an associate	**N/A**	(595)
Adjustment to the share of result of an associate based on dilution of its earnings per share	**N/A**	184
	N/A	(411)
Earnings for the purposes of diluted earnings per share	**N/A**	27,625
Weighted average number of ordinary shares for the purposes of basic (2005: basic and diluted) earnings per share	**546,692,000**	550,776,000

10. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. An aged analysis of trade receivables and bills receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Not yet due or overdue within 30 days	**90,059**	81,668
Overdue for 31-60 days	**9,453**	12,512
Overdue for 61-90 days	**4,793**	5,797
Overdue for more than 90 days	**8,292**	8,527
	112,597	108,504
Other receivables	**7,360**	7,936
Prepaid lease payments	**448**	437
	120,405	116,877

11. TRADE AND OTHER PAYABLES/BILLS PAYABLE

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

	2006	2005
	HK$'000	*HK$'000*
Not yet due or overdue within 30 days	**72,414**	55,623
Overdue for 31-60 days	**15,476**	15,785
Overdue for 61-90 days	**8,889**	6,069
Overdue from more than 90 days	**7,960**	8,298
	104,739	85,775
Other payables	**59,221**	61,824
	163,960	147,599

DIVIDEND

In appreciation of the shareholders' support for the Group, the Directors are pleased to recommend a final dividend of HK1 cent per share payable on or before 30 June 2007 to shareholders whose names appear on the register of members of the Company on 29 May 2007 and is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2007 to 29 May 2007, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for attending the forthcoming annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Monday, 21 May 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

During the year ended 31 December 2006, the Group continued to focus on the manufacture and marketing of electronic products (mainly electronic calculators and organizers), conductive silicon rubber keypads and printed circuit boards.

For the year ended 31 December 2006, the Group gained a significant increase in sales volume and achieved a turnover of HK$705,859,000, representing an increase of 9.1 per cent. as compared with approximately HK$647,004,000 of the year in 2005.

The business and operational environment remained uncertain in general. The slow down of the economy in America and Western European countries, coupled with protective measures adopted by some of these countries toward the Peoples' Republic of China ("the PRC"), had resulted in sluggish growth in market demand. The appreciation of Renminbi and the retreat of tax rebate on some export commodities in the PRC also slowed down the growth in the manufacturing sector in the PRC.

Facing unstable material costs, some customers of the Group held back their decision in placing order and shortening the lead time on delivery of finished goods. Consequently, there was pressure on the average selling price. Furthermore, the price fluctuation of raw materials in 2006 made it difficult for the Group to exercise cost control efficiently.

On the other hand, the labour cost was continuously uplifted in line with the living standard in the PRC. In 2006, labour shortage in the PRC continued to present problems as the Group's production capacity is mainly located in the Guangdong region. Wages and benefits needed to be increased in order to retain skilled workers. The labour issue remained one of the main concerns for the Group, compounded by the new concerns for working, living and safety standards for workers. In light of the above factors, additional labour cost in all PRC factories of the Group increased by approximately HK$17,490,000 for the year ended 31 December 2006.

All these factors led to a drastic increase in the Group's overall cost of sales. For the year ended 31 December 2006, the overall gross profit margin were down to approximately 17.1 per cent. (2005: approximately 19.3 per cent.).

During the period under review, sustained, stringent and effective cost controls proved successful in keeping administrative expenses at a stable and reasonable level. As a result of the Group's ongoing efforts in diversifying its products and increasing its productivity, the Group attained a consolidated profit attributable to equity holders for the year ended 31 December 2006 of approximately HK$2,431,000 (2005 : approximately HK$28,036,000). Basic earnings per share for the year ended 31 December 2006 was approximately HK0.44 cents (2005 : approximately HK5.09 cents).

For the year ended 31 December 2006, profit for the year excluding impairment loss on available-for-sale investment decreased by approximately 30.7 per cent. from approximately HK$28,036,000 of the year in 2005 to approximately HK$19,431,000.

Segmental analysis

Electronic products (mainly electronic calculators and organizers)

During the year under review, the Group continued its focus on the manufacture and marketing of electronic calculators and organizers. With the growth in the existing key Japanese customers' businesses and the Group built up relationship with a number of potential clients, the Group managed to increase its revenue last year through expansion of businesses on Original Design Manufacturing Products ("ODM products") and Original Equipment Manufacturing ("OEM products"), such as SIM card reader for on-line banking system, digital printer control panel, security systems, gambling device, printer/fax/scanner/copier (multi-function) control panels, electronic D-box for vehicles, interactive handheld dictionary and RF price tags. Accordingly, the Directors considered that it was more appropriate to redefine the business segment under the heading "Electronic products", instead of under the heading "Electronic calculators and organisers".

Despite the global economies remained uncertain in general, the market demands for the Group's electronic products have been growing steadily. Competition is still intense. For the year ended 31 December 2006, the turnover of electronic products remained as the core revenue generator of the Group, increased to approximately HK$476,623,000 (2005: approximately HK$419,720,000). It accounted for approximately 67.5 per cent. of the Group's total turnover.

We will continue to leverage on our committed team of research and development professionals to focus on developing products with high level of quality, reliability and technology innovation.

Our engineering department has a multi-disciplinary engineering approach employing both Hong Kong and the PRC product development engineers and designers who are involved in design, testing and quality of new products from concept through production, transforming customer's ideas into reality. Our products are widespread not only limited to establishing a broad and solid overseas customer base for the Group's "Karce" products but also to diversifying the business development on ODM and OEM products. This is a long term investment which the Directors believe will set the stage for growth in the newly selected product categories, and the new ODM and OEM businesses under development.

During the year under review, the Group was under great pressure to control increasing cost arising from higher materials costs especially plastic materials, rising labour costs, inward freight and transportation costs initialed by rising fuel prices. Erratic electricity supply in the PRC that often caused production disruptions also added to operating costs, while insufficient skilled labour in the Pearl River Delta also impeded production and cost efficiency.

With the significant surge in labour and staff costs, the operating results decreased by approximately 30.8 per cent., from approximately HK$48,113,000 for the year ended 31 December 2005 to approximately HK$33,306,000 for the year ended 31 December 2006.

Conductive silicon rubber keypads

To cope with our rapid growth in sales, the Group concentrates on the development of conductive silicon rubber keypads business and high value-added plastic plus rubber ("P+R") telephone keypads products and extends to customer base into different geographical region.

For the year ended 31 December 2006, the turnover contributed from the conductive silicon rubber keypads business increased by approximately 26.1 per cent. to approximately HK$101,241,000 (2005: approximately HK$80,299,000), representing approximately 14.3 per cent. of the turnover of the Group.

Conductive silicon rubber keypads are crucial components in the production of electronic calculators, electronics organizers, mobile phones and audio visual products. The business becomes an increasingly important sector of the Group and contributed an increase in the operating profit for the year to approximately HK$5,480,000 (2005: approximately HK$4,799,000). The Directors are confident that such steady growth of profit can provide a positive effect on the shareholders' value of the Group.

The Directors are confident that the business will be in line with the management's expectations and turns into a sound growth in the coming year as the segment continued to keep pace with customer expectations and increase production volume with expanding of the vertical production lines.

Printed circuit boards ("PCB")

The market for PCB was fiercely competitive during the year under review. For the year ended 31 December 2006, the turnover of PCB decreased to approximately HK$127,995,000 (2005: approximately HK$143,387,000), representing approximately 18.1 per cent. of the turnover of the Group. During the year under review, the business strategy was focused to consolidate on its key client base and serve a range of and some well known customers in Japan and the Asian Pacific Region.

As the production facilities reached its maximum capacity, some of the procedures were subcontracted to external parties. This eroded the profit contribution to PCB and recorded a negative contribution of approximately HK$11,057,000 (2005: operating loss of approximately HK$7,970,000).

Due to the increasing demand of PCB in the global market, the Group strategically mapped out the production blueprint and largely expanded the production scale to enjoy the maximum benefits on the economies of scale.

Coping with the substantial growth in PCB's turnover, the Group started to build up a new factory complex during the period under review and expects to be completed in the first quarter of 2007. The Group will also acquire new equipment and machinery for integration of the vertical manufacturing units in the new factory complex.

As at 31 December 2006, the new production complex was at its final construction stage. The new factory complex is expected to significantly improve our competitive edge in two ways : streamlining the production process and offering an immediate increase of approximately 30-40 per cent. in our production capacity. The management of the Group believe that the additional capacity will enable the PCB segment to effectively keep pace with growing product demand, while creating strategic opportunities to increase factory throughput and effectively lower our unit manufacturing costs.

The management attributed this result to the Group's long committed determination and continuous effort on improving product quality and operational efficiency.

Other operations

The other operations in the previous years represented the operation on electronic toys product, such as infant toys and electronic learning products. Owing to fierce competition, rising marketing costs and competitive pricing which adversely affected the results, the Group chose to restructure this part of investment and reallocated its resources to other major and core rewarding businesses including electronic products, conductive silicon rubber keypads, PCB as well as other ODM and OEM businesses.

Accordingly, this segment recorded nil operating result during the year under review (2005: operating loss of approximately HK$7,236,000).

Available-for-sale investment

Ascalade Communications Inc. ("Ascalade Inc.") was successfully listed on the Toronto Stock Exchange ("TSX") in June 2005. The Group's attributable equity interest in Ascalade Inc. maintained at approximately 14.7 per cent. as at 31 December 2006. The Group is no longer in a position to exercise a significance influence over Ascalade Inc. as at 31 December 2006. Ascalade Inc. is classified as an available-for sale investment.

With the annual results announced by Ascalade Inc., which continues to focus on increasing technological advancement with new areas such as VoIP (Voice over Internet Protocol) and WiFi (wireless fidelity), the Directors are confident in the future prospects of Ascalade Inc. and believe that such investment in Ascalade Inc. will give a positive contribution to the Group in long run. Additional information of Ascalade Inc. may be found on SEDAR at www.sedar.com.

The Group's available-for-sale investment is measured at fair value at each balance sheet date, which expose the Group to equity security price risk. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in consolidated income statement.

During the year under review, the investment in Ascalade Inc. was undermined by the fall of its share price below its IPO price. In September 2006, Ascalade Inc. revised downward its guidance of year-over-year sales growth and basic earnings per share primarily because of the softness in forward orders estimated to be received for its cordless DECT phones, a segment which had been impacted by intense industry competition and price cutting. The change also reflected a slower-than-expected order ramp up for VoIP products from its largest customer.

As announced by the Company in September 2006, the Directors regularly reviews the value of the available-for-sale investment and will consider adequate impairment to be made when necessary. For the year ended 31 December 2006, the Directors consider that it was a prudent decision to make an impairment loss on available-for-sale investment of approximately HK$17,000,000. Accordingly, the diminution in the fair value of the investment in Ascalade Inc. was represented by a reduction of investment revaluation reserve by approximately HK$24,266,000 to a negative investment revaluation reserve of approximately HK$3,470,000.

Upon the release of first and second lock-up of Ascalade Inc.'s shares on 27 June 2006 and 27 December 2006 respectively, the Directors consider the it is a prudent decision to realise part of the Group's investment in Ascalade Inc. through the disposal so as to balance its possible risk, enhance its liquidity and improve the cash flow within a relatively short period of time.

The Directors will update the shareholders on the progress when appropriate.

FUTURE PLANS AND PROSPECTS

The Group's growth prospects will continue to be driven by organic growth, outsourcing deals and selective acquisitions.

The global economy is expected continued to grow modestly in 2007, as US dollar interest rates and energy prices stabilised. Hong Kong will continue to benefit from the strong growth in the PRC. The Group will continue to seek new opportunities in the PRC as well as overseas. Looking ahead, the major economies around the world are expected to be healthy and rapid development in the PRC and in Asia is supporting positive worldwide trends. With our diversified portfolio of business worldwide and a sound financial position of the Group, the Directors are confident that the Group's businesses will continue to perform well in 2007.

The Directors will scrutinize the markets closely and adopt a conservative strategy in its investment and promotion plans. At the same time, the Directors will strive to simplify its operations so as to enhance the operational efficiency and better control of the labour and distribution costs. The Directors will also focus on developing high value-added products to maintain the Group's leading position in the market. Further, the Group will continue to diversify its products on expanding the ODM and OEM businesses.

With these encouraging trends and the Group's strong financial position, the Directors are confident of further improving performances in the coming financial year as the Group's growth platform has been refined and strengthened.

CAPITAL STRUCTURE

Shareholders' equity decreased to approximately HK$416,487,000 as at 31 December 2006 from approximately HK$441,446,000 as at 31 December 2005. As at 31 December 2006, the short term and long term interest bearing debts to shareholders' equity was approximately 10.6 per cent. (2005: approximately 13.1 per cent.).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Group to maintain a strong financial position. As at 31 December 2006, the Group's fixed deposits and cash balances decreased to approximately HK$65,890,000 (2006: approximately HK$92,064,000).

As at 31 December 2006, the Group currently had banking facilities amounted to an aggregate sum of approximately HK$249,123,000 (2005: approximately HK$281,900,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK$216,206,000 (2005: approximately HK$234,400,000) in Hong Kong granted to the Group, approximately HK$3,112,000 (2005: approximately HK$3,988,000) had been utilised as at 31 December 2006.

In 2006, the current ratio was approximately 1.4 (2005: approximately 1.5) based on current assets of approximately HK$293,889,000 and current liabilities of approximately HK$205,694,000 and the quick ratio was approximately 0.9 (2005: approximately 1.1).

As at 31 December 2006, the total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK$44,320,000 (2005: approximately HK$57,860,000), representing approximately 10.6 per cent. of the total shareholders' equity (2005: approximately 13.1 per cent.).

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

FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's assets and liabilities, revenues and expenditures are either in Hong Kong dollars or the United States dollars. As a measure of additional prudence, the Group uses different derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

The fair value of the Group's outstanding derivative instruments as at 31 December 2006 represents the net amount the Group would receive/pay if these contracts were closed out at 31 December 2006. The gain was largely caused by a period-end premium in the forward currency markets for the Hong Kong dollars. In the current year, the Group has adopted the new HKAS 39 — Financial Instruments: Recognition and Measurement, the fair value of these outstanding derivatives has been recognised as assets or liabilities.

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

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 6,560 full time employees, out of which approximately 80 were based in Hong Kong and approximately 6,480 were based in the PRC. The Group remunerated its employees on the basis of industry's practice and the performance of individual employee. Employees may also participate in the share option scheme of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Directors consider that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2006, save for the deviation as stated hereof. Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") of the Company should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Company should be clearly established and set out in writing. The roles of the chairman and the CEO of the Company are not separated and are performed by the same individual, Mr. Tong Shek Lun. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

In relation to the Directors' securities transactions, the Company has adopted a code of conduct on terms no less exacting than the required standard as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

A detailed Corporate Governance Report setting out the Group's framework of governance and explanations about how the provisions of the Code have been applied will be included in the Company's Annual Report 2006.

AUDIT COMMITTEE

The Audit Committee (the "Committee") has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including a review of the audited consolidated results for the year ended 31 December 2006.

The members of the Committee included the three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Chan Ho Man.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2006 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the year under review, the Company repurchased 6,420,000 shares on the Stock Exchange at an aggregate consideration of HK$2,074,520 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of the repurchases	Number of the ordinary shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration paid
March 2006	800,000	0.270	0.265	213,500
April 2006	2,048,000	0.355	0.285	659,180
May 2006	2,968,000	0.375	0.320	1,036,720
September 2006	332,000	0.280	0.280	92,960
October 2006	72,000	0.280	0.280	20,160
November 2006	200,000	0.270	0.250	52,000
	6,420,000			2,074,520

The repurchased shares were cancelled on delivery of the share certificates during the year. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the relevant aggregate consideration was paid out from the Company's retained profits.

Apart from the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

PUBLICATION OF OTHER FINANCIAL INFORMATION

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

By order of the Board
Tong Shek Lun
Chairman and Managing Director

Hong Kong, 17 April 2007

As at the date of this announcement, the Board consists of three executive Directors, Mr. Tong Shek Lun, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina, two non-executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey and three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Goh Gen Cheung and Mr. Chan Ho Man.

** for identification purpose only*

Please also refer to the published version of this announcement in The Standard.