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 2005

HIGHLIGHTS

The Group's turnover decreased by approximately 16.4% to approximately HK$647,004,000.

Profit for the year decreased by approximately 44.2% to approximately HK$28,036,000.

Profit for the year excluding share of result of an associate and profit on deemed disposal of interest in an associate increased approximately 67.8% from approximately HK$19,302,000 to approximately HK$32,383,000.

Bank balances and cash increased from approximately HK$34,868,000 to approximately HK$92,064,000.

Total net assets increased by approximately 13.1% to approximately HK$441,446,000.

Basic earnings per share was approximately HK5.09 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 2005, together with the comparative figures for the corresponding year in 2004 are as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Revenue	4	**647,004**	774,255
Cost of sales		**(522,049)**	(652,875)
Gross profit		**124,955**	121,380
Other income	5	**7,636**	14,011
Distribution costs		**(11,287)**	(18,815)
Administrative expenses		**(85,910)**	(85,184)
Finance costs	6	**(3,622)**	(3,556)
Decrease in fair value of investment properties		**(1,109)**	–
Revaluation surplus (deficit) on buildings		**224**	(623)
Share of result of an associate		**(5,453)**	8,376
Gain on disposal of a subsidiary		**2,227**	–
Negative goodwill released to income		–	726
Gain on deemed disposal of interest in an associate		**1,106**	22,568
Profit before taxation	7	**28,767**	58,883
Taxation	8	**(731)**	(8,637)
Profit for the year		**28,036**	50,246
Attributable to:			
Equity holders of the parent		**28,036**	53,353
Minority interest		–	(3,107)
		28,036	50,246
Dividend –			
Proposed final dividend of HK$0.01 (2004: HK$0.01) per share	9	**5,508**	5,508
Earnings per share	10		
Basic (HK cents)		**5.09**	9.69
Diluted (HK cents)		**5.02**	9.65

CONSOLIDATED BALANCE SHEET
As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties		**61,241**	–
Property, plant and equipment		**222,551**	304,010
Prepaid lease payments		**17,775**	23,103
Negative goodwill		–	(3,215)
Interest in an associate		–	111,227
Available-for-sale investment		**95,345**	–
Club debenture		**1,180**	1,180
		398,092	436,305

	Notes	2005 HK$'000	2004 HK$'000 (restated)
CURRENT ASSETS			
Inventories		**72,865**	112,971
Trade and other receivables		**113,306**	140,008
Bills receivable		**3,571**	1,952
Amount due from an associate		–	677
Amount due from a related company		**7,806**	–
Bank balances and cash		**92,064**	34,868
		289,612	290,476
CURRENT LIABILITIES			
Trade and other payables		**143,611**	181,532
Bills payable		**3,988**	2,702
Tax liabilities		**22,201**	27,083
Obligations under finance leases – due within one year		**6,573**	9,662
Bank borrowings – due within one year		**23,000**	55,667
		199,373	276,646
NET CURRENT ASSETS		**90,239**	13,830
TOTAL ASSETS LESS CURRENT LIABILITIES		**488,331**	450,135
CAPITAL AND RESERVES			
Share capital		**55,078**	55,078
Reserves		**386,368**	335,283
		441,446	390,361

NON-CURRENT LIABILITIES		
Obligations under finance lease – due after one year	**3,787**	7,533
Bank borrowings – due after one year	**24,500**	32,500
Deferred tax liabilities	**18,598**	19,741
	46,885	59,774
	488,331	450,135

Notes:

(1) Basis of preparation

The audited consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). Hong Kong Accounting Standards ("HKASs") and Interpretations 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 Hong Kong Financial Reporting Standards/Changes in accounting policies

In the current year, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations". The principal effects of the application of HKFRS 3 to goodwill and negative goodwill of the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$31,539,000 has been transferred to the Group's retained profits on 1 January 2005. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In prior years, negative goodwill was presented as a deduction from assets. To the extent that such negative goodwill was attributable to losses or expenses anticipated at the date of acquisition, it was released to income statement in the period in which those losses or expenses arise. The remaining negative goodwill was recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets.

In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 with a corresponding adjustment to the retained profits of the Group as at 1 January 2005. Comparative figures for 2004 have not been restated.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material effect on the presentation of financial instrument in the Group's consolidated financial statement. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities") in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. As the Group has no share options granted since the adoption of the share option scheme or after 1 January 2005, this change in accounting policy has no impact on the results of the Group for the current and prior accounting years.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocated of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Others

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK (IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK (IFRIC) - INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK (IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. Summary of the effects of the changes in accounting policies

(a) Effects on the results for the current and prior years:

	2005	2004
	HK$'000	*HK$'000*
Decrease in amortisation of prepaid lease payments	**169**	163
Reversal of revaluation surplus attributable to prepaid lease payments	**–**	(1,225)
Decrease in negative goodwill released on disposal of a subsidiary	**(747)**	–
Decrease in negative goodwill released to income	**(726)**	–
Decrease in profit for the year	**(1,304)**	(1,062)

Analysis by line items presented according to their function:

	2005	2004
	HK$'000	*HK$'000*
Decrease in negative goodwill released to income	**(726)**	–
Decrease in gain on disposal of a subsidiary	**(747)**	–
Decrease in cost of sales	**169**	163
Decrease in other income	**–**	(602)
Increase in revaluation deficit on building	**–**	(623)
Decrease in profit for the year	**(1,304)**	(1,062)

In addition to the above, the share of tax of an associate has been reclassified and included in share of result of an associate. The effects by line items presented in consolidated income statement are as follows:

	2005	2004
	HK$'000	*HK$'000*
Increase (decrease) in share of result of an associate	**1,318**	(1,655)
(Decrease) increase in taxation	**(1,318)**	1,655

(b) Effects on the balance sheet as at 31 December 2004 and 1 January 2005:

	As at 31 December 2004 (originally stated)	**Effect of HKAS 17**	**As at 31 December 2004 (restated)**	**Effect of HKFRS 3**	**As at 1 January 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	334,807	(30,797)	304,010	–	304,010
Prepaid lease payments	–	23,103	23,103	–	23,103
Negative goodwill	(3,215)	–	(3,215)	3,215	–
Trade and other receivables	139,449	559	140,008	–	140,008
Deferred tax liabilities	(22,872)	3,131	(19,741)	–	(19,741)
Total effects on assets and liabilities	448,169	(4,004)	444,165	3,215	447,380
Asset revaluation reserve	55,032	(8,466)	46,566	–	46,566
Goodwill reserve	(31,539)	–	(31,539)	31,539	–
Retained profits	169,958	4,462	174,420	(28,324)	146,096
Total effects on equity	193,451	(4,004)	189,447	3,215	192,662

(c) Effects on equity as at 1 January 2004:

	As originally stated *HK$'000*	Effect of HKAS 17 *HK$'000*	As restated *HK$'000*
Asset revaluation reserve	42,373	(9,139)	33,234
Retained profits	118,297	5,524	123,821
Total effects on equity	160,670	(3,615)	157,055

4. Segment information

The turnover of the Group for the year ended 31 December 2005, analysed by business segments, is as follows:

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:

2005

	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*
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 result 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**

2004 – restated

	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*
REVENUE						
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	30,917	1,497	3,035	(3,307)	–	32,142

Unallocated other income	165
Unallocated corporate expenses	(1,538)
Finance costs	(3,556)
Share of result of an associate	8,376
Negative goodwill released to income	726
Gain on deemed disposal of interest in an associate	22,568
Profit before taxation	58,883
Taxation	(8,637)
Profit for the year	50,246

5. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Other operating income includes:		
Gain on disposal of property, plant and equipment	**3,730**	1,264
Interest income	**1,820**	2,265
Net rental income	**–**	2,764
Realised gain on foreign currency exchange forward contracts	**1,234**	–

6. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**2,907**	2,893
Obligations under finance leases	**715**	663
	3,622	3,556

7. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**1,335**	580
Depreciation	**33,376**	42,777
Amortisation of prepaid lease payments	**437**	559
Allowance for doubtful debts	**6,063**	1,856
Allowance for obsolete and slow moving inventories	**2,797**	1,223
Staff costs	**123,888**	134,836
Operating lease rentals	**1,543**	1,585
Net foreign exchange losses	**1,977**	904

8. TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(restated)
The charge comprises:		
Hong Kong Profits Tax	**2,160**	2,659
PRC enterprise income tax:		
Current year	**3,047**	5,800
Overprovision in prior years	**(2,595)**	–
	2,612	8,459
Deferred taxation	**(1,881)**	178
	731	8,637

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year. PRC enterprise income tax is calculated at the rates prevailing.

9. DIVIDEND PROPOSED

A final dividend of HK1.0 cent (2004: HK1.0 cent) per share with an amount of approximately HK$5,508,000 (2004: 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 of the Company.

10. EARNINGS PER SHARE

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

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Earnings for the purposes of basic earnings per share	**28,036**	53,353
Effect of dilutive potential ordinary shares of an associate:		
Interest income on convertible loan and advances to an associate	**(595)**	(227)
Adjustment to the share of result of an associate based on dilution of its earnings per share	**184**	7
Earnings for the purposes of diluted earnings per share	**27,625**	53,133
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**550,776,000**	550,776,000

The Company did not have any outstanding share options in both years.

11. COMPARATIVE FIGURES

Due to adoption of new/revised HKFRSs and HKASs for the current year, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted in prior year. Also, certain comparative figures have been reclassified to conform with the current year's presentation.

DIVIDEND

In appreciation of 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 2006 to shareholders whose names appear on the register of members of the Company on 30 May 2006 and is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2006 to 30 May 2006, 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 registrars in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 22 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operational Review

The world economy generally continued to improve during the year, despite higher interest rates and sustained high oil and commodity prices and the threat of terrorism. The PRC, Hong Kong and other Asian countries continue to report healthy economies despite some signs of slowing growth relative to 2005. Generally, consumer confidence in Europe and America has remained strong and supports the continuing strength in import and export trade globally and domestic consumption led growth locally in most of markets in the Group.

Despite a challenging operating landscape in the global platform, the Group achieved a satisfactory result in the year of 2005.

Year 2005 has been a milestone for the Group. Following the successful initial public offering of an associate, Ascalade Communications Inc. ("Ascalade Inc.", which together with its subsidiaries, the "Ascalade Group") on the Toronto Stock Exchange ("TSX"), Ascalade Inc. raised a net proceeds of approximately US$29,100,000 (equivalent to approximately HK$226,980,000) on 27 June 2005. Ascalade Inc. has developed a core competency for innovative design and efficient manufacturing of advanced digital wireless products.

On the other hand, the Group used to own two factories which were both engaging in the business of manufacturing of conductive silicon rubber keypads. In January 2005, the Group disposed the entire equity interest in an indirect wholly owned subsidiary, Dongguan Tehsutec Electronic Company Limited ("DTEC"), at a consideration of HK$12,000,000. The gain arising from the disposal of approximately HK$2,227,000 has been recorded in the year.

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK$647,004,000, representing a decrease of approximately 16.4 per cent. as compared with approximately HK$774,255,000 of the year in 2004.

For the year ended 31 December 2005, the overall gross profit margin grew from approximately 15.7 per cent. to 19.3 per cent.

During the year, sustained, stringent and effective cost controls were 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 profit for the year ended 31 December 2005 of approximately HK$28,036,000 (2004: approximately HK$50,246,000).

For the year ended 31 December 2005, the profit for the year excluding share of result of an associate and profit on deemed disposal of interest in an associate increased 67.8% from approximately HK$19,302,000 to approximately HK$32,383,000.

Segmental analysis

Electronic calculators and organisers

Despite the worldwide unstable supply and rising demand of copper and oil which have placed considerable pressure on both the supply and costs of the raw materials, the turnover of the electronic calculators and organisers business managed to grow and continued to contribute stable revenue to the Group during the year by taking full advantage of economies of scale of the Group and implementing effective cost control.

For the year ended 31 December 2005, the turnover of electronic calculators and organisers remained as the core revenue generator of the Group, increased to approximately HK$419,720,000 (2004: approximately HK$408,214,000). It accounted for approximately 64.9 per cent. of the Group's total turnover.

Supported by the product development engineers and designers based in Hong Kong and the PRC, the Group boasts a consistent track record of the different product launch every year. Besides product development, the research and development team also plays an important part in improving and refining the

Group's production processes to speed up time to market. A series of promotional activities continued to establish a broad and solid overseas customer base for the Group's "Karce" products.

On the other hand, the Group has also developed a series of tight cost control in order to keep the latest competitive prices in raw materials and components at a profitable and acceptable level.

With the continuous growth in business, the operating results rose strongly by approximately 55.6 per cent., from approximately HK$30,917,000 for the year ended 31 December 2004 to approximately HK$48,113,000 for current year.

Conductive silicon rubber keypads

For the year ended 31 December 2005, the turnover contributed from the conductive silicon rubber keypads business decreased by approximately 53.1 per cent. to approximately HK$80,299,000 (2004: approximately HK$171,188,000), representing approximately 12.4 per cent. of the turnover of the Group. However, the segment recorded a profit from operations of approximately HK$4,799,000 (2004: approximately HK$1,497,000).

The Group used to own two factories which were both engaging in the business of manufacturing of conductive silicon rubber keypads. During the year under review, the conductive silicon rubber keypads segment was under a series of consolidation. After the acquisition of remaining 49 per cent. equity interest of On Shing Holdings Company Limited in November 2004, the Group disposed the entire equity interest in DTEC in January 2005 at a consideration of HK$12,000,000. The gain arising from the disposal of approximately HK$2,227,000 has been recorded in this year.

After the consolidation, the Directors consider that the Group could streamline and concentrate on the development of its conductive silicon rubber keypads business and high value-added plastic plus rubber ("P+R") telephone keypads products in one factory for more effective management on business operations, key employees and client base.

With the successful acquisition and integration of the conductive silicon rubber keypads segment, the Group is more diversified in terms of product mix, geographical coverage and customer base, and enjoys economies of scale.

The Directors believe that the results will be in line with the management's expectations and turns into a sound result in the coming year as the segment is continued to keep pace with customer expectations, increase production volume and expand the vertical production line.

Printed circuit boards ("PCBs")

For the year ended 31 December 2005, turnover derived from PCBs segment slightly decreased by approximately 3.2 per cent. to approximately HK$143,387,000 (2004: approximately HK$148,163,000), representing approximately 22.2 per cent. of the turnover of the Group.

The results dropped from approximately a profit of approximately HK$3,035,000 in 2004 to approximately a loss of approximately HK$7,970,000 for the year ended 31 December 2005. This was mainly attributed to the increase of prices in raw materials and components. In addition, the production facilities of the Group had reached the maximum capacity during the year under review and part of the procedures was subcontracted to external parties.

Due to the increasing demand of PCBs 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 PCBs' turnover, the Group started to build up a new factory complex in 2005 and expects to be completed in the second half year of 2006. The Group will also acquire new equipment and machinery for integration of the vertical manufacturing units in the new factory complex.

During the year under review, the Group recognised the needs to improve the operational efficiency particularly in the face of rising costs and working capital needs of the business. The key to driving efficiency is to identify the key value drivers and inefficiencies in each part of the business and to establish clear and effective processes that can enhance value creation.

The Group has therefore undertaken a project to implement an Enterprise Resource Planning (ERP) system. The system together with the knowledge base of our dedicated staff will provide the Group with the necessary tools to support planning, rapid decision making and operational effectiveness, and improve our key performance indicators.

Other operations

Electronic toys products

Turnover derived from other operations is mainly contributed by the electronic toys products, such as infant toys and electronic learning products. For the year ended 31 December 2005, turnover from the electronic toys segment recorded approximately HK$3,598,000 (2004: approximately HK$46,690,000).

During the year under review, the segment results from electronic toys segment recorded an operating loss before taxation of approximately HK$7,236,000 for the year ended 31 December 2005 (2004: approximately HK$3,307,000).

Share of result of an associate, the Ascalade Group

With the establishment of Ascalade Group, the Group's telecommunication business was consolidated and managed as an associate.

For the year ended 31 December 2005, the Group recorded a share of loss result of Ascalade Group of approximately HK$5,453,000 (2004: share of profit result of Ascalade Group of approximately HK$8,376,000).

With the strong growth in revenue and profitability of Ascalade Inc. in the past few years, the Directors are pleased to announce that Ascalade Inc. was successfully listed on the TSX and commenced trading of its common shares on 27 June 2005 with the stock symbol as "ACG".

As announced by the Company in March 2005, the Group assigned a loan and advances owed by a member of the Ascalade Group to Ascalade Inc. of approximately HK$70,984,000 in exchange of the issuance of CDN$5,009,000 of convertible debentures and 62,612 warrants and 904,973 common shares in Ascalade Inc.. The Group's attributable equity interest in Ascalade Inc. has since then increased from approximately 30.8 per cent. to approximately 39.2 per cent.

Upon the new issue of 8,000,000 common shares in Ascalade Inc. for the listing on the TSX, the Group's attributable equity interest in Ascalade Inc. has since then decreased from approximately 39.2 per cent. to approximately 19.2 per cent. after the completion of the listing on the TSX on 27 June 2005. As at 30 June 2005, Ascalade Inc. remains the Group's associate as the Group has significant influence on its financial and operational functions and decisions of Ascalade Inc.. In this transaction, the Group made a gain on deemed disposal of interest in an associate of approximately HK$1,106,000.

As announced by the Company on 16 June 2005, the Group had entered into a transfer agreement on 15 June 2005 pursuant to which the Group had agreed to sell (the "Transfers") the purchase debentures and purchase warrants at a total consideration of approximately US$4,118,000 (approximately HK$32,121,000) and US$1, respectively to 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 (the "Disposals").

The Directors consider that it is a prudent decision to realise part of the Group's investment 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 the listing of Ascalade Inc. on the TSX.

In view of the recent unstable global market conditions such as the fluctuation of oil prices and raising interest rates, the Directors reckon that it is in the interest of the Group to maintain a sufficient amount of capital and the proceeds can make the already robust financial position of the Group even stronger.

Upon the completion on the Disposals and further conversion of debentures and exercise of options and warrants by other investors in Ascalade Inc., the Group's attributable equity interest in Ascalade Inc. has further decreased from approximately 19.2 per cent. to approximately 14.7 per cent. as at 31 December 2005. Accordingly, due to the decrease in shareholding of Ascalade Inc. and the resignation of the

Company's representative as director in Ascalade Inc., Ascalade Inc. has been reclassified as an available-for-sale investment as the Group is no longer in a position to exercise a significant influence over Ascalade Inc. as at 31 December 2005.

Additional information relating to Ascalade Inc. may be found at www.sedar.com.

FUTURE PLANS AND PROSPECTS

The result of 2005 reflect the both the Group's solid financial foundation and the strong financial performance of our core businesses under improved market conditions. The Group's established businesses continued to generate strong and growing cash flow.

The world economy generally improved in 2005, despite rising US dollar interest rates and a high oil and commodities price movement. The Directors expect modest continuing improvements in 2006 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 performances as well as solid financial performances.

Demand for our core business products has continued to be strong in the first quarter of this year and we have a full order book for the balance of the first half of 2006. Sales prices continue to be firm, although some pressure is appearing at the low end of our product range. However, it is important to be cautious given the challenges that the current economic environment is presenting.

The Group remain optimistic about the long term prospects of our business and the markets. However, uncertainties on the external front over global oil prices, interest rates, valuation of the Renminbi and shortage of electricity and labour, all of these could affect the manufacturing and trading activity and will continue to impose pressure on the costs and margins of the Group.

With increasing globalization and greater availability of products in other markets, the Directors foresee intensified competition among customers in the region and continue its diversification strategy in order to expand its new customer base and explore new business opportunities so as to enhance the growth of turnover.

Sustained by an emphasis on product quality, the Directors believe that through continuous improvements in production process design, education and technology infrastructure will help to distinguish the Group as one of leading manufacturers of consumer electronic products and components in Asia.

Looking forward, as the PCBs segment's losses narrow, the full benefit of the scale the Group has achieved will be progressively reflected in earning growth, continuous reduction in debt levels and improvements to the financial profile, and in solid shareholders' value creation.

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

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK$441,446,000 as at 31 December 2005 from approximately HK$390,361,000 as at 31 December 2004. As at 31 December 2005, the short term and long term interest bearing debts to shareholders' equity was approximately 13.1 per cent. (2004: approximately 27.0 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 us to maintain a strong financial position. As at 31 December 2005, the Group's fixed deposits and cash balances increased to approximately HK$92,064,000 (2004: approximately HK$34,868,000).

As at 31 December 2005, the Group currently had banking facilities amounted to an aggregate sum of approximately HK$281,900,000 (2004: approximately HK$381,102,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK$234,400,000 (2004: approximately

HK$307,800,000) in Hong Kong granted to the Group, approximately HK$3,988,000 (2004: approximately HK$17,567,000) had been utilised as at 31 December 2005.

As at 31 December 2005, all the term loan banking facilities in the PRC were repaid (2004: approximately HK$28,302,000).

In 2005, the current ratio was approximately 1.5 (2004: approximately 1.1) based on current assets of approximately HK$289,612,000 and current liabilities of approximately HK$199,373,000 and the quick ratio was approximately 1.1 (2004: approximately 0.6).

As at 31 December 2005, the total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK$57,860,000 (2004: approximately HK$105,362,000), representing approximately 13.1 per cent. of the total shareholders' equity (2004: approximately 27.0 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 2005 represents the net amount the Group would receive/pay if these contracts were closed out at 31 December 2005. 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.

Having considered the interest rate environment and the possibility on the appreciation of Renminbi, the Group has obtained a three-year term loan amounting to HK15,000,000 and repaid the term loan banking facilities in the PRC of RMB28,000,000 during the year.

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 United States dollars. Therefore, the Directors consider the exposure risk to foreign currency fluctuations is minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed approximately 6,070 full time employees, out of which approximately 90 were based in Hong Kong and approximately 5,980 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.

CORPORATE GOVERNANCE

The Directors and management of the Company are committed to uphold the Group's obligations to shareholders. We regard the promotion and protection of shareholders' interests as one of our priorities and keys to success.

In 2005, the corporate governance practices of the Group were updated to take into consideration the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005. The Group's corporate governance practices complied with all the code provisions of the Code except where stated and explained below. The Group also adheres to the recommended best practices of the Code insofar as they are relevant and practicable.

1. 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 will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Company and believes that this structure will enable the Group to make and implement decisions promptly and efficiently;
2. Under the Code provision B.1.1, the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until 22 April 2005 that the Company established a remuneration committee as required under the Code provision B.1.1; and
3. To replace the vacancy arised from the passing away of Mr. Tsao Kwang Yung, Peter, an independent non-executive Director and the chairman of the audit committee of the Company, on 21 September 2005, the Company has appointed Mr Chan Ho Man, who possesses the appropriate qualification and experience, as an independent non-executive Director and a member of audit committee, remuneration committee and nomination committee of the Company to comply with requirements as set out under Rules 3.10(1) and 3.21 of the Listing Rules.

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 2005.

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 2005.

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 2005 as set out in the 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 HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the year ended 31 December 2005, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

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, 19 April 2006

As at the date of this announcement, the Board consists of four executive Directors, Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, 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.