



**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 2007**

**HIGHLIGHTS**

The Group's turnover increased by approximately 4.1% to approximately HK\$735,114,000.

Loss for the year was approximately HK\$64,750,000.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) for the year, excluding a loss on fair value change of derivative financial instruments of approximately HK\$5,683,000 and an impairment loss on available-for-sale investment of approximately HK\$28,008,000, was approximately HK\$9,866,000.

Bank balances and cash was approximately HK\$53,179,000.

Total net assets was approximately HK\$375,031,000.

Total indebtedness (including bank loans and obligations under finance leases contracts) of the Group were approximately HK\$61,259,000, representing approximately 16.3% of the total shareholders' equity.

Basic loss per share was approximately HK11.89 cents.

\* For identification purposes only

## 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 2007, together with the comparative figures for the year ended 31 December 2006 as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 <i>HK\$'000</i>
Revenue	3	<b>735,114</b>	705,859
Cost of sales		<b>(664,381)</b>	(585,383)
Gross profit		<b>70,733</b>	120,476
Other income	4	<b>1,788</b>	4,616
Selling and distribution costs		<b>(18,659)</b>	(12,362)
Administrative expenses		<b>(81,623)</b>	(88,132)
Finance costs	5	<b>(4,626)</b>	(3,603)
Gain on fair value change of investment properties		<b>3,252</b>	1,090
Loss on fair value change of derivative financial instruments		<b>(5,683)</b>	(585)
Impairment loss on available-for-sale investment		<b>(28,008)</b>	(17,000)
(Loss) profit before taxation	6	<b>(62,826)</b>	4,500
Taxation	7	<b>(1,924)</b>	(2,069)
(Loss) profit for the year		<b>(64,750)</b>	2,431
Dividend	8	<b>5,444</b>	5,460
(Loss) earnings per share	9		
Basic ( <i>HK cents</i> )		<b>(11.89)</b>	0.44

# CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	<i>Notes</i>	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties		71,579	63,542
Property, plant and equipment		252,095	237,195
Prepaid lease payments		18,046	17,573
Available-for-sale investment		—	54,079
Club debenture		1,180	1,180
		<u>342,900</u>	<u>373,569</u>
<b>CURRENT ASSETS</b>			
Inventories		129,030	107,315
Trade and other receivables	<i>10</i>	109,277	120,405
Available-for-sale investment		29,541	—
Derivative financial instruments		5,543	279
Bank balances and cash		53,179	65,890
		<u>326,570</u>	<u>293,889</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>11</i>	171,153	163,960
Derivative financial instruments		22,734	2,311
Tax liabilities		18,651	20,715
Obligations under finance leases — due within one year		3,714	5,875
Bank loans — due within one year		46,494	12,833
		<u>262,746</u>	<u>205,694</u>
<b>NET CURRENT ASSETS</b>		<u>63,824</u>	<u>88,195</u>
		<u>406,724</u>	<u>461,764</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		54,436	54,436
Reserves		320,595	362,051
		<u>375,031</u>	<u>416,487</u>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases — due after one year		1,887	5,528
Bank loans — due after one year		9,164	20,084
Deferred tax liabilities		20,642	19,665
		<u>31,693</u>	<u>45,277</u>
		<u>406,724</u>	<u>461,764</u>

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, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 — Financial reporting in hyperinflationary economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The adoption of these new HKFRSs has had no material effect on how the results and the financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC)-INT 11	HKFRS 2 — Group and treasury share transactions <sup>3</sup>
HK(IFRIC)-INT 12	Service concession arrangements <sup>4</sup>
HK(IFRIC)-INT 13	Customer loyalty programmes <sup>5</sup>
HK(IFRIC)-INT 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008

The adoptions of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

### 3. Segment information

#### *Business segments:*

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

#### 2007

	<b>Electronic products</b> <i>HK\$'000</i>	<b>Conductive silicon rubber keypads</b> <i>HK\$'000</i>	<b>Printed circuit boards</b> <i>HK\$'000</i>	<b>Eliminations</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	538,627	97,565	98,922	—	735,114
Inter-segment sales	3,273	16,486	28,159	(47,918)	—
Total	<u>541,900</u>	<u>114,051</u>	<u>127,081</u>	<u>(47,918)</u>	<u>735,114</u>
<b>RESULT</b>					
Segment result	<u>(8,594)</u>	<u>(49)</u>	<u>(13,421)</u>	<u>—</u>	(22,064)
Unallocated corporate expenses					(2,445)
Finance costs					(4,626)
Impairment loss on available-for-sale investment					(28,008)
Loss on fair value change of derivative financial instruments					(5,683)
Loss before taxation					(62,826)
Taxation					(1,924)
Loss for the year					<u>(64,750)</u>
<b>ASSETS</b>					
Segment assets	419,441	103,624	108,003		631,068
Unallocated corporate assets					38,402
Consolidated total assets					<u>669,470</u>
<b>LIABILITIES</b>					
Segment liabilities	106,227	23,392	39,080		168,699
Unallocated corporate liabilities					125,740
Consolidated total liabilities					<u>294,439</u>
	<b>Electronic products</b> <i>HK\$'000</i>	<b>Conductive silicon rubber keypads</b> <i>HK\$'000</i>	<b>Printed circuit boards</b> <i>HK\$'000</i>	<b>Unallocated</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	13,206	5,186	13,494		31,886
Depreciation of property, plant and equipment	18,426	8,016	8,200	602	35,244
Amortisation of prepaid lease payments	345	88	28		461
Allowance recognised (reversed) for obsolete and slow moving inventories	3,061	(371)	493		3,183
Allowance recognised for doubtful debts	<u>1,163</u>	<u>2,521</u>	<u>846</u>		<u>4,530</u>

2006

	Electronic products <i>HK\$'000</i>	Conductive silicon rubber keypads <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	476,623	101,241	127,995	—	705,859
Inter-segment sales	2,052	13,396	25,714	(41,162)	—
Total	<u>478,675</u>	<u>114,637</u>	<u>153,709</u>	<u>(41,162)</u>	<u>705,859</u>
<b>RESULT</b>					
Segment result	<u>33,891</u>	<u>5,480</u>	<u>(11,057)</u>	<u>—</u>	28,314
Unallocated corporate expenses					(2,626)
Finance costs					(3,603)
Impairment loss on available-for-sale investment					(17,000)
Loss on fair value change of derivative financial instruments					(585)
Profit before taxation					4,500
Taxation					(2,069)
Profit for the year					<u>2,431</u>
<b>ASSETS</b>					
Segment assets	403,828	110,409	97,355		611,592
Unallocated corporate assets					55,866
Consolidated total assets					<u>667,458</u>
<b>LIABILITIES</b>					
Segment liabilities	101,723	25,744	38,524		165,991
Unallocated corporate liabilities					84,980
Consolidated total liabilities					<u>250,971</u>
	Electronic products <i>HK\$'000</i>	Conductive silicon rubber keypads <i>HK\$'000</i>	Printed circuit boards <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	16,311	9,299	15,430		41,040
Depreciation of property, plant and equipment	16,256	7,048	7,135	522	30,961
Amortisation of prepaid lease payments	334	84	27		445
Allowance recognised (reversed) for obsolete and slow moving inventories	(1,240)	285	(1,439)		(2,394)
Allowance recognised (reversed) for doubtful debts	<u>—</u>	<u>1,927</u>	<u>(65)</u>		<u>1,862</u>

### ***Geographical segments:***

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

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

	<b>Revenue</b>	
	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Hong Kong ( <i>note a</i> )	<b>284,513</b>	279,557
Europe	<b>169,524</b>	110,606
Japan ( <i>note b</i> )	<b>84,882</b>	78,138
Other Asian countries	<b>72,704</b>	106,747
America	<b>55,089</b>	28,325
PRC	<b>51,608</b>	90,204
Others	<b>16,794</b>	12,282
	<b><u>735,114</u></b>	<u>705,859</u>

#### *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**

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Other income includes:		
Interest income	<b>1,330</b>	3,661
Gain on disposal of property, plant and equipment	<b>127</b>	—
Revaluation surplus on buildings	<b>331</b>	86
	<b><u>1,788</u></b>	<u>3,747</u>

#### **5. FINANCE COSTS**

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	<b>4,093</b>	2,919
Obligations under finance leases	<b>533</b>	684
	<b><u>4,626</u></b>	<u>3,603</u>

## 6. (LOSS) PROFIT BEFORE TAXATION

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	<b>1,421</b>	1,321
Depreciation:		
Owned assets	<b>32,739</b>	26,449
Assets held under finance leases	<b>2,505</b>	4,512
Amortisation of prepaid lease payments	<b>461</b>	445
Allowance for doubtful debts	<b>4,530</b>	1,862
Cost of inventories recognised as expense	<b>664,381</b>	585,383
Allowance (reversal) for obsolete and slow moving inventories	<b>3,183</b>	(2,394)
Staff costs	<b>162,413</b>	141,477
Operating lease rentals	<b>1,429</b>	2,040
Loss on disposal of property, plant and equipment	—	1,026
Loss on fair value change of derivative financial instruments comprised of:		
Realised gain	<b>(9,476)</b>	(1,447)
Unrealised loss	<b>15,159</b>	2,032
and after crediting:		
Gross rental income from investment properties	<b>7,457</b>	7,325
Less: direct operating expenses from investment properties that generate rental income during the year	<b>(520)</b>	(495)
	<b>6,937</b>	6,830
Foreign exchange gains (losses), net	<b>557</b>	(1,594)



## 7. TAXATION

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax:		
Current year	75	2,223
Overprovision in prior year	(351)	(457)
PRC enterprise income tax:		
Current year	2,389	966
Overprovision in prior years	(943)	(957)
	<u>1,170</u>	<u>1,775</u>
Deferred taxation		
Current year	813	294
Attributable to change in tax rate	(59)	—
	<u>1,924</u>	<u>2,069</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 at 27% (2006: 27%).

## 8. DIVIDEND

	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Dividend recognised as distribution during the year:		
Final dividend for 2006 paid — HK 1 cent (2005: HK 1 cent) per share	<u>5,444</u>	<u>5,460</u>

The directors do not recommend the payment of a final dividend for the year.

## 9. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year of HK\$64,750,000 (2006: profit of HK\$2,431,000) and on 544,356,000 (2006: weighted average number of 546,692,000) ordinary shares in issue during the year.

Diluted (loss) earnings per share for both years have not been calculated as no potential dilutive ordinary shares were outstanding during both years.

## 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, net of allowance for doubtful debts, is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Not yet due	69,780	55,482
Overdue within 30 days	13,289	34,577
Overdue for 31-60 days	5,158	9,453
Overdue for 61-90 days	7,692	4,793
Overdue for more than 90 days	2,613	8,292
	<hr/>	<hr/>
	98,532	112,597
Other receivables	10,273	7,360
Prepaid lease payments	472	448
	<hr/>	<hr/>
	<b>109,277</b>	<b>120,405</b>
	<hr/> <hr/>	<hr/> <hr/>

## 11. Trade and other Payables/bills payable

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Not yet due or overdue within 30 days	117,746	72,414
Overdue for 31-60 days	6,166	15,476
Overdue for 61-90 days	2,385	8,889
Overdue from more than 90 days	4,713	7,960
	<hr/>	<hr/>
	131,010	104,739
Other payables	40,143	59,221
	<hr/>	<hr/>
	<b>171,153</b>	<b>163,960</b>
	<hr/> <hr/>	<hr/> <hr/>

## **DIVIDEND**

As a prudent measure to safeguard the Group's interests in a turbulent environment, the Directors have decided not to recommend a final dividend for the year ended 31 December 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 20 May 2008 to 27 May 2008, 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, Tricor 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, 19 May 2008.

## **RESULT OF THE YEAR**

The Group recorded revenue of approximately HK\$735,114,000 for the year ended 31 December 2007, representing an increase of approximately 4.1 per cent. as compared with approximately HK\$705,859,000 of the corresponding year in 2006.

In view of the persistent increasing high costs in the People's Republic of China (the "PRC") for wages, electricity, transportation and material costs, the Group's overall gross profit margin dropped by approximately 7.5 per cent. to approximately 9.6 per cent. (2006: approximately 17.1 per cent.).

During the year under review, the Group has entered into some foreign exchange and interest rate derivative financial instruments for the management of its exchange rate and interest rate risk exposure. The fair value of these derivative financial instruments has to be remeasured at the balance sheet date. As a result, the Group made a loss on fair value change of derivative financial instruments of approximately HK\$5,683,000 (2006: approximately HK\$585,000).

In addition, the Directors made an impairment loss on available-for-sale investment of approximately HK\$28,008,000 (2006: approximately HK\$17,000,000) for the year ended 31 December 2007.

As a result, the Group recorded a net loss attributable to shareholders of approximately HK\$64,750,000 for the year ended 31 December 2007 (2006: net profit of approximately HK\$2,431,000).

In analysing the profitability of the Company the EBITDA, excluding a loss on fair value change of derivative financial instruments and an impairment loss on available-for-sale investment was approximately HK\$9,866,000 (2006: approximately HK\$53,433,000).

Basic loss per share was approximately HK11.89 cents (2006: earnings per share of approximately HK0.44 cents) for the year ended 31 December 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Operational Review

During the year ended 31 December 2007, the Group continued to strengthen its core competence in the origin design manufacturing (ODM) and original equipment manufacturing (OEM) of electronic products (mainly electronic calculators and organizers), conductive silicon rubber keypads and printed circuit boards.

For the year ended 31 December 2007, the Group gained an overall increase in sales volume and achieved a turnover of HK\$735,114,000, representing an increase of 4.1 per cent. as compared with approximately HK\$705,859,000 of the year in 2006.

By customized one-stop service, the Group was capable to fulfil the demand from and the individual requirements of name-branded customers worldwide, especially in Japan and Europe.

Leveraging on its strong production and product development edge, the Group is now focusing on the development of superior-quality electronic products, with a view to advancing its product mix towards the upper end of the line.

On a positive note, despite the business and operational environment remained uncertain in general, global outsourcing remains an irreversible trend, in particular for the electronics industry. At the same time, manufacturers continue to witness mounting challenges at the production end, especially in the PRC.

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

The core profitability of the Group took into account increasing cost elements in several areas. First, rising crude oil prices have driven up the costs of plastic components, conductive silicon rubber and of related inward freight costs, resulting in a mild increase in materials costs.

In addition, the continuous appreciation of Renminbi (“RMB”) led to a heavy strike on export enterprises. The labor cost in all PRC factories of the Group increased by approximately HK\$14,616,000 for the year ended 31 December 2007.

All these factors led to a drastic increase in the Group’s overall cost of sales. For the year ended 31 December 2007, the overall gross profit margin were down to approximately 9.6 per cent. (2006: approximately 17.1 per cent.).

Cost control disciplines have long been embedded in the Group’s operations. During the year under review, continuing efforts were also made to control and reduce costs of sales and administration at a stable and reasonable level.

During the year under review, orders from Hong Kong, Europe, Japan, America and other customers contributed approximately 38.7 per cent. (2006: approximately 39.6 per cent.), approximately 23.1 per cent. (2006: approximately 15.7 per cent.), approximately 11.5 per cent. (2006: approximately 11.1 per cent.), approximately 7.5 per cent. (2006: approximately 4.0 per cent.) and approximately 19.2 per cent. (2006: approximately 29.6 per cent.) respectively of Group turnover. The market portfolio incorporated a steady Hong Kong and Japan component which continued to contribute a stable stream of revenue despite the appreciation of the RMB, as well as a growing European segment which provided a driver of growth in turnover and an increased average selling price.

## **Segmental analysis**

### **Electronic products**

During the year under review, the Group continued its focus on the manufacture and marketing of electronic products (mainly electronic calculators and organizers).

Through expansion of businesses on Origin Design Manufacturing Products (“ODM products”) and Origin 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, the turnover of electronic products remained strong and recorded a growth of approximately 13.0 per cent. to approximately HK\$538,627,000 (2006: approximately HK\$476,623,000). It accounted for approximately 73.3 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.

The management of the Group has implemented a series of tight cost control and operational efficiency measures in order to keep the product pricing at a profitable and acceptable level.

During the year under review, the group witnessed significant higher costs across the board in the PRC including the material cost increased by approximately 27.2 per cent., labour cost increased by approximately 22.3 per cent., electricity increased by approximately 7.4 per cent., and transportation costs increased by approximately 9.4 per cent..

In view of the significant surge in the above costs, the operating results derived from electronic products suffered a loss of approximately HK\$8,594,000 for the year ended 31 December 2007 (2006: operating profit of approximately HK\$33,891,000).

After considering the interest, taxes, depreciation and amortisation, the EBITDA, excluding a loss on fair value change of derivative financial instruments of the electronic products segment was approximately HK\$6,929,000 (2006: approximately HK\$42,656,000).

In line with the strategy to reduce low-profitability products, we 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.

Looking ahead, the Directors are confident that the turnover will continue to increase in the coming year.

### **Conductive silicon rubber keypads**

For the year ended 31 December 2007, the turnover contributed from the conductive silicon rubber keypads business slightly decreased by approximately 3.6 per cent. to approximately HK\$97,565,000 (2006: approximately HK\$101,241,000), representing approximately 13.3 per cent. of the turnover of the Group.

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

Accordingly, this segment results dropped from approximately HK\$5,480,000 profit in previous year to a marginal loss of approximately HK\$49,000 in current year, despite that vigorous efforts in containing costs have been made and operational efficiency has been improved.

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

The Directors are confident that the maintenance of high quality and reliability standards and customer support can bring a positive performance of the Group.

### **Printed circuit boards (“PCB”)**

The market for PCB was fiercely competitive during the year under review. For the year ended 31 December 2007, the turnover of PCB decreased to approximately HK\$98,922,000 (2006: approximately HK\$127,995,000), representing approximately 22.7 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.

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 planned substantial growth in PCB’s turnover, the Group built up an additional factory complex on existing factory area located in Ludong Administrative District, Humen Town, Dongguan, the PRC for the production of the PCB products. This factory complex has increased our PCB production capacity to approximately 300,000 square feet in saleable units of PCB production per month and the new factory complex was only in 65 per cent. utilization of its production capacity in 2007.

For the year ended 31 December 2007, the depreciation charge and the related interest costs on bank borrowings on the above new factory complex increased by approximately 14.5 per cent. and approximately 149.0 per cent. to approximately HK\$8,200,000 and approximately HK\$401,000 respectively. This eroded the profit contribution to PCB and recorded a negative contribution of approximately HK\$13,421,000 (2006: operating loss of approximately HK\$11,057,000).

With the support of a new factory complex, the Group demonstrated its ability to produce high-value PCB products and continues to obtain new top-named branded customers in the coming year. The Directors believe that the increased production capacities lay an excellent platform for future long-term growth by providing the Group with the access to the additional orders and benefit from customers from economies of scale in the coming year.

### **Available-for-sale investment**

Ascalade Communications Inc. (“Ascalade Inc.”), a corporation incorporated pursuant to the laws of the Province of British Columbia and whose securities are listed on the Toronto Stock Exchange, with the stock symbol “ACG”. As at 31 December 2007, the Group’s attributable equity interest in Ascalade Inc. maintained at approximately 14.7 per cent.. Ascalade Inc. is classified as an available-for sale investment.

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. As such, the Directors regularly reviews the value of the available-for-sale investment and will consider adequate impairment to be made when necessary.

As announced by the Company in August 2007, the Directors noted that the share price of Ascalade Inc. decreased approximately 25.6 per cent. from CAD2.5 on 29 June 2007 (being the last trading day for the six months ended 30 June 2007 to CAD1.86 on 14 August 2007. As a result of such decreases, the Directors considered as a prudent decision to make an impairment loss on available-for-sale investment of approximately HK\$16,000,000 for the six months ended 30 June 2007 in the 2007 interim report.

The Directors also noted that the share price of Ascalade Inc. further decreased to CAD1.25 on 31 December 2007 and made an impairment loss on available-for-sale investment of approximately HK\$28,008,000 for the year ended 31 December 2007 (2006: approximately HK\$17,000,000).

As per both 2006 Annual Report and 2007 interim report, the Directors consider that 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. For the period from 1 January to 28 February 2008, the Group disposed of approximately 4.9 per cent. Ascalade Inc.'s shares to the market and received an aggregate amount totaling of approximately HK\$6,015,000.

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

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

The share price of Ascalade Inc. further decreased to CAD0.085 as the latest practicable date of this result announcement on 14 April 2008 (Canadian time).

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

Additional information of Ascalade Inc. may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FUTURE PLANS AND PROSPECTS**

Looking ahead to 2008, the US economy is likely to continue to be adversely affected by the continuing impact of the subprime credit crisis, the continual slump in housing markets and resulting recessionary pressures in the United States of America. This adverse trend in the US economy, the weaker US dollar and high energy prices will affect other economies around the world to varying degrees.

We nonetheless expect continued sales growth in Europe and hence should achieve modest overall growth in both Group revenue and profit in the coming year.

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

On one hand, the Group will continue to solicit new customers to further expand the electronic products segment. To strengthen its capability of serving both existing and tapping potential new customers, the Group will continue to consolidate existing business and pursue new growth areas on further investment in enhancing productivity and efficiency for electronic products and conductive silicon rubber keypads products segments.

The Group expects the electronic products to be the major category over the next few years. Amidst prevailing market and operating uncertainties, the continual shift to higher margin product segments is expected to deliver sustained improvement in the Group's core profitability in the future.

On the other hand, the Group will substantiate growth by exploring further merger and acquisition opportunities in the Mainland China. Supported by a capable and dedicated management team, we are well positioned to take on further challenges and opportunities in full confidence.

## **CAPITAL STRUCTURE**

Shareholders' equity decreased to approximately HK\$375,031,000 as at 31 December 2007 from approximately HK\$416,487,000 as at 31 December 2006. As at 31 December 2007, the short term and long term interest bearing debts to shareholders' equity was approximately 16.3 per cent. (2006: approximately 10.6 per cent.).

As announced by the Company on 11 February 2008, the Group completed the Best Effort Placing Agreement and the Subscription for new shares on 18 February 2008 and raised approximately HK\$31,000,000 net of related expenses from the issue of 108,000,000 new shares of HK\$0.10 each in the capital of the Company at a price of HK\$0.30 per share.

The net proceeds from the Subscription will be used by the Group for its ongoing operation and future business expansion.

The Directors believe that the above fund raising exercise can provide an opportunity to broaden the shareholder base and strengthen its capital base and financial position for its future business developments.

## **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 2007, the Group's fixed deposits and cash balances decreased to approximately HK\$53,179,000 (2006: approximately HK\$65,890,000).

As at 31 December 2007, the Group currently had banking facilities amounted to an aggregate sum of approximately HK\$194,708,000 (2006: approximately HK\$249,123,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$170,966,000 (2006: approximately HK\$216,206,000) in Hong Kong granted to the Group, approximately HK\$10,799,000 (2006: approximately HK\$3,112,000) had been utilized as at 31 December 2007.



In 2007, the current ratio was approximately 1.2 (2006: approximately 1.4) based on current assets of approximately HK\$326,570,000 and current liabilities of approximately HK\$262,746,000 and the quick ratio was approximately 0.8 (2006: approximately 0.9).

As at 31 December 2007, the total indebtedness including bank loans and obligations under finance leases contracts amounted to approximately HK\$61,259,000 (2006: approximately HK\$44,320,000), representing approximately 16.3 per cent. of the total shareholders' equity (2006: approximately 10.6 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 expenditure are denominated in Hong Kong dollars, the United States dollars and the Renminbi. It is the Group's policy to adopt a conservative approach on foreign exchange exposure management. However, the Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Group generally finances its operation with internal resources and bank facilities provided by the banks in Hong Kong.

As a measure of additional prudence, the Group uses different 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 2007 represents the net amount the Group would receive/pay if these contracts were closed out at 31 December 2007. 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 denominated 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 2007, the Group employed approximately 6,080 full time employees, out of which approximately 80 were based in Hong Kong and approximately 6,000 were based in the PRC. The Group remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Company.

## **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 2007, 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 2007.

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 2007.

## **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 2007.

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 2007 as set out in the preliminary announcement have been agreed by the Group’s auditor, 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, 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, 15 April 2008

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