THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in the Company.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE SHAREHOLDING INTEREST IN AND SHAREHOLDERS' LOANS OWING FROM THE TARGET COMPANY INVOLVING ISSUE OF CONVERTIBLE BONDS AND PROMISSORY NOTE; (2) INCREASE IN AUTHORIZED SHARE CAPITAL; AND (3) NOTICE OF THE SGM

A notice convening the SGM of the Company to be held at Crystal Room No. 7, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Wednesday, 17 December 2008, at 3:00 p.m. is set out on pages N-1 to N-2 of this circular. If you are not able to attend and vote at the aforesaid SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

28 November 2008

* *For identification purpose only*

CONTENTS

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

"Acquisition"	the purchase of the Acquisition Sale Shares and the Acquisition Sale Debts by Sourcestar Profits from the Vendors, subject to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the conditional acquisition agreement dated 30 April 2008 entered into between Sourcestar Profits (as the purchaser), the First Vendor, the Second Vendor, the Company (as warrantor of Sourcestar Profits) and the Warrantors in relation to the Acquisition and as supplemented by the Supplemental Agreement
"Acquisition Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Completion Date"	the date on which the Acquisition Completion takes place
"Acquisition Consideration"	the total adjusted consideration of HK$2,700 million payable by Sourcestar Profits (or the Company) to the Vendors for the Acquisition (subject to adjustments)
"Acquisition Sale Debts"	being the face value of the loans outstanding as at the Acquisition Completion made by or on behalf of the Vendors to the Target Company
"Acquisition Sale Shares"	being such number of shares as shall represent the entire issued share capital in the Target Company immediately before the Acquisition Completion
"Announcement"	the announcement dated 22 May 2008 made by the Company in relation to, among other things, the Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business"	the research and development, manufacturing and distribution of LCoS televisions, enlarged display units with related components by the Target Group
"Business Day"	any day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business
"BVI"	British Virgin Islands

"Company"	Karce International Holdings Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Conversion Shares"	new Shares to be allotted and issued by the Company upon exercise of the conversion rights attaching to the Convertible Bonds (subject to adjustments)
"Convertible Bond(s)"	collectively the Tranche 1 Bonds, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds, being the zero coupon convertible bond(s) in an aggregate principal amount up to HK$2,300 million (subject to adjustments) all due on the fifth anniversary of the date of the issue date of the Tranche 1 Bonds to be issued by the Company as part of the Acquisition Consideration pursuant to the terms of the Acquisition Agreement
"Director(s)"	the director(s) of the Company
"Enlarged Group"	The Group following the Acquisition Completion
"First Vendor"	China Eagle Development Limited, a company incorporated in the BVI with limited liability which holds 90% equity interest in the Target Company
"Gold Pioneer"	Gold Pioneer Enterprises Limited, a company incorporated in the BVI with limited liability whose entire issued share capital is held by the Target Company
"Group"	collectively, the Company and its subsidiaries from time to time
"HKGAAP"	accounting principles generally accepted in Hong Kong
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, third party(ies) (and its/their ultimate beneficial owner(s)) independent of the Company and connected persons of the Company
"Initial Conversion Price"	HK$0.4 per Conversion Share (subject to adjustments)

"Last Trading Day"	30 April 2008, being the last trading day immediately prior to the suspension of trading of the Shares pending the release of the Announcement
"Latest Practicable Date"	26 November 2008, being the latest practicable date for ascertaining certain information included in this circular
"LCoS"	liquid crystal on silicon technology which is typically applied in projection televisions
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	5:00 p.m. on 31 December 2008 or such later date as the Vendors and Sourcestar Profits may agree in writing
"PRC"	the People's Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Subsidiary"	聯合光電(蘇州)有限公司(United Opto-Electronics (Suzhou) Co., Ltd.), a company incorporated in the PRC on 3 November 2005 whose entire issued share capital is held by Precise Media
"Precise Media"	Precise Media Limited, a wholly owned foreign enterprise established in West Samoa on 12 March 2002 whose entire issued share capital is held by Starwick Development pursuant to the Reorganization
"Promissory Note"	the promissory note with principal amount of HK$375 million to be issued by the Company with 2-year maturity from the date of issue at zero coupon rate as part of the Acquisition Consideration pursuant to the Acquisition Agreement
"Reorganization"	the reorganization of the Target Group pursuant to the Acquisition Agreement and the TMDC Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"Second Vendor"	Fairtime International Limited, a company incorporated in the BVI with limited liability which holds 10% equity interest in the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	a special general meeting of the Company to be convened on Wednesday, 17 December 2008 for the purpose of considering, and if thought fit, approving, among other things, the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the Conversion Shares) and the increase in the authorized share capital
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holders of the Share(s)
"Sheenway"	Sheenway Limited, a company incorporated in the BVI whose entire issued share capital is held by the Target Company
"Sourcestar Profits"	Sourcestar Profits Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
"Starwick Development"	Starwick Development Limited, a company incorporated in the BVI whose entire issued share capital is held by the Target Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 24 October 2008 entered into between Sourcestar Profits (as the purchaser), the First Vendor, the Second Vendor, the Company (as warrantor of Sourcestar Profits) and the Warrantors to supplement the Acquisition Agreement
"Target Company"	Pacific Choice Holdings Limited, a company incorporated in the BVI whose issued share capital is beneficially owned as to 90% by the First Vendor and 10% by the Second Vendor
"Target Group"	the Target Company, Starwick Development, Gold Pioneer, Sheenway, Precise Media, the PRC Subsidiary and their respective subsidiaries (if any)
"TMDC"	台灣微型影像股份有限公司 (Taiwan Micro Display Corp.), a company incorporated in Taiwan

"TMDC Agreement"	the agreement dated 29 February 2008 and made between, among others, TMDC as vendor and Starwick Development as purchaser (and the supplemental agreement or agreements to be made between the same parties in the agreed form) in connection with, inter alia, the sale and purchase of the TMDC Sale Machineries, the TMDC Sale Patents and entire issued share capital in Precise Media and as supplemented by the supplemental agreements made between the same parties on 5 September 2008 and 3 October 2008 respectively
"TMDC Sale Machineries"	such machineries and equipment as set out in the TMDC Agreement, which have been agreed to be transferred and assigned to Starwick Development (or its nominee) pursuant to the terms and conditions of the TMDC Agreement
"TMDC Sale Patents"	such patents as set out in the TMDC Agreement, which have been agreed to be transferred and assigned to Starwick Development (or its nominee) pursuant to the terms and conditions of the TMDC Agreement
"Tranche 1 Bonds"	the Convertible Bonds in a total principal amount of HK$300 million to be issued by the Company to the Vendors (or their respective nominee(s)) (as to HK$255 million to the First Vendor and as to HK$45 million to the Second Vendor) for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
"Tranche 2 Bonds"	the Convertible Bonds in a total principal amount of HK$600 million to be issued by the Company to the Vendors (or their respective nominee(s)) in proportion to their respective equity interest in the Target Company for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
"Tranche 3 Bonds"	the Convertible Bonds in a total principal amount of HK$600 million to be issued by the Company to the Vendors (or their respective nominee(s)) in proportion to their respective equity interest in the Target Company for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
"Tranche 4 Bonds"	the Convertible Bonds in a total principal amount of HK$800 million to be issued by the Company to the Vendors (or their respective nominee(s)) in proportion to their respective equity interest in the Target Company for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
"U. S."	the United States of America

"Valuer"	B.I. Appraisals Limited, a professional business valuer and an Independent Third Party engaged by the Company for preparing the valuation report on the TMDC Sale Patents
"Vendors"	the First Vendor and the Second Vendor
"Warrantors"	Mr. Chan Shun Yuen as the warrantor of the First Vendor and the Second Vendor and Ms. Hsu Ming Shan as another warrantor of the First Vendor
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, for the purpose of illustration only, amounts quoted in RMB and US$ have been converted into HK$ at the rate of RMB1 to HK$1.11 and the rate of US$1 to HK$7.8 respectively, and vice versa. Such exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at such rates or any other rates or at all.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

Executive Directors:
Mr. Tong Shek Lun
Mr. Chim Kim Lun, Ricky
Mr. Cheng Kwok Hing, Andy

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

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

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

28 November 2008

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE SHAREHOLDING INTEREST IN AND SHAREHOLDERS' LOANS OWING FROM THE TARGET COMPANY INVOLVING ISSUE OF CONVERTIBLE BONDS AND PROMISSORY NOTE; (2) INCREASE IN AUTHORIZED SHARE CAPITAL; AND (3) NOTICE OF THE SGM

INTRODUCTION

On 22 May 2008, the Board announced that after trading hours on 30 April 2008, among other things, Sourcestar Profits (as the purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as the warrantor of Sourcestar Profits) entered into the Acquisition Agreement with the First Vendor, the Second Vendor and the Warrantors. On 27 October 2008, the Board announced that after trading hours on 24 October 2008, the parties to the Acquisition Agreement entered into the Supplemental Agreement to amend certain terms and conditions of the Acquisition Agreement. Pursuant to the Acquisition Agreement, Sourcestar Profits has agreed to acquire the Acquisition Sale Shares and the Acquisition Sale Debts from the First Vendor and the Second Vendor at a total Acquisition Consideration of HK$2,700 million (subject to adjustments as referred to the paragraph headed "Adjustments to the Acquisition Consideration" below, if any).

* *For identification purposes only*

As the number of Shares which the Company may issue and allot under the existing authorized share capital is insufficient to cover the issue of the Conversion Shares, the Company proposed to increase its authorized share capital from HK$200,000,000 comprising 2,000,000,000 Shares to HK$2,000,000,000 comprising 20,000,000,000 Shares by the creation of 18,000,000,000 Shares which will be put to Shareholders' approval at the SGM.

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the Shareholders' approval under Chapter 14 of the Listing Rules. As no Shareholders have any material interest in the Acquisition, no Shareholders are required to abstain from voting at the SGM on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder.

The purpose of this circular is to give you, among other information, (i) further details of the Acquisition, the Promissory Note and the Convertible Bonds; (ii) further details regarding the proposed increase in the authorized share capital of the Company; (iii) the accountants' reports on the Group, the Target Group and Precise Media (as consolidated with the PRC Subsidiary) in accordance with Rule 14.69(4)(a)(i) of the Listing Rules and (iv) the notice of the SGM.

(I) THE ACQUISITION

The Acquisition Agreement

Date

30 April 2008 (as supplemented by the Supplemental Agreement dated 24 October 2008)

Parties

Vendors:

(1) China Eagle Development Limited, as the First Vendor, which holds 90% equity interest in the Target Company

(2) Fairtime International Limited, as the Second Vendor, which holds 10% equity interest in the Target Company

Each of the First Vendor and the Second Vendor is an investment holding company. The First Vendor is beneficially owned as to 51% by Ms. Lam Suk Fong (through Pacific Zone Enterprises Limited which is a company incorporated in the BVI with limited liability) and as to 49% by Ms. Hsu Ming Shan (through Goldsino Development Limited which is a company incorporated in the BVI with limited liability). The Second Vendor is entirely owned by Mr. Chan Shun Yuen who is a son of Ms. Lam Suk Fong. Ms. Hsu Ming Shan has no other relationship with Mr. Chan Shun Yuen and Ms. Lam Suk Fong save for being their business partners in the investment of the Target Company. None of Ms. Hsu Ming Shan, Mr. Chan Shun Yuen nor Ms. Lam Suk Fong has relationship with Golden Mount Limited (and its ultimate beneficial owner) or Perfect Treasure Investment Limited (and its ultimate beneficial owners), the two largest Shareholders as at the Latest Practicable Date.

Purchaser:	Sourcestar Profits Limited, a direct wholly-owned subsidiary of the Company and an investment holding company	
Warrantors:	(1)	Mr. Chan Shun Yuen (being the director of Pacific Zone Enterprises Limited and the sole beneficial owner of the entire equity interest in the Second Vendor), as the warrantor of the First Vendor and the Second Vendor
	(2)	Ms. Hsu Ming Shan, as another warrantor of the First Vendor
	(3)	the Company, as the warrantor of Sourcestar Profits

On 19 September 2007, Sourcestar Profits (as the purchaser) and the Company (as Sourcestar Profits' warrantor) entered into a sale and purchase agreement with Prime Sino Investments Limited (at which Mr. Chan Shun Yuen acts as a director and which is beneficially owned as to 55% by Ms. Lam Suk Fong and as to 45% by Mr. Zhang Zhuo Ming, an Independent Third Party) for the acquisition of coal mines in Mongolia, the details of which were set out in the Company's announcement dated 10 October 2007. As further announced in the announcement of the Company dated 6 February 2008, the said sale and purchase agreement was terminated, and that the Group was in preliminary stage of discussion with Mr. Chan Shun Yuen for other mining projects. Such negotiation was eventually discontinued and not pursued. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and their respective ultimate beneficial owners is an Independent Third Party.

Assets to be acquired or assigned

(i) the Acquisition Sale Shares, being the entire issued share capital of the Target Company; and

(ii) the Acquisition Sale Debts, representing the face value of the total amounts owing by the Target Company to the Vendors as at the Acquisition Completion Date.

For further details of the Target Group, please refer to the paragraph headed "Information on the Target Group" below.

Acquisition Consideration

The aggregate Acquisition Consideration is HK$2,700 million (subject to adjustments as set out in the paragraph headed "Adjustments to the Acquisition Consideration" below), of which the consideration for the Acquisition Sale Debts shall be the face value of the amount of the Acquisition Sale Debts as at the Acquisition Completion Date and the consideration for the Acquisition Sale Shares shall be the balance thereof.

The Acquisition Consideration shall be satisfied by Sourcestar Profits (or the Company) by payment to the Vendors in the following manner:

(i) as to HK$25 million payable in cash by Sourcestar Profits (or the Company) to the Second Vendor as deposit (the "Deposit") upon the signing of the Acquisition Agreement;

(ii) upon Acquisition Completion:

(a) as to HK$255 million by the issue of the Tranche 1 Bonds by the Company to the First Vendor (or its nominee(s));

(b) as to HK$45 million by the issue of the Tranche 1 Bonds by the Company to the Second Vendor (or its nominee(s)); and

(c) as to HK$375 million by, at the option of Sourcestar Profits, the issue of the Promissory Note by Sourcestar Profits or cash payment by Sourcestar Profits (or the Company) to the First Vendor (or its nominee(s)); and

(iii) as to the remaining balance of HK$2,000 million by the issue of the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in the Target Company, subject to the provision of the paragraph headed "Earn-out adjustments" below.

All certificates for the entire Tranche 1 Bonds shall at Acquisition Completion be held under escrow until the receipt of confirmation by the Vendors from the Company of its satisfaction of fulfillment of all conditions set out under clause 1 of the agreement dated 3 October 2008 supplemental to the TMDC Agreement, i.e. (i) the Company having complied with all applicable laws and regulations (including without limitation the Listing Rules); (ii) the pledge created on the TMDC Sale Machineries having been released (or, in case the pledge created on the TMDC Sale Machineries has not been released, the creditors of certain TMDC's bank loans (to which pledge on the TMDC Sale Machineries has been given as security) having granted in-principle consent regarding the transfer of the TMDC Sale Machineries to Starwick Development); and (iii) Starwick Development and the Company having been satisfied that the Suzhou Plant (as defined below) has been established and in normal operation. Unless and until the Vendors receive such confirmation from the Company, none of the Tranche 1 Bonds shall be exercised or disposed of by the Vendors or either of them.

As at the date of the Announcement, the Deposit (which was funded by the Company's internal resources) has already been paid to the Second Vendor. Particulars of the Promissory Note and the Convertible Bonds are set out in the sections headed "Promissory Note" and "Convertible Bonds" below.

Adjustments to the Acquisition Consideration

Pursuant to the terms of the Acquisition Agreement, in addition to the adjustment to the Acquisition Consideration as detailed in the paragraph headed "Earn-out adjustments" below, the Vendors have warranted to Sourcestar Profits that, among other things, as at the Acquisition Completion Date:

(i) there shall be no other borrowings, obligations or liabilities (whether actual or contingent) of the Target Group owing to any other party (whether the Vendors or their respective associates or otherwise), otherwise than those as shown in the unaudited consolidated management accounts in respect of the Target Group as at 31 March 2008; and

(ii) there are no guarantees given by any members of the Target Group whatsoever and howsoever, otherwise than those as shown in the audited consolidated financial statements or unaudited consolidated management accounts in respect of the Target Group as at 31 March 2008 or disclosed to and agreed by Sourcestar Profits in advance.

If there occurs any breach of the warranties set out in the above within twelve months from the Acquisition Completion Date, the Acquisition Consideration shall be reduced by an amount equal to the aggregate amount of such additional liabilities, firstly from the principal amount of the Tranche 1 Bonds and followed by the principal amount of the Promissory Note.

Earn-out adjustments

Pursuant to the Acquisition Agreement, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds shall be issued by the Company to the Vendors (or their respective nominee(s)) in proportion to their respective equity interest in the Target Company, with reference to the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group as shown in the reviewed (or, as the case may be, audited) consolidated financial statements of the Target Group prepared in accordance with HKGAAP, in the following manner within ten Business Days from the date of the respective reviewed (or, as the case may be, audited) consolidated financial statements of the Target Group being made available to the Vendors and Sourcestar Profits:

(i) for the period of six months from 1 January 2009 not less than:

    (a) HK$300 million but less than HK$600 million, the Tranche 2 Bonds shall be issued; or

    (b) HK$600 million but less than HK$1,000 million, the Tranche 2 Bonds and the Tranche 3 Bonds shall be issued; or

    (c) HK$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds shall be issued;

(ii) for the period of twelve months from 1 January 2009 not less than:

(a) HK$600 million but less than HK$1,000 million, the Tranche 2 Bonds and the Tranche 3 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six months from 1 January 2009) shall be issued; or

(b) HK$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six months from 1 January 2009) shall be issued;

Provided that where (1) the Tranche 2 Bonds shall not have been issued under condition (i) above, and (2) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group for the period of twelve months from 1 January 2009 is less than HK$600 million but more than HK$300 million, then the Tranche 2 Bonds shall be issued to the Vendors (or their respective nominees);

(iii) for the period of eighteen months from 1 January 2009:

(a) not less than HK$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six and/or twelve months from 1 January 2009) shall be issued; or

(b) less than HK$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds in the total principal amount as calculated below shall be issued (but excluding such Convertible Bonds which will have been issued in respect of the period of six and/or twelve months from 1 January 2009);

Total principal amounts of Convertible Bonds to be issued:

= {HK$2,000 million} x {reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group for the period of eighteen months from 1 January 2009}/{HK$1,000 million}

Basis of determination of the Acquisition Consideration

The Acquisition Consideration was reached after arm's length negotiations between the parties to the Acquisition Agreement and was determined based on the net assets value of the Target Group as at 31 March 2008 of approximately RMB4.2 million (equivalent to approximately HK$4.7 million) as well as taking into account of the valuation of the TMDC Sale Patents of about US$92 million (equivalent to approximately HK$718 million) as at 31 August 2008 as valued by the Valuer, an Independent Third Party, the face value of the Acquisition Sale Debts and the earning potential of the Target Group as detailed in the paragraph headed "Earn-out adjustments" above. As at 31 March 2008, the face value of the Acquisition Sale Debts was nil in balance.

According to the valuation report prepared by the Valuer as set out in Appendix V to this circular, the finalized valuation of the TMDC Sale Patents was US$92 million (equivalent to approximately HK$718 million) as at 31 August 2008.

The Valuer has considered the cost approach, market approach and income capitalization approach for valuation of the TMDC Sale Patents. Since the prevailing valuation methodology adopted involves a discounted cash flow analysis, the Directors are aware that the valuation shall be regarded as a profit forecast pursuant to Rules 14.61 and 14.62 of the Listing Rules and the information required thereunder are included in this circular. The Directors have reviewed the principal assumptions and basis of the valuation report of the TMDC Sale Patents (the details of which are listed out in the valuation report as set out in Appendix V to this circular) as prepared by the Valuer and consider that the underlying forecast, to the best of their knowledge, has been prepared after their due and careful enquiry. The text of the letters from the reporting accountants and the financial adviser of the Company in respect of the perceived profit forecast are set out in Appendix VI to this circular.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition and the Acquisition Consideration are on normal commercial terms, fair and reasonable and in the interest of the Shareholders and the Company as a whole.

Conditions precedent

The Acquisition Completion is subject to the following conditions being fulfilled and remaining satisfied as at the Acquisition Completion Date (or waived, as the case may be):

(a) Sourcestar Profits having received a PRC legal opinion from the Vendors (in such form and substance to Sourcestar Profits' satisfaction) covering matters relating to the PRC Subsidiary, the Reorganization and the TMDC Sale Patents;

(b) (if required) the Bermuda Monetary Authority granting its permission to the allotment and the issue of the Conversion Shares and the increase in the authorized share capital of the Company;

(c) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares which may be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;

(d) the approval by the Shareholders (or, as the case may be, the independent Shareholders) at the SGM of the Acquisition Agreement and the transactions contemplated thereby (including but not limited to the allotment and issue of the Conversion Shares and the increase in the authorized share capital to HK$2,000 million) and all other consents and acts required under the Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;

(e) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the Acquisition Agreement having been obtained;

(f) all relevant approvals, consents, registration and filing procedures (including without limitation the registration of Starwick Development as the registered holder of the entire issued shares in Precise Media) relating to Precise Media and the Business in connection with the transactions contemplated by the Acquisition Agreement having been obtained/ completed;

(g) Sourcestar Profits being reasonably satisfied with the results of the due diligence exercise on the Target Group and the Business;

(h) Sourcestar Profits being satisfied, from the date of the Acquisition Agreement and at any time before the Acquisition Completion, that the representations, warranties and undertakings given by the Vendors under the Acquisition Agreement remain true, accurate, not misleading or in breach in any material respect and that no events have suggested that there were any breach of any warranties or other provisions of the Acquisition Agreement by any of the Vendors and/or the Warrantors;

(i) Sourcestar Profits being satisfied that, from the date of the Acquisition Agreement to Acquisition Completion, there has not been any change or effect which has a material adverse change on the financial position, business (including the Business) or property, results of operations or prospects of the Target Group as a whole;

(j) the Vendors providing Sourcestar Profits with a confirmation or other documents, showing that all purchase prices, licence fees and other fees required to be paid by the Target Group to TMDC and/or other governmental authorities in respect of all permits in respect of the Business having been fully paid and there are no outstanding fees;

(k) Sourcestar Profits having received a Taiwan legal opinion from the Vendors (in such form and substance to Sourcestar Profits' satisfaction) covering, among others, the valid transfer to and registration under the name of Sheenway in respect of the TMDC Sale Patents registered in Taiwan (or in the opinion of the Taiwan legal advisers, the registration of change of registered proprietor merely being a matter of procedure and there being no material impediment to the completion of such registration of change of registered proprietor), the valid transfer of the TMDC Sale Machineries to the PRC Subsidiary, the legality, validity and enforceability of the TMDC Agreement and the Reorganization (to the extent any Taiwan laws are applicable), and such other aspects of the Taiwan law as Sourcestar Profits may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement;

(l) Sourcestar Profits having received a U.S. legal opinion from the Vendors (in such form and substance to Sourcestar Profits' satisfaction) covering, among others, the valid transfer to and registration under the name of Sheenway in respect of the TMDC Sale Patents registered in the U.S. (or in the opinion of the U.S. legal advisers, the registration of change of registered proprietor merely being a matter of procedure and there being no material impediment to the completion of such registration of change of registered proprietor), and such other aspects of the U.S. law as Sourcestar Profits may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement;

(m) all outstanding shareholders' loans owing by the Target Group to the associates of the Vendors having been assigned to the Vendors immediately before the Acquisition Completion and all necessary approvals, consents, authorizations and licences in relation thereto having been obtained from the relevant governmental authorities or parties concerned;

(n) the Vendors providing to Sourcestar Profits certified copy of the resolutions of their respective shareholder(s) and director(s) approving the Acquisition Agreement and the transactions contemplated thereunder;

(o) the Reorganization being completed in such manner to the reasonable satisfaction of Sourcestar Profits (including without limitation the TMDC Agreement being completed in accordance with its terms and conditions);

(p) no indication being received from the Stock Exchange that the transactions contemplated under the Acquisition Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a "reverse takeover" under the Listing Rules; and

(q) Sourcestar Profits or the Company having obtained a valuation report issued by a professional business valuer in Hong Kong that the market value (on such bases and assumptions as such valuer considers to be necessary and appropriate) of the TMDC Sale Patents is, in the opinion of such valuer, no less than HK$700 million as at such reference date which is within the year 2008 and which is no later than the Long Stop Date but no earlier than 31 March 2008.

The PRC legal opinion referred to in condition (a) above is required to cover, including but not limited to, the following areas:

(i) the PRC Subsidiary having been duly established and validly subsisting;

(ii) the PRC Subsidiary having obtained all relevant operating permits required at the time of its establishment and such permits remaining valid;

(iii) the legality of the operation and business of the PRC Subsidiary;

(iv) the PRC Subsidiary having obtained the permits for the Business and all such permits being in full force and effect;

(v) (where applicable) the PRC Subsidiary having obtained the rights to use and occupy the properties owned, leased, or occupied by the Target Group *(Note)*;

(vi) the Reorganization being legal, valid and enforceable under the PRC laws (to the extent applicable), and having been duly completed under the PRC laws (if applicable);

(vii) in respect of the TMDC Sale Patents registered in the PRC, the transfer to and registration under the name of Sheenway being valid and having been duly effected and completed (or in the opinion of the PRC legal advisers, the registration of change of registered proprietor merely being a matter of procedure and there being no material impediment to the completion of such registration of change of registered proprietor);

(viii) (if required) all necessary approval, authorization, consent, registration and filings required having been obtained and effected by the PRC Subsidiary and other members of the Target Group (where applicable) in relation to the Acquisition Agreement and the transactions contemplated thereunder; and

(ix) such other aspects of the PRC law as Sourcestar Profits may consider appropriate or relevant to the transactions contemplated by the Acquisition Agreement.

Note: To the best of the knowledge, information and belief of the Directors, as at the Latest Practicable Date, there was no property owned by any member of the Target Group while there was only one property occupied by a member of the Target Group, namely the leased factory block occupied by the PRC Subsidiary, the valuation report of which is set out on page IV-8 to page IV-12 of this circular. As at the Latest Practicable Date, PRC legal opinion has not been obtained yet regarding the right of the PRC Subsidiary to occupy the said factory block. The Valuer has inspected the relevant title certificate(s) and/or other relevant documents (including the current lease agreement dated 21 November 2008, and entered into between the PRC Subsidiary as lessee for a term of three years from 25 October 2008 to 24 October 2011) evidencing that the lessor has the requisite title/right to lease the said factory block to the PRC Subsidiary. However, if the lessor does not have title to the said factory block, or does not have the legal and unfettered right to lease the factory block to the PRC Subsidiary, there are risks that the PRC Subsidiary may not have legitimate enjoyment of exclusive possession of the said factory block, and may be subject to eviction which may further lead to a disruption of the operation of the PRC Subsidiary.

Sourcestar Profits may at its absolute discretion at any time waive in writing the conditions (a), (e), (f) to (o) (both inclusive)) mentioned above (to the extent it is capable of waiving). Sourcestar Profits does not have any immediate intention to waive any of the conditions precedent at present. If the conditions mentioned above are not fulfilled in full (or, where applicable, waived by Sourcestar Profits in writing) on or before the Long Stop Date, the Acquisition shall lapse and the Deposit shall be repaid to Sourcestar Profits by the Vendors within two months after the Long Stop Date without interest. None of the parties shall have any claim against or liability to the other parties (other than in respect of any antecedent breaches) under the Acquisition Agreement. As at the Latest Practicable Date, condition (q) had been fulfilled and no other conditions had been fulfilled or waived.

Acquisition Completion

The Acquisition Completion shall take place on the third Business Day after the fulfillment (or waiver) of the last of the conditions precedent referred to under the paragraph headed "Conditions precedent" above or such other date as the parties to the Acquisition Agreement shall agree.

The Company intends to introduce one or two persons as Directors following the Acquisition Completion. The new Directors to be introduced are proposed to be appointed as executive Directors. One of the candidates to be so introduced is Mr. Chan Shun Yuen. He is one of the Warrantors, the sole shareholder of the Second Vendor, and also the son of Ms. Lam Suk Fong (i.e. the 51% shareholder of the First Vendor). Further, the Vendors are also considering to propose introducing as an executive Director, a person who is experienced in the television and/or electronics production and/or distribution sector. While such new Director will be recommended by the Vendors and will be in charge of leading and overseeing the LCoS television business for the Group after the Acquisition Completion, neither the Vendors nor the Company have yet decided whether such new Director would be an individual to represent the Vendors.

Promissory Note

At the option of Sourcestar Profits, HK$375 million of the Acquisition Consideration may be satisfied by the issue of the Promissory Note by Sourcestar Profits to the First Vendor (or its nominee(s)) or by cash.

The principal terms of the Promissory Note are as follows:

Issuer:	Sourcestar Profits.
Principal amount:	HK$375 million in aggregate.
Maturity:	The second anniversary from the date of issue of the Promissory Note.
Coupon rate:	Nil.
Security:	No security will be provided by Sourcestar Profits (as the issuer of the Promissory Note) in respect of its obligations under the Promissory Note.
Repayment:	At the sole discretion of Sourcestar Profits, the Promissory Note or such part thereof may be repaid earlier. Otherwise, payment of principal of the Promissory Note is upon its maturity.

Convertible Bonds

HK$2,300 million of the Acquisition Consideration is to be satisfied by the issue of the Convertible Bonds by the Company to the Vendors (or their respective nominee(s)).

The principal terms of the Convertible Bonds are as follows:

Issuer:	The Company.
Principal amount:	HK$2,300 million in aggregate.
Form and denomination:	The Convertible Bonds will be issued in registered form and in the denomination of HK$0.2 million each.
Maturity date:	The Business Day falling on the fifth anniversary of the issue date of the Tranche 1 Bonds.
Interest:	The Convertible Bonds shall accrue no interest.
Transferability:	The Convertible Bonds will be freely transferable but may not be assigned or transferred to a connected person of the Company without the prior written consent of the Company. The Company will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Bonds by connected persons of the Company.
Conversion:	A holder of Convertible Bonds shall have the right at any time and from time to time during the period commencing immediately on the date of issue of the Convertible Bonds up to the maturity date to convert the whole or part of the principal amount of the Convertible Bond(s) in amounts of not less than a whole multiple of HK$0.2 million of the principal amount outstanding under the Convertible Bonds into Conversion Shares on each conversion, save that if at any time the outstanding principal amount of the Convertible Bonds is less than HK$0.2 million, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted; provided that (1) no Convertible Bonds may be converted, to the extent that following such exercise, a holder of the Convertible Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer), and (2) no holders of the Convertible Bonds shall exercise the conversion rights attached to the Convertible Bonds held by such holder of the Convertible Bonds if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under Rule 8.08 of the Listing Rules and as required by the Stock Exchange. There is no restriction on subsequent sale of the Conversion Shares.

Initial Conversion Price:	The Convertible Bonds shall be converted at the Initial Conversion Price of HK$0.4 per Conversion Share (subject to adjustments). The Initial Conversion Price of HK$0.4 represents (i) the same as the closing price of HK$0.4 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 0.5% to the average of the closing prices of approximately HK$0.398 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day; (iii) a premium of approximately 3.9% to the average of the closing prices of approximately HK$0.385 per Share as quoted on the Stock Exchange for the last thirty trading days immediately prior to and including the Last Trading Day; (iv) a premium of approximately 263.6% over the closing price of approximately HK$0.11 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 41.9% to the net assets value per Share as at 31 December 2007 of approximately HK$0.689.
Redemption:	The Company shall redeem any Convertible Bonds which remain outstanding on the maturity date at its principal amount. Upon occurrence of an event of default, the holder of the Convertible Bonds may, unless such event of default has been waived by it in writing, require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Bonds at such outstanding principal amount and the Convertible Bonds shall be mandatorily redeemed by the Company. If the Company is unable, other than by reason of the default of the holders of the Convertible Bonds, to perform its obligations regarding the issue, deposit and delivery of that number of Shares, which exceeds such number of unissued Shares for which the Board has been authorized by the Shareholders in general meeting to allot, issue and deal with for the time being and/or for which approval for listing (and permission to deal in) has been granted by the Listing Committee of the Stock Exchange within the 60-day postponement period, the Company shall be obliged to redeem such outstanding principal of the Convertible Bonds in relation to such excess number of Shares at such outstanding principal amount.

Purchase:	The Company may at any time and from time to time purchase the Convertible Bonds that remain outstanding from the holders of such Convertible Bonds at any price which shall not be more than 118% of the principal amount of the Convertible Bonds as may be agreed between the Company and the relevant holder of the Convertible Bonds provided that the Company shall under any purchase by tender at the same price offer to purchase from the other holders of the Convertible Bonds alike the Convertible Bonds registered in their names.
Cancellation:	Immediately upon redemption or purchase by the Company, the Convertible Bonds so redeemed or purchased shall forthwith be cancelled. Any Convertible Bonds so cancelled shall not be re-issued or re-sold.
Voting rights:	The holder of the Convertible Bonds will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bonds.
Ranking:	The Convertible Bonds will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company. The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds will, when issued, rank pari passu in all respects with all other Shares in issue as at the date of conversion.
Listing:	The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conversion Shares

Upon full conversion of the Convertible Bonds at the Initial Conversion Price (subject to adjustments) and for illustration only, a total of 5,750 million Conversion Shares will be issued, representing (i) approximately 881.4% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 89.8% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares assuming full conversion of the Convertible Bonds at the Initial Conversion Price (subject to adjustments).

The Directors consider that there will not be a change in control of the Company as a result of the issue of the Convertible Bonds.

At the Company's annual general meeting held on 29 May 2007, the Board has been granted by the Shareholders a general mandate to allot, issue and deal in up to 108,871,200 Shares. Since the date of the said annual general meeting and up to the date of the Acquisition Agreement, 108,000,000 new Shares have been issued under such general mandate. Given the balance of such general mandate is insufficient to cover the Conversion Shares which may fall to be allotted and issue upon the exercise of the conversion rights attached to the Convertible Bonds, the resolution to approve the Acquisition Agreement to be proposed at the SGM will include a proposed grant to the Directors of a specific mandate to issue new Shares to accommodate the Conversion Shares (upon exercise of the conversion rights attaching to the Convertible Bonds) to be issued under the Acquisition Agreement.

Effects on shareholding structure

The following chart sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds by the Vendors provided that no Convertible Bonds have been transferred by the Vendors (or their respective nominee(s)) to any other parties or may be converted, to the extent that following such exercise, a holder of the Convertible Bonds, and parties acting in concert with it, taken together, will control or be interested in 30% or more of the entire issued Shares, assuming that there is no other change in the issued share capital of the Company from the Latest Practicable Date except for the issue of the Conversion Shares:

Shareholders	**As at the Latest Practicable Date**		**After issue of the Conversion Shares under the Convertible Bonds** *(Note 3)*	
	Shares	*%*	*Shares*	*%*
Golden Mount Limited *(Notes 1 and 5)*	151,180,000	23.17	151,180,000	16.23
Perfect Treasure Investment Limited *(Notes 2 and 5)*	90,416,000	13.86	—	—
The Vendors (and/or their respective nominee(s)) *(Note 5)*	—	—	279,510,000	29.99
Subtotal	241,596,000	37.03	430,690,000	46.22
Public shareholding:				
Perfect Treasure Investment Limited	—	—	90,416,000	9.70
other public	410,760,000	62.97	410,760,000	44.08
Total	652,356,000	100	931,866,000	100

Note:

1. Golden Mount Limited, which has became a substantial and the single largest Shareholder since 27 July 2007, is wholly-owned by Mr. Chim Pui Chung, who does not hold any position in the Company and is the father of Mr. Chim Kim Lun, Ricky, an executive Director. Based on the corporate substantial shareholder notice dated 21 February 2008 and filed for and on behalf of Golden Mount Limited received by the Company, Golden Mount Limited and its parties acting in concert hold approximately 23.17% of the issued share capital of the Company as at the Latest Practicable Date.

2. Perfect Treasure Investment Limited is a company incorporated in Hong Kong and a wholly-owned subsidiary of Sing Tao News Corporation Limited, a company incorporated in Bermuda and whose securities are listed on the Stock Exchange. It was stated in the corporate substantial shareholder notice of Perfect Treasure Investment Limited filed on 29 February 2008 that it was interested in 87,800,000 Shares (representing 13.45% of the total issued Shares). To the best knowledge and belief of the Directors, Perfect Treasure Investment Limited was interested in 90,416,000 Shares (representing 13.86% of the total Shares) as at the Latest Practicable Date.

3. The Convertible Bonds provide that no Convertible Bonds may be converted, to the extent that following such exercise, a holder of the Convertible Bonds (including each of the Vendors (or its nominee(s)) and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued Shares. Whether certain persons are acting in concert with each other is a matter of fact. When Golden Mount Limited holds 20% or more of the issued shares in the Company while the Vendors (after conversion of the relevant Convertible Bonds) will hold 20% or more of the issued shares in the Company, Golden Mount Limited will become presumed to act as a party acting in concert with the Vendors, and their shareholdings might accordingly be aggregated to that of the Vendors. If the Vendors and Golden Mount Limited are able to rebut the presumption, the presumption will no longer be applicable. If they are not able to rebut such presumption, they will in effect hold more than 30% of the shareholding in the Company, a situation which is already prohibited under the terms of the instrument of the Convertible Bonds.

4. For illustration only, as Perfect Treasure Investment Limited will no longer be a substantial Shareholder (assuming conversion of the Convertible Bonds by the Vendors (and/or their respective nominee(s)) to the extent that they are interested in approximately 29.99% of the issued share capital of the Company and no acquisition of additional Shares by Golden Mount Limited and Perfect Treasure Investment Limited after the Latest Practicable Date) and there is no other relationship which makes it a connected person of the Company, its shareholding in the Company shall be counted as public float.

5. As at the Latest Practicable Date, Golden Mount Limited, Perfect Treasure Investment Limited and the Vendors are not parties acting in concert with one another.

Dilution effect on Shareholders

Due to the significant dilutive nature of the Conversion Shares, the Company would adopt the following additional disclosure measures if the transaction contemplated under the Acquisition Agreement is approved by the Shareholders:

(i) the Company will make a monthly announcement ("**Monthly Announcement**") on the website of the Stock Exchange. Such announcement will be made on or before the fifth Business Day following the end of each calendar month and will include the following details in a table form;

(a) whether there is any conversion of the Convertible Bonds during the relevant month and if so, details of the conversion(s), including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

(b) the number of outstanding Convertible Bonds after the conversion, if any;

(c) the total number of Shares issued pursuant to other transactions including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

(d) the total issued share capital of the Company as at the commencement and the last day of the relevant months.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the new Shares converted from the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) (a) — (d) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be); and

(iii) in respect of conversion of the Convertible Bonds, the Company will make an announcement in the event any such conversion will result in an increase of its shareholding in the Company by 5%.

Information on the Target Group

Background

The Target Company is an investment holding company incorporated in the BVI with limited liability on 14 January 2008 and is beneficially owned as to 90% by the First Vendor and as to 10% by the Second Vendor. Before the Reorganization as detailed below, the Target Company has no major assets or operating businesses other than the entire shareholding interests in Starwick Development, Gold Pioneer and Sheenway, each of which is an investment holding company incorporated in the BVI with limited liability on 21 February 2008, 2 January 2008 and 9 January 2008 respectively and has no major assets or operating businesses.

As a result of the Reorganization, the PRC Subsidiary, which principal business is the design, installation and manufacturing of high definition projection televisions and related accessories, has become an indirect wholly-owned subsidiary of the Target Company. Moreover, as a result of the Reorganization, the TMDC Sale Machineries will become vested in the PRC Subsidiary and the TMDC Sale Patents will be owned by or registered under the name of Sheenway. Each of the TMDC Sale Machineries and the TMDC Sale Patents are related to the production of LCoS televisions. LCoS is a "micro-projection" or "micro-display" technology typically applied in projection televisions. A typical liquid crystal display ("LCD") television uses transmissive LCD chips, allowing light to pass through the liquid crystal while in LCoS television, liquid crystals are applied directly to the surface of a silicon chip coated with an aluminized layer, with some type of passivation layer, which is highly reflective. LCoS technology can therefore produce higher resolution images than conventional LCD and plasma display technologies. At present, the PRC Subsidiary is in the course of setting up a manufacturing base for the production of LCoS televisions in Suzhou, the PRC (the "Suzhou Plant"), which has leased a piece of land with a total gross floor area of approximately 3,500 square metres for the establishment of the Suzhou Plant. The initial annual production capacity of the Suzhou Plant is approximately 2 million units of LCoS televisions and it is expected to commence commercial production in or around early 2009.

Upon Acquisition Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its consolidated financial results will be consolidated with those of the Group.

Reorganization

As a condition precedent to the Acquisition Completion, the Reorganization shall have been duly completed under the PRC laws in accordance with the TMDC Agreement and further pursuant to the business plans of the Vendors as below:

(i) Precise Media has or will become a direct wholly-owned subsidiary of Starwick Development;

(ii) the TMDC Sale Machineries will become vested in the PRC Subsidiary in the sense that they would be delivered to the PRC Subsidiary (or other person as nominated by Starwick Development) within three years from the date of completion of the agreement dated 5 September 2008 supplemental to the TMDC Agreement (or such later date as agreed by Starwick Development) and during the period before such delivery, Starwick Development is required to pay to TMDC a monthly fee of HK$0.5 million for rental and management of a production base in Taiwan for the TMDC Sale Machineries;

(iii) the TMDC Sale Patents will be owned by Sheenway and (if required by Sourcestar Profits) registration of the TMDC Sale Patents in the name of Sheenway will have been effected;

(iv) the officers of TMDC will enter into with the PRC Subsidiary legally valid and enforceable employment contracts in the agreed form;

(v) on or before 30 November 2008 (or such later date as parties may agree), all purchase prices payable by Starwick Development under the TMDC Agreement shall be settled on behalf of Starwick Development by the convertible bonds of the Company on condition that (a) the Company having complied with all applicable laws and regulations (including without limitation the Listing Rules); (b) the pledge created on the TMDC Sale Machineries having been released (or, in case the pledge created on the TMDC Sale Machineries has not been released, the creditors of certain TMDC's bank loans (to which pledge on the TMDC Sale Machineries has been given as security) having granted in-principle consent regarding the transfer of the TMDC Sale Machineries to Starwick Development); and (c) Starwick Development and the Company having been satisfied that the Suzhou Plant has been established and in normal operation, such that TMDC will not have any recourse against any members of the Target Group or the Group; and

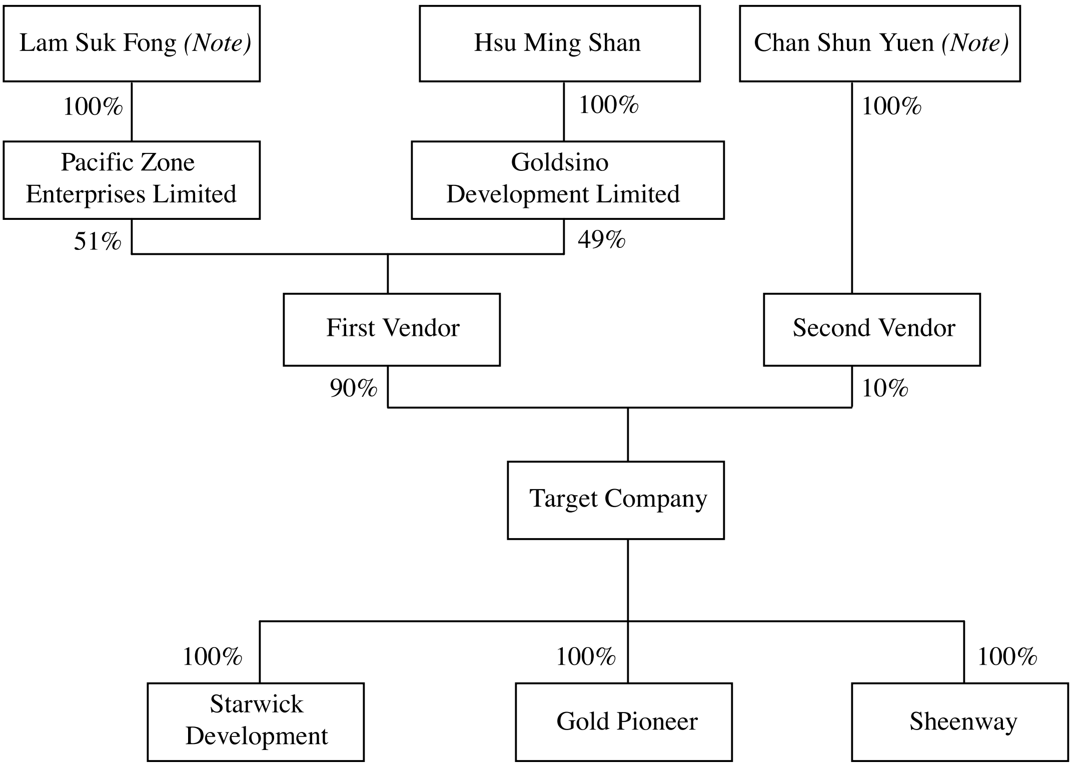
(vi) immediately before the Acquisition Completion, the loans owing by the members of the Target Group (other than the Target Company) to the respective associates of the Vendors will be assigned to become loans owing by the Target Company to the Vendors.

Under the agreement dated 5 September 2008 supplemental to the TMDC Agreement, within three years from the date of completion of such agreement (or such later date as agreed by Starwick Development and TMDC), Starwick Development has agreed to purchase components from TMDC for at least 50,000 sets of LCoS televisions semi-annually and at least 100,000 sets annually and if the aforesaid minimum purchase quantity cannot be met, the grant of license of those patents held by TMDC which may have to be used in connection with the production of LCoS televisions and enlarged display units but not forming part of the TMDC Sale Patents for exclusive use by Sheenway (or its nominee(s)) may be terminated upon mutual agreement between Starwick Development and TMDC.

As at the Latest Practicable Date, item (i) has been completed and the TMDC Agreement has yet to be completed. It is expected that the Reorganization will be completed in 2008.

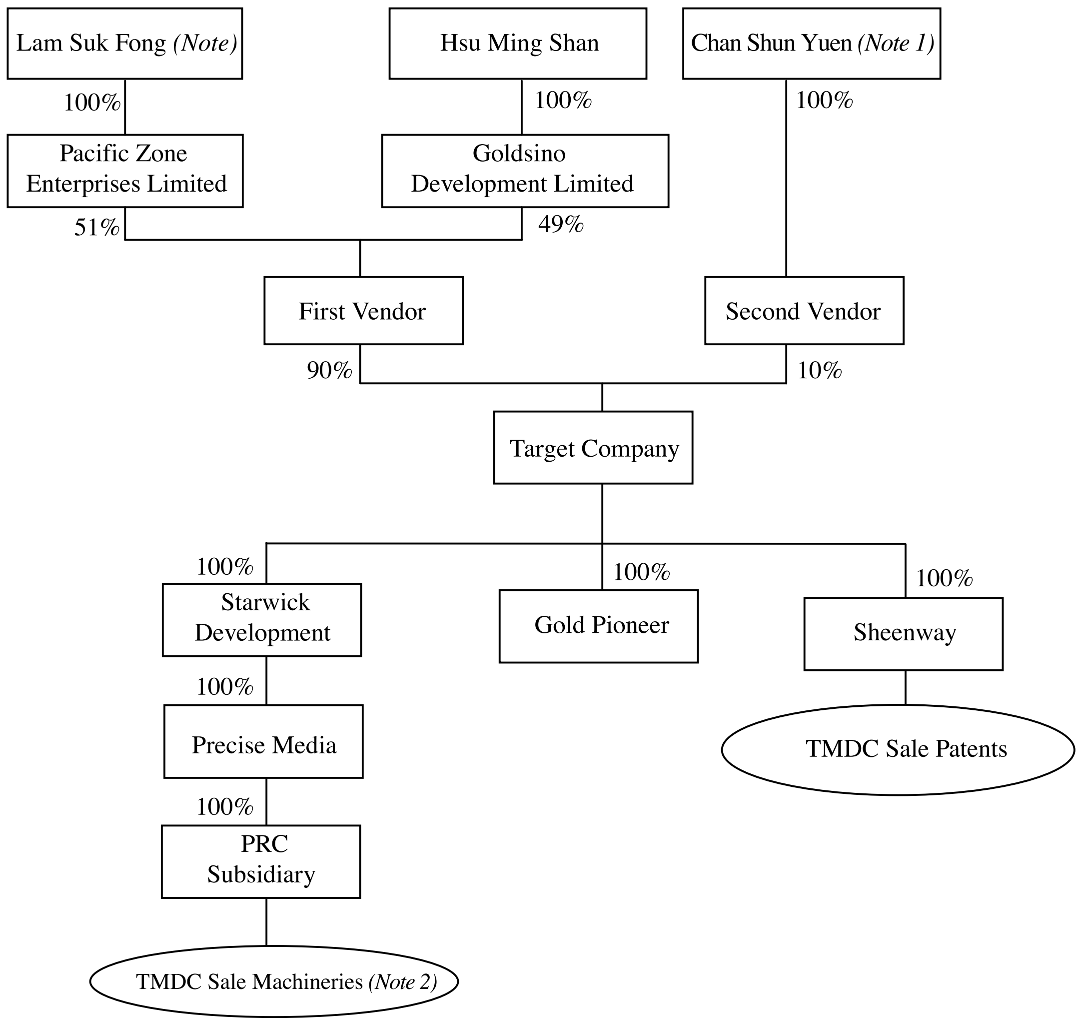
Shareholding structure before and after the Reorganization and the Acquisition

Immediately before the completion of the Reorganization and the Acquisition:



Note: Ms. Lam Suk Fong is the mother of Mr. Chan Shun Yuen

Immediately after the completion of the Reorganization but before the Acquisition:

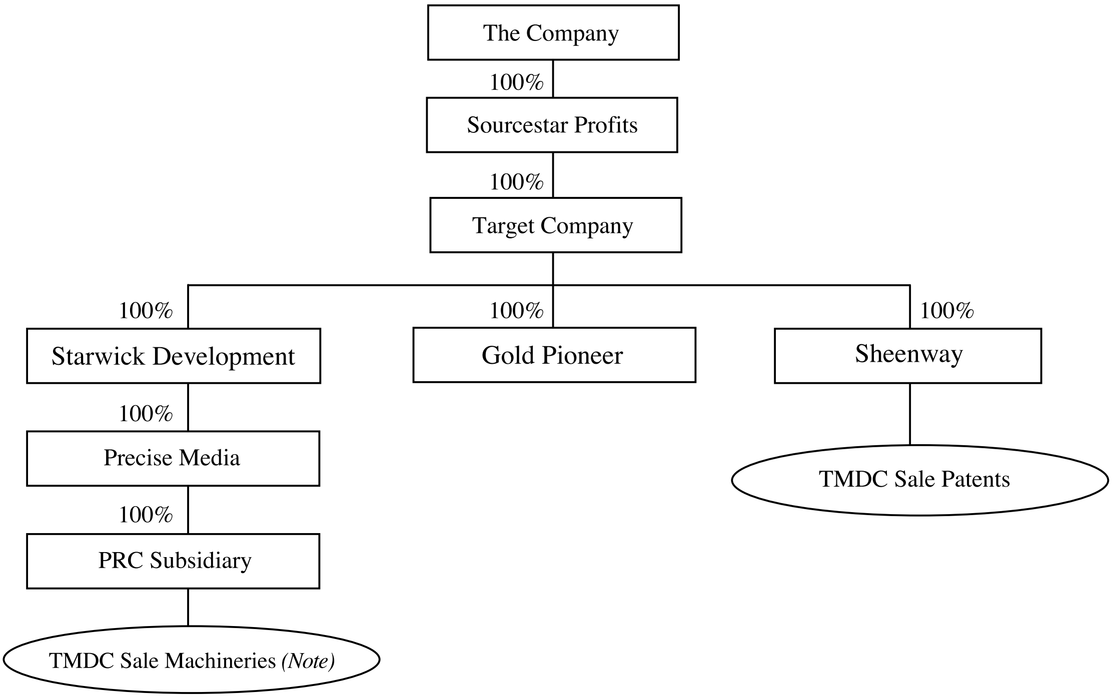


Notes:

1. *Ms. Lam Suk Fong is the mother of Mr. Chan Shun Yuen*

2. *Ownership in the TMDC Sale Machineries will be vested in the PRC Subsidiary but will be located in Taiwan at a production base leased to the Target Group. Please refer to step (ii) of the Reorganisation on page 24 for details*

Immediately after the completion of the Reorganization and the Acquisition:



Note: Ownership in the TMDC Sale Machineries will be vested in the PRC Subsidiary but will be located in Taiwan at a production base leased to the Target Group. Please refer to step (ii) of the Reorganisation on page 24 for details

Information on the TMDC Sale Machineries and the TMDC Sale Patents

Pursuant to the TMDC Agreement, the TMDC Sale Machineries mainly comprise colour analyzers, spectrometers and so forth relating to the manufacturing of LCoS televisions and related components.

Pursuant to the TMDC Agreement, the TMDC Sale Patents comprise patents and/or patents applications in the PRC, Taiwan and U.S. relating to micro-display elements and manufacturing of LCoS televisions and related components.

Financial information of the Target Group and financial effects of the Acquisition

Based on the accountants' reports of the Target Group prepared in accordance with HKGAAP as set out in Appendix II to this circular, the Target Group recorded an audited net liabilities value of approximately HK$2,993,000 as at 30 June 2008 and an audited loss before and after taxation of approximately HK$3,099,000 for the period from 14 January 2008 (being the date of incorporation of the Target Company) to 30 June 2008. Precise Media (as consolidated with the PRC Subsidiary) recorded an audited consolidated loss before and after taxation for the years ended 31 December 2006 and 2007 of approximately HK$595,000 and approximately HK$1,303,000 respectively.

Based on the unaudited pro forma financial information as set out in Appendix III to this circular, the Group's net assets value attributable to equity holders of the Company would be enhanced by approximately HK$178.4 million (as a result of the increase in total assets and liabilities of approximately HK$409.8 million and HK$231.4 million respectively) while its profits attributable to equity holders of the Company for the period would be increased by approximately HK$94.9 million upon Acquisition Completion. The details of the financial effect of the Acquisition on the financial position and results of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix III to this circular.

There is no variation to the remuneration payable to and benefits in kind receivable by the directors of Sourcestar Profits as a consequence of the Acquisition.

Reasons for entering into the Acquisition

The Group is principally engaged in the manufacture and marketing of conductive silicon rubber keypads.

As set out in the Company's annual report for the year ended 31 December 2007, as the electronic manufacturing business is highly labour intensive, persistent increase in the cost of and the shortage of skilled and experienced workers in the PRC have added to the already difficult operating environment, which is mired in escalating electricity, material and transportation costs. Operating efficiency and optimum utilization of production facilities were also affected. In view of this, the Group has been looking into the opportunity of other business and exploring more investment to offer sustainable growth to its business.

Through the Acquisition, the Group can be engaged in production and distribution of LCoS televisions, which the Directors are of the view that the LCoS technology is of considerable development potential and the Group's sources of income may be broadened. The Directors also expect that the LCoS projection televisions will receive positive response upon launch in the market.

The Directors, including the independent non-executive Directors, consider that the terms of the Acquisition (including the Acquisition Consideration and the payment methods thereof) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(II) INCREASE IN AUTHORIZED SHARE CAPITAL

As at the Latest Practicable Date, the existing authorized share capital of the Company was HK$200,000,000 divided into 2,000,000,000 Shares, of which 652,356,000 Shares were in issue. As such, the number of Shares which the Company may issue and allot under the existing authorized share capital of 1,347,644,000 is insufficient to cover the issue of the Conversion Shares, if the conversion right attached thereto is exercised in full.

Accordingly, the Company proposed to increase its authorized share capital from HK$200,000,000 comprising 2,000,000,000 Shares to HK$2,000,000,000 comprising 20,000,000,000 Shares by the creation of 18,000,000,000 Shares which will be put to Shareholders' approval at the SGM. The Acquisition Completion is conditional upon, among others, such proposed increase in the authorized share capital of the Company to HK$2,000,000,000 having been approved by the Shareholders at the SGM.

LISTING RULES REQUIREMENTS

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval under Chapter 14 of the Listing Rules. As no Shareholders have any material interest in the Acquisition, no Shareholders are required to abstain from voting at the SGM on the resolution to approve the Acquisition Agreement and the transactions contemplated thereunder. The proposed increase in authorized share capital of the Company will be put to Shareholders' approval at the SGM.

SGM

The SGM will be held at Crystal Room No. 7, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Wednesday, 17 December 2008, 3:00 p.m. to consider and, if thought fit, approve, among other matters, the Acquisition Agreement and the transactions contemplated thereunder and the proposed increase in authorized share capital of the Company.

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

PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

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

(a) by the chairman of the meeting; or

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

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

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

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

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

RECOMMENDATION

The Directors consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder and the proposed increase in the authorized share capital of the Company are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder. The Directors also recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the proposed increase in the authorized share capital of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2005, 2006 and 2007 and unaudited financial information of the Group for the six months ended 30 June 2007 and 2008 as extracted from the relevant annual reports (which are not subject to any qualified opinion) and interim reports of the Company.

	Year ended 31 December			Six months ended 30 June	
	2007	**2006**	**2005**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
RESULTS					
Revenue	735,114	705,859	647,004	375,987	357,996
(Loss)/profit before taxation	(62,826)	4,500	28,767	(37,303)	(6,562)
Income tax expense	(1,924)	(2,069)	(731)	(1,405)	(742)
(Loss)/profit for the year/period	(64,750)	2,431	28,036	(38,708)	(7,304)

	As at 31 December			As at 30 June	
	2007	**2006**	**2005**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
ASSETS AND LIABILITIES					
Total assets	669,470	667,458	687,704	658,645	686,997
Total liabilities	(294,439)	(250,971)	(246,258)	(273,058)	(275,598)
	375,031	416,487	441,446	385,587	411,399
Share capital	54,436	54,436	55,078	65,236	54,436
Reserves	320,595	362,051	386,368	320,351	356,963
Total equity	375,031	416,487	441,446	385,587	411,399

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

The following are the audited consolidated financial statements of the Group for the financial year ended 31 December 2007 together with the comparative figures for the financial year ended 31 December 2006 and the notes to the financial statements which were extracted from the annual report of the Company for the year ended 31 December 2007 ("2007 Annual Report"). The page references in this section are the same as section in the 2007 Annual Report.

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	4	735,114	705,859
Cost of sales		(664,381)	(585,383)
Gross profit		70,733	120,476
Other income	5	1,788	4,616
Selling and distribution costs		(18,659)	(12,362)
Administrative expenses		(81,623)	(88,132)
Finance costs	6	(4,626)	(3,603)
Gain on fair value change of investment properties		3,252	1,090
Loss on fair value change of derivative financial instruments		(5,683)	(585)
Impairment loss on available-for-sale investment		(28,008)	(17,000)
(Loss) profit before taxation	8	(62,826)	4,500
Taxation	9	(1,924)	(2,069)
(Loss) profit for the year		(64,750)	2,431
Dividend	10	5,444	5,460
(Loss) earnings per share	11		
Basic (HK cents)		(11.89)	0.44

Consolidated Balance Sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investment properties	12	71,579	63,542
Property, plant and equipment	13	252,095	237,195
Prepaid lease payments	14	18,046	17,573
Available-for-sale investment	15	—	54,079
Club debenture	16	1,180	1,180
		342,900	373,569
CURRENT ASSETS			
Inventories	17	129,030	107,315
Trade and other receivables	18	109,277	120,405
Available-for-sale investment	15	29,541	—
Derivative financial instruments	19	5,543	279
Bank balances and cash	20	53,179	65,890
		326,570	293,889
CURRENT LIABILITIES			
Trade and other payables	21	171,153	163,960
Derivative financial instruments	19	22,734	2,311
Tax liabilities		18,651	20,715
Obligations under finance leases — due within one year	22	3,714	5,875
Bank loans — due within one year	23	46,494	12,833
		262,746	205,694
NET CURRENT ASSETS		63,824	88,195
TOTAL ASSETS LESS CURRENT LIABILITIES		406,724	461,764

Consolidated Balance Sheet *(Continued)*
As at 31 December 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
CAPITAL AND RESERVES			
Share capital	*24*	54,436	54,436
Reserves		320,595	362,051
		375,031	416,487
NON-CURRENT LIABILITIES			
Obligations under finance leases — due after one year	*22*	1,887	5,528
Bank loans — due after one year	*23*	9,164	20,084
Deferred tax liabilities	*26*	20,642	19,665
		31,693	45,277
		406,724	461,764

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Special reserve *HK$'000*	Statutory reserves *HK$'000*	Asset revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Capital redemption reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
As at 1 January 2006	55,078	82,364	35,597	19,487	6,553	48,623	20,796	3,402	922	168,624	441,446
Revaluation surplus on buildings	–	–	–	–	–	1,487	–	–	–	–	1,487
Deferred tax on revaluation of buildings	–	–	–	–	–	(402)	–	–	–	–	(402)
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	3,326	–	–	3,326
Loss on fair value change of available–for-sale investment	–	–	–	–	–	–	(41,266)	–	–	–	(41,266)
Impairment loss on available–for-sale investment realised	–	–	–	–	–	–	17,000	–	–	–	17,000
Net income recognised directly in equity	–	–	–	–	–	1,085	(24,266)	3,326	–	–	(19,855)
Profit for the year	–	–	–	–	–	–	–	–	–	2,431	2,431
Total recognised income and expense for the year	–	–	–	–	–	1,085	(24,266)	3,326	–	2,431	(17,424)
Final dividend for 2005 paid	–	–	–	–	–	–	–	–	–	(5,460)	(5,460)
Share repurchased and cancelled	(642)	–	–	–	–	–	–	–	642	(2,075)	(2,075)
As at 31 December 2006	54,436	82,364	35,597	19,487	6,553	49,708	(3,470)	6,728	1,564	163,520	416,487
Revaluation surplus on buildings	–	–	–	–	–	1,218	–	–	–	–	1,218
Deferred tax on revaluation of buildings	–	–	–	–	–	(329)	–	–	–	–	(329)
Attributable to change in tax rate	–	–	–	–	–	1,352	–	–	–	–	1,352
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	23,027	–	–	23,027
Loss on fair value change of available-for-sale investment	–	–	–	–	–	–	(24,538)	–	–	–	(24,538)
Impairment loss on available-for-sale investment realised	–	–	–	–	–	–	28,008	–	–	–	28,008
Net income recognised directly in equity	–	–	–	–	–	2,241	3,470	23,027	–	–	28,738
Loss for the year	–	–	–	–	–	–	–	–	–	(64,750)	(64,750)
Total recognised income and expense for the year	–	–	–	–	–	2,241	3,470	23,027	–	(64,750)	(36,012)
Final dividend for 2006 paid	–	–	–	–	–	–	–	–	–	(5,444)	(5,444)
As at 31 December 2007	54,436	82,364	35,597	19,487	6,553	51,949	–	29,755	1,564	93,326	375,031

Consolidated Statement of Changes in Equity *(Continued)*
For the year ended 31 December 2007

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

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

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

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
(Loss) profit before taxation	(62,826)	4,500
Adjustments for:		
Finance costs	4,626	3,603
Allowance for doubtful debts	4,530	1,862
Allowance recognised (reversed) for obsolete and slow moving inventories	3,183	(2,394)
Interest income	(1,330)	(3,661)
Gain on fair value change of investment properties	(3,252)	(1,090)
Depreciation and amortisation	35,705	31,406
Revaluation surplus on buildings	(331)	(86)
(Gain) loss on disposal of property, plant and equipment	(127)	1,026
Unrealised loss on fair value change of derivative financial instruments	15,159	2,032
Impairment loss on available-for-sale investment	28,008	17,000
Operating cash flows before movements in working capital	23,345	54,198
Increase in inventories	(16,991)	(32,056)
Decrease (increase) in trade and other receivables	7,077	(5,379)
Decrease in amount due from a related company	—	7,806
Increase in trade and other payables	765	14,469
Cash generated from operations	14,196	39,038
Hong Kong Profits Tax paid	(2,372)	(2,445)
PRC Enterprise Income Tax paid	(2,365)	(1,216)
NET CASH FROM OPERATING ACTIVITIES	9,459	35,377

Consolidated Cash Flow Statement *(Continued)*
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(31,886)	(32,307)
Interest received	1,330	3,661
Proceeds on disposal of property, plant and equipment	334	279
NET CASH USED IN INVESTING ACTIVITIES	(30,222)	(28,367)
FINANCING ACTIVITIES		
New bank loans obtained	55,165	20,500
Repayment of bank loans	(32,424)	(35,083)
Repayment of obligations under finance leases	(5,802)	(7,690)
Dividend paid	(5,444)	(5,460)
Interest paid on bank loans	(4,093)	(2,919)
Interest paid on obligations under finance leases	(533)	(684)
Payment for repurchase of shares	—	(2,075)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	6,869	(33,411)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,894)	(26,401)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	65,890	92,064
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,183	227
CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash	53,179	65,890

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information to the annual report.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34.

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

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 the new HKFRSs 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 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(Continued)*

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[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury Share Transactions[3]
HK(IFRIC)-INT 12	Service Concession Arrangements[4]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

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

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. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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

Revenue recognition

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

Property, plant and equipment

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

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

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Property, plant and equipment *(Continued)*

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

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

Intangible asset — Club debenture

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

Impairment

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

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

Inventories

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

Leasing

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Leasing *(Continued)*

The Group as lessor

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

The Group as lessee

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

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

Retirement benefit costs

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

Borrowing costs

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

Foreign currencies

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Foreign currencies *(Continued)*

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

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

Taxation

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

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments

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

Financial assets

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

Effective interest method

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

Loans and receivables

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

Available-for-sale financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

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

Effective interest method

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

Financial liabilities (other than derivative financial instruments)

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

Equity instruments

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

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

Derivative financial instruments

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

Derecognition

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

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

4. SEGMENT INFORMATION

Business segments:

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

Segment information about these business is presented below:

2007

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

4. **SEGMENT INFORMATION** *(Continued)*

Business segments: *(Continued)*

2007 *(Continued)*

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	419,441	103,624	108,003		631,068
Unallocated corporate assets					38,402
Consolidated total assets					669,470
LIABILITIES					
Segment liabilities	106,227	23,392	39,080		168,699
Unallocated corporate liabilities					125,740
Consolidated total liabilities					294,439
OTHER INFORMATION					
Additions to property, plant and equipment	13,206	5,186	13,494	—	31,886
Depreciation of property, plant and equipment	18,426	8,016	8,200	602	35,244
Amortisation of prepaid lease payments	345	88	28	—	461
Allowance recognised (reversed) for obsolete and slow moving inventories	3,061	(371)	493	—	3,183
Allowance recognised for doubtful debts	1,163	2,521	846	—	4,530

4. SEGMENT INFORMATION *(Continued)*

Business segments: *(Continued)*

2006

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

4. **SEGMENT INFORMATION** *(Continued)*

Business segments: *(Continued)*

2006 *(Continued)*

	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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	16,256	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	—	1,927	(65)	—	1,862

4. SEGMENT INFORMATION *(Continued)*

Geographical segments:

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

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

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

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. **SEGMENT INFORMATION** *(Continued)*

Geographical segments: *(Continued)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	145,732	172,846	132	669
PRC	485,336	438,746	31,754	40,371
	631,068	611,592	31,886	41,040

5. **OTHER INCOME**

	2007	**2006**
	HK$'000	*HK$'000*
Other income includes:		
Interest income	1,330	3,661
Gain on disposal of property, plant and equipment	127	—
Revaluation surplus on buildings	331	86

6. **FINANCE COSTS**

	2007	**2006**
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	4,093	2,919
Obligations under finance leases	533	684
	4,626	3,603

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(a) Directors' remuneration:

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

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

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

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

No emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors have waived any emoluments in both years.

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

(b) Highest paid employees:

The five highest paid employees of the Group include three (2006: three) executive directors of the Company, details of whose emoluments are included above. The remuneration of the remaining two (2006: two) individuals was as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	2,002	1,886
Retirement benefits scheme contributions	89	65
	2,091	1,951

The emoluments of the two (2006: two) highest paid employees were within the following bands:

	Number of employees	
	2007	**2006**
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	1
	2	2

8. (LOSS) PROFIT BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,421	1,321
Depreciation:		
Owned assets	32,739	26,449
Assets held under finance leases	2,505	4,512
Amortisation of prepaid lease payments	461	445
Allowance for doubtful debts	4,530	1,862
Cost of inventories recognised as expense	664,381	585,383
Allowance (reversal) for obsolete and slow moving inventories *(Note)*	3,183	(2,394)
Directors' remuneration *(Note 7)*	5,873	5,760
Other staff costs	156,540	135,717
Staff costs	162,413	141,477
Operating lease rentals	1,429	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	(9,476)	(1,447)
Unrealised loss	15,159	2,032
and after crediting:		
Gross rental income from investment properties	7,457	7,325
Less: Direct operating expenses from investment properties that generate rental income during the year	(520)	(495)
	6,937	6,830
Foreign exchange gains (losses), net	577	(1,594)

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

9. TAXATION

	2007	2006
	HK$'000	*HK$'000*
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)
	1,170	1,775
Deferred taxation (Note 26)		
Current year	813	294
Attributable to change in tax rate	(59)	—
	1,924	2,069

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 the PRC at 27% (2006: 27%). The Group's subsidiaries operating in the PRC are eligible for certain tax concessions. The subsidiaries in the PRC are granted a tax holiday of a 2-year exemption followed by a 3-year 50% reduction in income tax rate commencing from the first profit-making year. Upon expiry of the tax holiday, if the export sales of the subsidiaries exceed 70% of the total sales for the year, the entities are entitled to a 50% reduction of the income tax rate and three subsidiaries operating in the PRC enjoyed this reduction for the year ended 31 December 2007.

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

9. TAXATION *(Continued)*

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

	2007 *HK$'000*	2006 *HK$'000*
(Loss) profit before taxation	(62,826)	4,500
Tax at domestic income tax rate of 27% (2006: 27%)	(16,963)	1,215
Tax effect of expenses not deductible for tax purposes	9,902	5,229
Tax effect of income not taxable for tax purposes	(329)	(843)
Tax effect of tax losses not recognised	10,708	2,222
Tax effect of income tax at concessionary rate	(62)	(1,534)
Utilisation of tax losses previously not recognised	(824)	(1,775)
Effect of different tax rates of group entities operating in other jurisdictions	(40)	(890)
Overprovision in respect of prior years	(1,294)	(1,414)
Decrease in operating deferred tax liability resulting a decrease in PRC income tax rate	(59)	—
Others	885	(141)
Taxation charge for the year	1,924	2,069

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

10. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
Final dividend for 2006 paid — HK 1 cent (2005: HK 1 cent) per share	5,444	5,460

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

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year of approximately 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.

12. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
As at 1 January 2006	61,241
Exchange adjustment	1,211
Increase in fair value	1,090
As at 31 December 2006	63,542
Exchange adjustment	4,785
Increase in fair value	3,252
As at 31 December 2007	71,579

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant, machinery and moulds	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION							
As at 1 January 2006	111,330	1,451	230,073	22,736	8,993	4,202	378,785
Exchange adjustments	2,109	12	4,488	329	99	199	7,236
Addition	228	878	24,747	2,602	604	11,981	41,040
Disposals/written off	—	—	(16,164)	(2,311)	(283)	—	(18,758)
Revaluation	(1,148)	—	—	—	—	—	(1,148)
As at 31 December 2006	112,519	2,341	243,144	23,356	9,413	16,382	407,155
Exchange adjustments	8,578	78	18,379	1,251	395	679	29,360
Additions	61	40	28,714	381	710	1,980	31,886
Transfers	18,706	—	—	—	—	(18,706)	—
Disposals/written off	—	—	(3,147)	(805)	(229)	—	(4,181)
Revaluation	(1,671)	—	—	—	—	—	(1,671)
As at 31 December 2007	138,193	2,459	287,090	24,183	10,289	335	462,549
COMPRISING:							
At cost	—	2,459	287,090	24,183	10,289	335	324,356
At valuation – 2007	138,193	—	—	—	—	—	138,193
	138,193	2,459	287,090	24,183	10,289	335	462,549
DEPRECIATION							
As at 1 January 2006	—	1,382	133,666	15,227	5,959	—	156,234
Exchange adjustments	—	4	2,649	210	76	—	2,939
Provided for the year	2,721	224	23,457	3,485	1,074	—	30,961
Eliminated on disposals/written off	—	—	(14,913)	(2,257)	(283)	—	(17,453)
Eliminated on revaluation	(2,721)	—	—	—	—	—	(2,721)
As at 31 December 2006	—	1,610	144,859	16,665	6,826	—	169,960
Exchange adjustments	—	33	11,193	908	310	—	12,444
Provided for the year	3,220	252	27,258	3,297	1,217	—	35,244
Eliminated on disposals/written off	—	—	(2,974)	(771)	(229)	—	(3,974)
Eliminated on revaluation	(3,220)	—	—	—	—	—	(3,220)
As at 31 December 2007	—	1,895	180,336	20,099	8,124	—	210,454
CARRYING VALUES							
As at 31 December 2007	138,193	564	106,754	4,084	2,165	335	252,095
As at 31 December 2006	112,519	731	98,285	6,691	2,587	16,382	237,195

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

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

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

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

If the buildings had not been revalued, they would have been included at historical cost less accumulated depreciation of approximately HK$92,605,000 (2006: HK$71,491,000).

As at 31 December 2007, the carrying values of property, plant and equipment included an amount of approximately HK$11,825,000 (2006: HK$18,882,000) in respect of assets held under finance leases.

14. PREPAID LEASE PAYMENTS

	2007	2006
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise leasehold interest in land and land use rights held under medium-term leases as follows:		
Leasehold land in Hong Kong	4,764	4,885
Land use rights in the PRC	13,754	13,136
	18,518	18,021
Analysis for reporting purposes as:		
Non-current asset	18,046	17,573
Current asset *(Note 18)*	472	448
	18,518	18,021

15. AVAILABLE-FOR-SALE INVESTMENT

	2007	2006
	HK$'000	*HK$'000*
Equity securities listed in overseas, at fair value	29,541	54,079

The investment represents the Group's interest in the issued share capital of Ascalade Communications Inc. ("ACI"). ACI is operating in the telecommunication industry sector and its shares are quoted in the Toronto Stock Exchange. As at 31 December 2007, the Group held a 14.7% (2006: 14.7%) equity interest in ACI.

Details of change in interests in ACI subsequent to the balance sheet date are set out in note 35(c).

16. CLUB DEBENTURE

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

17. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	67,384	52,239
Work in progress	15,342	14,783
Finished goods	46,304	40,293
	129,030	107,315

18. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables	105,642	118,232
Less: Allowance for doubtful debts	(7,110)	(5,635)
	98,532	112,597
Other receivables	10,273	7,360
Prepaid lease payments *(Note 14)*	472	448
	109,277	120,405

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	2006
	HK$'000	*HK$'000*
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
	98,532	112,597

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

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately HK$28,752,000 (2006: HK$57,115,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	5,635	7,136
Impairment losses recognised on receivables	4,530	1,927
Amounts written off as uncollectible	(3,055)	(3,363)
Amounts recovered during the year	—	(65)
Balance at end of the year	7,110	5,635

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

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

	USD	RMB
	HK$'000	*HK$'000*
As at 31 December 2007	49,080	747
As at 31 December 2006	53,632	—

19. DERIVATIVE FINANCIAL INSTRUMENTS

		2007		2006	
		Assets	**Liabilities**	**Assets**	**Liabilities**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Foreign currency forward contracts	*(i)*	4,128	2,133	279	2,311
Structured forward contract	*(ii)*	—	3,138	—	—
USD/RMB linked hybrid USD swaps	*(iii)*	1,415	17,463	—	—
		5,543	22,734	279	2,311

Notes:

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

As at 31 December 2007

Aggregate notional amount	**Maturity**	**Exchange rates**
HK$ 95,000,000	From January 2008 to September 2008	Sell HK$/Buy RMB at 0.9358 to 0.9584
HK$ 95,000,000	From January 2008 to September 2008	Sell RMB/Buy HK$ at 0.9223 to 0.9467
USD 1,280,000	From April 2008 to May 2008	Sell USD/Buy RMB at 7.419 to 7.432
USD 1,280,000	From April 2008 to May 2008	Sell RMB/Buy USD at 7.307 to 7.337
USD 3,500,000	From January 2008 to November 2008	Buy USD/Sell HK$ at 7.728 to 7.7285

19. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notes: (Continued)

(i) *(Continued)*

As at 31 December 2006

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

(ii) The Group entered into a USD/RMB structured forward contract with notional amount at USD8 million which offers the Group to receive the settlement (at net currency basis) if the exchange rate of USD/RMB falls within the stated range from 7.1825 to 7.2575 on each fixing date within the contract period of 12 months.

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

Notional amount	Maturity
USD 3,000,000	5 September 2008
USD 8,000,000	2 June 2008
USD 4,000,000	2 July 2008
USD10,000,000	9 October 2008

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the valuation provided by financial institutions at the balance sheet date.

20. BANK BALANCES

Bank balances comprise short-term bank deposits which carry interest ranging from 2% to 5% (2006: 1% to 5%) per annum.

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

	Denominated in	
	USD	**RMB**
	HK$'000	*HK$'000*
As at 31 December 2007	32,557	—
As at 31 December 2006	16,132	1

21. TRADE AND OTHER PAYABLES

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

	2007	2006
	HK$'000	*HK$'000*
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 for more than 90 days	4,713	7,960
	131,010	104,739
Other payables	40,143	59,221
	171,153	163,960

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

	Denominated in	
	USD	RMB
	HK$'000	*HK$'000*
As at 31 December 2007	20,965	—
As at 31 December 2006	9,769	8

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	3,951	6,306	3,714	5,875
Between one to two years	1,933	3,944	1,887	3,592
Between two to five years	—	1,993	—	1,936
	5,884	12,243	5,601	11,403
Less: Future finance costs	(283)	(840)	—	—
Present value of lease obligations	5,601	11,403	5,601	11,403
Less: Amount due within one year shown under current liabilities			(3,714)	(5,875)
Amount due after one year			1,887	5,528

It is the Group's policy to lease certain of its plant, machinery, and motor vehicles under finance leases. The average lease term is three years. The average effective borrowing rate was 4.81% (2006: 4.81%) per annum for the year. Interest rates are fixed at the contract date ranging from 2.55% to 7.07% (2006: 2.55% to 7.07%) per annum. All leases are on a fixed repayment basis.

23. BANK LOANS

The bank loans are unsecured and are repayable as follows:

	2007 *HK$'000*	2006 *HK$'000*
Within one year	46,494	12,833
Between one to two years	6,717	18,334
Between two to five years	2,447	1,750
	55,658	32,917
Less: Amount due within one year shown under current liabilities	(46,494)	(12,833)
Amount due after one year	9,164	20,084

The Group's bank loans carry floating interests at 1% to 2% above Hong Kong Inter Bank Offer Rate ("HIBOR"). Their effective interest rates are ranging from 4.35% to 7.07% (2006: 5.27% to 6.24%) per annum.

24. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	2007 *HK$'000*	2006 *HK$'000*
Ordinary shares of HK$0.1 each				
Authorized:				
At beginning and end of the year	2,000,000,000	2,000,000,000	200,000	200,000
Issued and fully paid:				
At beginning of the year	544,356,000	550,776,000	54,436	55,078
Shares repurchased and cancelled	—	(6,420,000)	—	(642)
At end of the year	544,356,000	544,356,000	54,436	54,436

24. SHARE CAPITAL *(Continued)*

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

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

The above shares were cancelled upon repurchase.

25. SHARE OPTION SCHEME

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

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

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

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

26. DEFERRED TAX LIABILITIES

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

	Revaluation of properties *HK$'000*
As at 1 January 2006	18,598
Charge to equity	402
Charge to consolidated income statement	294
Exchange adjustments	371
As at 31 December 2006	19,665
Charge to equity	329
Charge to consolidated income statement	813
Effect of change in tax rate	
– equity	(1,352)
– consolidated income statement	(59)
Exchange adjustments	1,246
As at 31 December 2007	20,642

As at 31 December 2007, the Group has unused tax losses of approximately HK$68,715,000 (2006: HK$31,707,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

27. MAJOR NON-CASH TRANSACTION

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

28. RETIREMENT BENEFITS SCHEMES

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

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

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

During the year, the retirement benefits scheme contributions are approximately HK$3,824,000 (2006: HK$3,162,000). The Group did not have any forfeited contributions available to offset future employers' contributions to the ORSO Scheme.

29. CAPITAL COMMITMENTS

	2007	**2006**
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment:		
Authorized but not contracted for	345	48
Contracted but not provided for	6,167	11,411
	6,512	11,459

30. OPERATING LEASES COMMITMENTS

The Group as lessee

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

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	343	1,057
In the second to fifth year inclusive	135	448
	478	1,505

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

The Group as lessor

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

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

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	—	147
In the second to fifth year inclusive	—	37
	—	184

31. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the year was as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Short-term benefits	9,925	8,588
Post-employment benefits	425	277
	10,350	8,865

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

32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the obligations under finance leases and borrowings disclosed in Notes 22 and 23 respectively, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued share capital, reserves and retained earnings.

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

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 *HK$'000*	**2006** *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	151,711	178,487
Available-for-sale investment	29,541	54,079
Derivative financial instruments at fair value through profit and loss	5,543	279
Financial liabilities		
Amortised cost	186,668	137,656
Obligations under finance leases	5,601	11,403
Derivative financial instruments at fair value through profit and loss	22,734	2,311

33. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and polices

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

Market risk

(i) Currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 54% of the Group's sales are denominated and settled in United States Dollar ("USD"). In addition, certain intra-group receivables outstanding at the balance sheet dates are denominated in currency other than the functional currency of the relevant group entities.

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

	Assets		**Liabilities**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	81,637	69,764	(20,965)	(9,679)
RMB	747	1	—	(8)
HK$	19,794	40,822	—	—

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

Sensitivity analysis

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

The Group's sensitivity to a 5% increase in HK$ against RMB is that the Group's loss for the year will be decreased be approximately HK$990,000 (2006: profit for the year increased by approximately HK$2,041,000). For a 5% weakening of HK$ against RMB, there would be an equal and opposite impact on the Group's (loss) profit for the current and prior years. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

In addition, the Group is exposed to fluctuations in foreign exchange rates (mainly USD/RMB and HK$/RMB) in relation to its derivative financial instruments. The Group's sensitivity to a 5% increase in the forward foreign exchange rates of the relevant forward/swap contracts is that the Group's loss for the year will be decreased by approximately HK$3,700,000 (2006: profit for the year increased by approximately HK$120,000). For a 5% decrease in the forward foreign exchange rates of the relevant forward/swap contracts, there would be an equal and opposite impact on the Group's (loss) profit for the current and prior years.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to obligations under finance leases (see Note 22 for details) and bank deposits carrying fixed interest rates. Management monitors interests rate exposure and consider as insignificant.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank loans (see Note 23 for details) and short-term deposits placed in banks.

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

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would increase/decrease by approximately HK$12,000 (2006: profit to decrease/increase by approximately HK$165,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans and bank deposits.

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk

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

Sensitivity analysis

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

If the prices of the equity instruments had been 5% higher/lower, the impairment loss on available-for-sale investment recognised would decrease/increase by approximately HK$1,477,000 (2006: decrease/increase by HK$2,704,000) as a result of change in fair value of available-for-sale investment.

Credit risk

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

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

Management of credit risk

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

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

Concentration of risks of financial assets with credit risk exposure

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

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

Liquidity risk

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

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

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

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

33. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31 December
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Non-derivative financial liabilities							
Trade and bills payables	—	68,297	62,712	—	—	131,009	131,009
Bank loans	5.24	23,876	4,026	19,532	9,846	57,280	55,658
Obligations under finance leases	4.81	676	673	2,602	1,933	5,884	5,601
		92,849	67,411	22,134	11,779	194,173	192,269
Derivatives net settlement							
Foreign currency forward contracts		(233)	(353)	(1,409)	—	(1,995)	(1,995)
Structured forward contract		—	—	3,138	—	3,138	3,138
USD/RMB linked hybrid USD swap		—	(643)	16,691	—	16,048	16,048
		(233)	(996)	18,420	—	17,191	17,191
2006							
Non-derivative financial liabilities							
Trade and bills payables	—	70,862	33,877	—	—	104,739	104,739
Bank loans	5.89	227	5,310	8,919	20,838	35,294	32,917
Obligations under finance leases	4.81	644	1,296	4,366	5,937	12,243	11,403
		71,733	40,483	13,285	26,775	152,276	149,059
Derivatives net settlement							
Foreign currency forward contracts		(45)	153	1,924	—	2,032	2,032

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

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

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 and 31 December 2006 are as follows:

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by the Group	Principal activities
Champeace Investment Limited	Hong Kong	HK$2 Ordinary shares	100%	Investment holding
China Ample Investments Limited	British Virgin Islands	US$1 Ordinary shares	100%	Inactive
Champion Keypad Manufacturing Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in conductive silicon rubber products
Dongguan Humen Taida Electric Co., Ltd.	PRC	HK$180,000,000 Registered capital	100%	Manufacture and sale of electronic products
Dongguan Karce Electronics Co., Ltd.	PRC	RMB3,000,000 Registered capital	100%	Manufacture and sale of electronic products
Dongguan Shatian Tehsheng Silicon Rubber Products Co., Ltd.	PRC	HK$38,000,000 Registered capital	100%	Manufacture and sale of conductive silicon rubber products
Dongguan Tai Shan Electronics Co., Ltd.	PRC	HK$28,000,000 Registered capital	100%	Manufacture and sale of printed circuit boards
Dragon Spirit Enterprise Limited	British Virgin Islands	US$100 Ordinary shares	100%	Investment holding

34. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by the Group	Principal activities
Habermann Limited	British Virgin Islands	US$2 Ordinary shares	100%	Investment holding
Hong Shing Industrial Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in conductive silicon rubber products
Interconn Electronics Limited	Hong Kong	HK$1 Ordinary shares	100%	Trading in printed circuit boards
Jet Master Limited	British Virgin Islands	US$100 Ordinary shares	100%	Investment holding
Joyham Jade Limited	British Virgin Islands	US$2 Ordinary shares	100%	Investment holding
Karce Co. Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic products
Karce Communications Limited	British Virgin Islands	US$2 Ordinary shares	100%	Inactive
Karce Electronics Limited	Hong Kong	HK$2 Ordinary shares	100%	Inactive
Karce Electronics Toys Limited	Hong Kong	HK$20,000 Ordinary shares	100%	Trading in electronic products
Master Key Industrial Limited	Hong Kong	HK$10,000 Ordinary shares	100%	Trading in electronic products
Million Well Creation Limited	Hong Kong	HK$1 Ordinary share	100%	Inactive
On Shing Holdings Company Limited	British Virgin Islands	US$10,000 Ordinary shares	100%	Investment holding

34. PARTICULARS OF SUBSIDIARIES *(Continued)*

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

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

Only Redditch Enterprises Limited is directly held by the Company.

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

None of the subsidiaries had any debt securities outstanding as at 31 December 2007 and 31 December 2006 or at any time during the year.

35. POST BALANCE SHEET EVENTS

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

(a) As set out in the Company's announcement dated 10 October 2007, the Group entered into a conditional acquisition agreement (the "Acquisition Agreement") with an independent third party (the "Vendor") and a warrantor on 19 September 2007 to acquire the entire issued share capital of Silverway Pacific (S) Limited at a total consideration of HK$1,400 million (subject to adjustment). The completion of the Acquisition Agreement is conditional upon, among other things, completion of placing exercise(s) by the Company to raise therefrom gross proceeds of not less than HK$150 million and the shareholders' approval for, among other things, the increase in the authorized share capital of the Company to HK$1 billion.

On 5 February 2008, the Group entered into a termination agreement (the "Termination Agreement") with the Vendor and the warrantor. Pursuant to the Termination Agreement, the parties thereto have agreed that the Acquisition Agreement is cancelled and terminated with immediate effect and the Company has no immediate needs to increase its authorized share capital as a result of the termination. Both the placing and increase in authorized share capital of the Company have not been proceeded with.

(b) On 6 February 2008, the Company entered into a subscription agreement with a shareholder for the subscription of 108,000,000 new shares of the Company at the subscription price of HK$0.30 per share.

The subscription was completed on 18 February 2008 and the net proceeds of approximately HK$31 million will be used for financing its ongoing operation and future business expansion. These new shares ranked pari passu with existing shares in all respects.

(c) Subsequent to the balance sheet date, the Group disposed of approximately 4.9% of its equity interest in ACI for cash at an aggregate consideration of HK$6,015,000. The Group's equity interest in ACI reduced to 9.8% as at date of this report.

On 3 March 2008, ACI filed creditor protection under the Companies' Creditors Arrangement Act with the British Columbia Supreme Court due to its inability to fund operations to meet customer demand. The market share price of ACI demanded from CAD 1.25 on 31 December 2007 to CAD 0.25 on 3 March 2008, and further decreased to CAD 0.085 as date of this report on 14 April 2008 (Canadian time).

3. UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in the previous year as extracted from the interim report of the Company for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	**2007**
		HK$'000	*HK$'000*
	Note	(unaudited)	(unaudited)
Revenue	*2*	375,987	357,996
Cost of sales		(339,682)	(297,546)
Gross profit		36,305	60,450
Other income	*3*	1,384	739
Distribution costs		(4,637)	(5,409)
Administrative and other operating expenses		(45,323)	(44,349)
Finance costs	*4*	(2,451)	(1,993)
Impairment loss on available-for-sale investment		(22,581)	(16,000)
(Loss) before taxation	*5*	(37,303)	(6,562)
Taxation	*6*	(1,405)	(742)
(Loss) for the period		(38,708)	(7,304)
(Loss) per share	*7*		
Basic (HK cents)		(6.14)	(1.34)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	30 June 2008 *HK$'000* (unaudited)	31 December 2007 *HK$'000* (audited)
NON-CURRENT ASSETS			
Investment properties		75,556	71,579
Property, plant and equipment	*8*	254,613	252,095
Prepaid lease payments		18,545	18,046
Club debenture		1,180	1,180
		349,894	342,900
CURRENT ASSETS			
Inventories		101,968	129,030
Trade and other receivables	*9*	155,336	109,277
Available-for-sale investment		946	29,541
Derivative financial instruments		2,971	5,543
Bank balances and cash		47,530	53,179
		308,751	326,570
CURRENT LIABILITIES			
Trade and other payables	*10*	152,510	171,153
Derivative financial instruments		23,158	22,734
Tax liabilities		16,999	18,651
Obligation under finance leases – due within one year		3,074	3,714
Bank borrowings – due within one year		51,275	46,494
		247,016	262,746
NET CURRENT ASSETS		61,735	63,824
		411,629	406,724
CAPITAL AND RESERVES			
Share capital		65,236	54,436
Reserves		320,351	320,595
		385,587	375,031
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		1,431	1,887
Bank borrowings – due after one year		2,826	9,164
Deferred tax liabilities		21,785	20,642
		26,042	31,693
		411,629	406,724

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and on a basis consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA which are effective for the Group's financial period beginning on 1 January 2008.

HK (IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions
HK (IFRIC) — INT 12	Service Concession Arrangements
HK (IFRIC) — INT 14	HKAS 19 — The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations has had no material effect on 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 not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) — INT 13	Customers Loyalty Programmes[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 July 2008.

The adoption 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.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The directors of the Company (the "Directors") anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. SEGMENT INFORMATION

Business segments:

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

Segment information about these businesses is presented below:

	Unaudited For the six months ended 30 June				
2008	**Electronic products**	**Conductive silicon rubber keypads**	**Printed circuit boards**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	301,467	32,324	42,196	—	375,987
Inter-segment sales	2,052	9,555	14,068	(25,675)	—
Total	303,519	41,879	56,264	(25,675)	375,987
RESULT					
Segment result	4,485	(4,442)	(8,846)	—	(8,803)
Unallocated corporate expenses					(4,249)
Finance costs					(2,451)
Gain on fair value change of financial derivative instruments					781
Impairment loss on available-for-sale investment					(22,581)
Loss before taxation					(37,303)
Taxation					(1,405)
Loss for the period					(38,708)

2. SEGMENT INFORMATION *(Continued)*

Business segments: *(Continued)*

2007	Electronic products	Conductive silicon rubber keypads	Printed circuit boards	Eliminations	Consolidated
	Unaudited For the six months ended 30 June				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	265,587	46,583	45,826	—	357,996
Inter-segment sales	4,029	8,849	14,676	(27,554)	—
Total	269,616	55,432	60,502	(27,554)	357,996
RESULT					
Segment result	15,539	1,043	(4,630)	—	11,952
Unallocated corporate expenses					(521)
Finance costs					(1,993)
Impairment loss on available-for-sale investment					(16,000)
Loss before taxation					(6,562)
Taxation					(742)
Loss for the period					(7,304)

2. SEGMENT INFORMATION *(Continued)*

Geographical segments:

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

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

	Turnover For the six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Hong Kong *(note a)*	152,743	124,305
Europe	78,352	61,245
PRC	38,232	52,801
Japan *(note b)*	39,587	46,660
America	26,055	35,178
Other Asian countries	33,736	31,489
Others	7,282	6,318
	375,987	357,996

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.

3. OTHER INCOME

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Other income mainly includes:		
Bank interest income	324	722
Gain on fair value change of financial derivative instruments	781	—

4. FINANCE COSTS

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	1,752	1,696
Obligations under finance leases	699	297
	2,451	1,993

5. (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) before taxation has been arrived at after charging:		
Depreciation and amortisation		
– Property, plant and equipment	19,602	17,313
– Prepaid lease payments	246	227
Loss on disposal of property, plant and equipment	—	11
Allowance for doubtful debts	142	999
Allowance for obsolete and slow moving inventories	996	75
Operating lease rentals	484	916
Staff costs	83,821	78,143

6. TAXATION

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The charge comprises:		
Hong Kong Profits Tax	338	476
PRC enterprise income tax	1,067	266
	1,405	742
Deferred taxation	—	—
	1,405	742

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) on the estimated assessable profit attributable to operation in Hong Kong during the period.

PRC enterprise income tax is calculated at the rates prevailing.

7. (LOSS) PER SHARE

The calculation of the basic loss per share is based on the Group's unaudited net loss attributable to equity shareholders of the Company for the six months ended 30 June 2008 of approximately HK$38,708,000 (six months ended 30 June 2007: net loss of approximately HK$7,304,000) and the weighted average number of 652,356,000 ordinary shares (six months ended 30 June 2007: 544,356,000 ordinary shares) in issue during the period.

No fully diluted earnings per share has been presented because the Company did not have any outstanding share options in both periods under review.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$8,840,000 (six months ended 30 June 2007: approximately HK$17,418,000) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES/BILLS RECEIVABLE

The Group allows an average credit period of 60 to 90 days to its trade customers.

An aged analysis of trade receivables and bills receivable is as follows:

	As at	
	30 June 2008	**31 December 2007**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Not yet due	97,545	69,780
Overdue within 30 days	8,886	13,289
Overdue for 31-60 days	5,507	5,158
Overdue for 61-90 days	2,676	7,692
Overdue for more than 90 days	3,688	2,613
	118,302	98,532
Other receivables	36,542	10,273
Prepaid lease payments	492	472
	155,336	109,277

10. TRADE AND OTHER PAYABLES/BILLS PAYABLE

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

	As at	
	30 June 2008	**31 December 2007**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Not yet due	69,784	107,963
Overdue within 30 days	16,035	9,783
Overdue for 31-60 days	7,521	6,166
Overdue for 61-90 days	7,780	2,385
Overdue for more than 90 days	14,320	4,713
	115,440	131,010
Other payables	37,070	40,143
	152,510	171,153

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND EACH OF THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2007

For the six months ended 30 June 2008

Business and Operational Review

For the six months ended 30 June 2008, the Group recorded revenue of approximately HK$375,987,000, representing an increase of approximately 5.03 per cent. as compared with approximately HK$357,996,000 of the corresponding period in 2007.

The global economy is still booming, and the market for consumable electronic products is also expanding steadily. However, the rivalry competition is getting more and more intense. On the other hand, the continuous appreciation of RMB led to a heavy strike on export enterprises. The business environment for the Group was overall more challenging with the continuous high raw material costs.

Profit after tax for the period ended 30 June 2007 was HK$8,696,000, excluding total impairment loss on available-for-sale investment of approximately HK$16,000,000, decreased by 285.5 per cent to a loss of approximately HK$16,127,000 for the period ended 30 June 2008, excluding total impairment loss on available-for-sale investment of approximately HK$22,581,000.

During the period under review, the Directors consider that it was a prudent decision to make a total impairment loss on available-for-sale investment of approximately HK$22,581,000 in the income statement (six months ended 30 June 2007: impairment loss on available-for-sale investment of approximately HK$16,000,000). The carrying value of available-for-sale investment was approximately HK$945,000 as at 30 June 2008.

Accordingly, the Group recorded a consolidated net loss of approximately HK$38,708,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: net loss of approximately HK$7,304,000).

Basic loss per share was approximately HK$6.14 cents for the six months ended 30 June 2008 (six months ended 30 June 2007: loss per share of approximately HK$1.34 cents).

Segmental analysis

Electronic products
(mainly electronic calculators and organizers)

During the period under review, the Group continued its focus on the manufacturing and marketing of electronic products (mainly electronic calculators & toys, SIM card readers and other electronic products).

For the six months ended 30 June 2008, the turnover of electronic products, through expansion of businesses on Original Design Manufacturing Products ("ODM products") and Original Equipment Manufacturing Products ("OEM products"), remained strong and recorded a growth of approximately 13.5 per cent to approximately HK$301,467,000 compared with approximately HK$265,587,000 in previous corresponding period. It accounted for approximately 80.2 per cent of the Group's total turnover for the period.

Large portion of the growth in the turnover of electronic products was contributed by the rise in trading volume of electronic learning machines and electronic educational game products for certain Japanese customers. Sales of electronic price tags, smart card readers and electronic security products also recorded growth.

Due to higher operating costs in the PRC including wages, electricity, transportation and material costs, the Group's overall gross profit margin dropped by approximately 7.1 per cent to approximately 11.9 per cent. (six months ended 30 June 2007: approximately 19.0 per cent.).

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

Operating profit derived from the electronic products segment dropped by approximately 71.1 per cent. to approximately HK$4,485,000 (six months ended 30 June 2007: approximately HK$15,539,000).

Electronic products segment remained as the major business of the Group and will possibly continue to provide stable and substantial revenue and income to the Group until potential disposal, realising the best value of this segment.

Conductive silicon rubber keypads

During the period under review, the turnover contributed from the conductive silicon rubber keypads business maintained at approximately HK$32,324,000 (six months ended 30 June 2007: approximately HK$46,583,000), representing approximately 8.6 per cent. of the turnover of the Group.

Due to the competition in the high value-added plastic plus rubber ("P+R") telephone keypads products and roller markets, which have changed much faster than expected, the sales revenue in the first half financial year of 2008 has been adversely affected when compared with the corresponding period for the six months ended 30 June 2007.

During the period under review, this segment faced unstable material costs, 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.

As a result, both the gross profit margin and the net profit for the period dropped, despite that vigorous efforts in controlling costs have been made and operational efficiency has been improved. This segment recorded an operating loss of approximately HK$4,442,000 (six months ended 30 June 2007: profit of approximately HK$1,043,000).

The Directors are confident in the future prospects of the conductive silicon rubber keypads segment and believe that it will provide a positive contribution to the Group.

Printed circuit boards ("PCB")

For the six months ended 30 June 2008, turnover derived from PCB segment reported approximately HK$42,196,000 with a decrease as compared with prior year of approximately HK$45,826,000, representing approximately 11.2 per cent. of the turnover of the Group. As a result of retirement of equipment and machinery in the production lines, there was a higher yield loss on the finished products. The higher yield loss resulted in unstable quality of PCB products. The decrease in turnover was mainly due to the decreasing orders from both existing and new customers.

The continuous increase of prices in raw materials and components is also a factor hindering the operating results in the PCB segment. To deal with the electricity shortage in Southern China, the Group has acquired two power generators as back-up for occasions when power rationing in Dongguan deteriorates further from the current one to two days of outages per week.

During the period under review, the segment results from PCB business recorded an operating loss of approximately HK$8,846,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: approximately HK$4,630,000).

With the support of the new factory complex completed in 2007, the Group has demonstrated its ability to replace the existing retired equipment and machinery, improve the quality of PCB products and continues to obtain new branded customers in Japan and Europe. The Directors believe that the increased production capacities provide an excellent platform for long term growth by facilitating the Group to engage additional order and benefit from economies of scale in the future. However, in view of the pressure and risks for additional capital investment to be brought to the Group, the Directors may consider other alternatives to make the best out of its existing investment in PCB.

Available-for-sale investment

As at 30 June 2008, the Group indirectly held approximately 9.8 per cent. interests in ACI, 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 as “ACG”.

In March and April 2008, the Group published announcements regarding ACI seeking a protection from creditors under the relevant Canadian laws. For further details, please refer to the Group’s said announcements and the 2007 annual report.

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

As a result of such decreases, the Directors consider that it was a prudent decision to make a total impairment loss on available-for-sale investment of approximately HK$22,581,000 for the six months ended 30 June 2008 (six months ended 30 June 2007 : HK$16,000,000), leaving a carrying value of approximately HK$945,000 as at 30 June 2008.

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.

Capital Structure

Shareholders’ equity increased to approximately HK$385,587,000 as at 30 June 2008 from approximately HK$375,031,000 as at 31 December 2007. As at 30 June 2008, the short term and long term interest bearing debts to shareholders’ equity was approximately 15.2 per cent. (as at 31 December 2007: approximately 16.3 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 30 June 2008, the Group has fixed deposits and cash balances aggregated to approximately HK$47,530,000 (as at 31 December 2007: approximately HK$53,179,000).

As at 30 June 2008, the Group had banking facilities amounted to an aggregate sum of approximately HK$132,763,000 (as at 31 December 2007: approximately HK$194,708,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK$110,967,000 (as at 31 December 2007: approximately HK$170,966,000) in Hong Kong granted to the Group, approximately HK$19,073,000 (as at 31 December 2007: approximately HK$10,799,000) had been utilised as at 30 June 2008.

As at 30 June 2008, the current ratio was approximately 1.25 (as at 31 December 2007: approximately 1.24) based on current assets of approximately HK$308,751,000 and current liabilities of approximately HK$247,016,000 and the quick ratio was approximately 0.83 (as at 31 December 2007: approximately 0.75).

As at 30 June 2008, the Group's gearing ratio, being the total indebtedness including bank loans and obligations under finance lease contracts (amounted to approximately HK$58,606,000) over the total shareholders' equity, was approximately 15.2%.

The Directors considered that the Group shall have sufficient financial resources to meet its future expansion plan and working capital requirement based on 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 in Hong Kong dollars, the United States dollars and RMB. 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 30 June 2008 represents the net amount the Group would receive/pay if these contracts were closed out at 30 June 2008. The gain was largely caused by a period-end premium in the forward currency markets for the Hong Kong dollars and RMB. 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 in Hong Kong dollars, United States dollars and RMB. Therefore, the Directors consider the exposure risk to foreign currency fluctuations is minimal.

Employees and Remuneration Policies

As at 30 June 2008, the Group employed approximately 6,070 full time employees, out of which approximately 70 were based in Hong Kong and approximately 6,000 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.

Save as disclosed hereof, no information in relation to the Group's performance has changed materially from the information disclosed in the Company's 2007 annual report.

Future Plans and Prospects

The global economy continued to grow in the first half of 2008 despite increasing volatility, particular in credit markets, and high energy prices. Hong Kong and the Asia region continued to benefit from the continuing robust economic performance of the PRC. Although there are emerging concerns relating to the credit environment in the US and Europe and the possible slowing of growth in the US, the economies of the PRC and Asian region remain healthy and should continue to support a growth trend from which the Group's diversified portfolio of businesses will continue to benefit.

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

In order to protect and to improve the shareholders' interests, the Directors will consider re-structuring its short and long term business strategy. The Directors are looking for the opportunities to bring in new business hoping to improve the overall results of the Group.

With the Group's current financial position, the Directors are confident of further improving performance in the second half of 2008 as the Group's growth platform has been refined and strengthened.

Others

The Group did not have any charge on its assets or contingent liabilities as at 30 June 2008.

Save for the Acquisition as set out in the Letter from the Board and the disposal of the business of manufacture and marketing of electronic products (mainly electronic calculators and organizers), details of which were disclosed in the Announcement, there was no future plan for material investments or capital assets for the Group as at 30 June 2008.

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies for the six months ended 30 June 2008.

For the year ended 31 December 2007

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 ODM products and 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 electronic 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.

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 13.4 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

ACI, 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 ACI maintained at approximately 14.7 per cent.. ACI 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 ACI 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 ACI 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 ACI 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.

Additional information of ACI may be found on SEDAR at www.sedar.com.

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.).

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 Group's gearing ratio, being the total indebtedness including bank loans and obligations under finance lease contracts (amounted to approximately HK$61,259,000) over the total shareholders' equity was approximately 16.3%.

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 HK$, US$ and RMB. 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 headquarters 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 HK$, US$ and RMB. 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.

Others

The Group did not have any charge on its assets or contingent liabilities as at 31 December 2007.

Save for the proposed acquisition of the equity interest in a company who is a holder of mining and exploration licenses of coal mines in Mongolia, the details of which were disclosed in the Company's announcement dated 10 October 2007, there was no future plan for any material investments or capital assets for the Group as at 31 December 2007.

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2007.

For the year ended 31 December 2006

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 ODM products and 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 organizers".

Despite uncertainties in the global economies remained 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 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, electronic 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.

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

ACI was successfully listed on the Toronto Stock Exchange ("TSX") in June 2005. The Group's attributable equity interest in ACI 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 ACI as at 31 December 2006. ACI is classified as an available-for sale investment.

With the annual results announced by ACI, 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 ACI and believe that such investment in ACI will give a positive contribution to the Group in long run. Additional information of ACI 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 ACI was undermined by the fall of its share price below its IPO price. In September 2006, ACI 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 ACI 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 ACI'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 ACI 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.

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 (2005: 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 Group's gearing ratio, being the total indebtedness including bank loans and obligations under finance lease contracts (amounted to approximately HK$44,320,000) over the total shareholders' equity was approximately 10.6%.

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 either denominated in HK$ or the US$. 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 HK$. 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 denominated in HK$ or the US$. 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.

Others

The Group did not have any charge on its assets or contingent liabilities as at 31 December 2006.

There was no future plan for any material investments or capital assets for the Group as at 31 December 2006.

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2006.

For the year ended 31 December 2005

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.

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 Dongguan Tehsutec Electronic Company Limited 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 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.

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 ACI in the past few years, the Directors are pleased to announce that ACI 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 ACI 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 ACI. The Group's attributable equity interest in ACI 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 ACI for the listing on the TSX, the Group's attributable equity interest in ACI 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, ACI remains the Group's associate as the Group has significant influence on its financial and operational functions and decisions of ACI. 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$32,120,000) 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 "**Yeebo Disposals**").

The Directors consider that it is a prudent decision to realise part of the Group's investment in ACI through the Yeebo 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 ACI shares owned by the Group will be subject to lock-up after the listing of ACI 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 Yeebo Disposals and further conversion of debentures and exercise of options and warrants by other investors in ACI, the Group's attributable equity interest in ACI 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 ACI and the resignation of the Company's representative as director in ACI, ACI has been reclassified as an available-for-sale investment as the Group is no longer in a position to exercise a significant influence over ACI as at 31 December 2005.

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

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 bank balances and cash 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 Group's gearing ratio, being the total indebtedness including bank loans and obligations under finance lease contracts (amounted to approximately HK$57,860,000) over the total shareholders' equity was approximately 13.1%.

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 HK$ or US$. 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 HK$. 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 HK$15,000,000 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 HK$ or US$. 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.

Others

The Group did not have any charge on its assets or contingent liabilities as at 31 December 2005.

There was no future plan for any material investments or capital assets for the Group as at 31 December 2005.

Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2005.

5. MATERIAL ADVERSE CHANGE

Save for the disclosure made in this circular and the announcement of the Company dated 8 September 2008, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2008, being the date up to which the latest published audited consolidated financial statements of the Group were made up.

6. INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

As at the close of business on 30 September 2008, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	HK$'000
Obligations under finance leases	3,744
Bank loans	21,542
	25,286

Contingencies

The Enlarged Group did not have any material contingent liabilities or guarantees as at 30 September 2008.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 30 September 2008, the Enlarged Group had no debt securities issued and outstanding, and authorized or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Enlarged Group since 30 September 2008 and up to the Latest Practicable Date.

7. WORKING CAPITAL

Following the Acquisition Completion, the Directors are of the opinion that, after taking into account of the present internal resources, existing and proposed banking facilities and expected cashflow from operations of the Enlarged Group and in the absence of the unforeseeable circumstances, the Enlarged Group will have sufficient working capital for its present requirements and for the next twelve months from the date of this circular.

8. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the manufacture and marketing of conductive silicon rubber keypads.

The economy of the U. S. 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 U. S.. This adverse trend in the U. S. economy will affect other economies around the world to varying degrees.

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

In view of the above, the Group entered into a disposal agreement on 2 May 2008 for the disposal of the business of manufacture and marketing of electronic products (mainly electronic calculators and organizers) and entered into a disposal agreement on 12 September 2008 (as supplemented by a supplemental agreement dated 26 September 2008) for the disposal of the business of manufacture of printed circuit board. As at the Latest Practicable Date, the disposal of the business of manufacture of printed circuit board is completed.

Besides, the Group has been looking into the opportunity of other business and exploring more investment to offer sustainable growth to its business. On 30 April 2008, the Group entered into the Acquisition Agreement (as supplemented by the Supplemental Agreement dated 24 October 2008) which is expected to allow the Company to engage in business for carrying out the research and development, manufacturing and distribution of LCoS televisions, enlarged display units and related components. The Directors are of the view that the LCoS technology is of considerable development potential and the Group's sources of income may be broadened. The Directors also expect that the LCoS projection televisions will receive positive response upon launch in the market.

A. THE ACCOUNTANTS' REPORT OF THE TARGET GROUP FOR THE PERIOD FROM 14 JANUARY 2008 (DATE OF INCORPORATION OF THE TARGET COMPANY) TO 30 JUNE 2008

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

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

28 November 2008

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

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Pacific Choice Holdings Limited ("Pacific Choice") and its subsidiary (hereinafter collectively referred to as "Pacific Choice Group"), for the period from 14 January 2008 (date of incorporation) to 30 June 2008 (the "Relevant Period"), for inclusion in the circular of Karce International Holdings Company Limited (the "Company") dated 28 November 2008 (the "Circular") in connection with the conditional sale and purchase agreement dated 30 April 2008 (the "Share Acquisition Agreement") and the supplemental agreement to the Share Acquisition Agreement dated 24 October 2008 (the "Supplemental Agreement") entered into between Sourcestar Profits Limited ("Sourcestar Profits"), a wholly-owned subsidiary of the Company, China Eagle Development Limited ("China Eagle") and Fairtime International Limited ("Fairtime International") (collectively referred to as the "Vendors") pursuant to which Sourcestar Profits would acquire the entire equity interest in Pacific Choice at an aggregate consideration of HK$2,700,000,000 (the "Consideration") (collectively referred as the "Acquisition").

The Consideration for the Acquisition shall be satisfied (i) as to HK$25,000,000 payable in cash by Sourcestar Profits (or the Company) to Fairtime International; (ii) as to HK$375,000,000 by, at the option of Sourcestar Profits, issue of promissory note by Sourcestar Profits or cash payment by Sourcestar Profits (or the Company) to China Eagle (or its nominee(s)); (iii) as to HK$255,000,000 and HK$45,000,000 respectively by issue of convertible bonds (the "Tranche 1 Bonds") by the Company to China Eagle (or its nominee(s)) and Fairtime International (or its nominee(s)) respectively; and (iv) as to HK$2,000,000,000 by issue of convertible bonds by the Company to China Eagle and Fairtime International (or their respective nominee(s)) at the amounts of HK$600,000,000 (the "Tranche 2 Bonds"), HK$600,000,000 (the "Tranche 3 Bonds") and HK$800,000,000 (the "Tranche 4 Bonds") respectively in their respective equity interest in Pacific Choice (subject to adjustments).

Pacific Choice is a company incorporated in the British Virgin Islands with limited liability on 14 January 2008. The principal activity of Pacific Choice is investment holding. Pacific Choice is owned as to 90% by China Eagle and as to 10% by Fairtime International. Pacific Choice adopts 31 December as its financial year end date. No audited financial statements of Pacific Choice have been prepared since its incorporation date.

BASIS OF PREPARATION

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, for the purpose of this report, the Financial Information gives true and fair views of the state of affairs of Pacific Choice Group as at 30 June 2008 and of the results and cash flows of Pacific Choice Group for the Relevant Period in accordance with HKFRSs.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to Note 3(a) to the Financial Information which indicates that Pacific Choice Group incurred accumulated losses of HK$3,098,524 and net liabilities of HK$2,993,480 as at 30 June 2008. These conditions, along with other matters as set forth in Note 3(a) to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Pacific Choice Group's ability to continue as a going concern.

A. FINANCIAL INFORMATION OF PACIFIC CHOICE GROUP

Consolidated Income Statement

	Notes	For the period from 14 January 2008 (date of incorporation) to 30 June 2008 HK$
Turnover	*5*	—
Other revenue	*6*	300
Administrative expenses		(364,334)
Impairment of goodwill		(2,734,490)
Loss before taxation	*8*	(3,098,524)
Taxation	*9*	—
Loss for the period		(3,098,524)
Attributable to:		
Equity holders of Pacific Choice		(3,098,524)
Loss per share attributable to:		
Equity holders of Pacific Choice	*10*	(743.59)

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

Consolidated Balance Sheet

	Notes	At 30 June 2008 HK$
Non-current assets		
Goodwill	11	—
Property, plant and equipment	12	1,521,640
		1,521,640
Current assets		
Inventories	13	2,730,000
Amounts due from shareholders	14	24,985,135
Deposits and prepayments		67,192
Bank balances and cash		48,581
		27,830,908
Current liabilities		
Accruals and other payables	15	32,346,028
		32,346,028
Net current liabilities		(4,515,120)
Total assets less current liabilities		(2,993,480)
Capital and reserves		
Share capital	16	78,000
Reserve		(3,071,480)
Total equity		(2,993,480)

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

Consolidated Statement of Changes in Equity

	Attributable to equity holders of Pacific Choice			
	Share capital	**Accumulated losses**	**Exchange reserve**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Issue of share upon incorporation	8	—	—	8
Allotment of shares	77,992	—	—	77,992
Exchange difference on translation of foreign operations	—	—	27,044	27,044
Loss for the period	—	(3,098,524)	—	(3,098,524)
At 30 June 2008	78,000	(3,098,524)	27,044	(2,993,480)

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

Consolidated Cash Flow Statement

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Operating activities	
Loss before taxation	(3,098,524)
Adjustment for:	
Bank interest income	(300)
Depreciation	116,714
Impairment loss on goodwill	2,734,490
Operating loss before movements in working capital	(247,620)
Decrease in deposits and prepayments	160,725
Increase in amount due from shareholders	(62,940)
Decrease in accruals and other payables	(88)
Net cash used in operating activities	(149,923)
Investing activities	
Acquisition of subsidiaries	286,946
Purchase of property, plant and equipment	(188,015)
Bank interest income received	300
Net cash generated from investing activities	99,231
Financing activity	
Issue of share capital	78,000
Net cash generated from financing activity	78,000
Net increase in cash and cash equivalents	27,308
Cash and cash equivalents at the beginning of the period	—
Effect of exchange rate changes on the balance of cash held in foreign currencies	21,273
Cash and cash equivalents at the end of the period	48,581
Analysis of the balances of cash and cash equivalents	
Bank balances and cash	48,581

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

Notes to Financial Information

1. GENERAL INFORMATION

Pacific Choice is incorporated in British Virgin Islands as an exempted company with limited liability. Its registered office is located at OMC Chambers, P.O. Box 3152, Road Town, Tortola, British Virgin Islands. Pacific Choice is owned as to 90% by China Eagle and as to 10% by Fairtime International.

Pacific Choice acts as an investment holding company. The Financial Information is presented in Hong Kong dollars, which is the functional currency of Pacific Choice.

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

During the Relevant Period, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Period, Pacific Choice Group has consistently applied all these new HKFRSs over the Relevant Period.

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

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Eligible Hedged Hems[2]
HKFRS 2 (Amendments)	Share-based Payment — Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) — Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation [4]

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and accounting principles generally accepted in Hong Kong (which also include Hong Kong Accounting Standards and Interpretations) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including the listing documents of circulars. The accounting policies of Pacific Choice are materially consistent with the Company's accounting policies.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

The accounting policies set out below have been applied consistently to the Relevant Period presented in this Financial Information.

(a) Basis of preparation

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

Pacific Choice Group has incurred accumulated losses of HK$3,098,524 as at 30 June 2008 and it has net current liabilities of HK$4,515,120 and has net liabilities of HK$2,993,480. The Financial Information have been prepared on a going concern basis because, in the opinion of the directors of the Pacific Choice Group, Pacific Choice Group is expected to continue to meet its liabilities as they fall due as China Eagle, the intermediate holding company and TMDC, the creditors have confirmed to provide continuing financial support to the Pacific Choice Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due.

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

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

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

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

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

(c) Revenue recognition

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

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

(d) Retirement benefit costs

The employees of Pacific Choice Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over Pacific Choice's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheets.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and impairment loss.

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leasing

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

Pacific Choice Group as lessee

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

(h) Impairment

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

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

(i) Cash and cash equivalents

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Provisions

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

(k) Foreign currencies

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

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation

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

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

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

(m) Financial instruments

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

Financial assets

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Effective interest method

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by an entity of Pacific Choice Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Pacific Choice Group after deducting all of its liabilities.

Pacific Choice Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Other financial liabilities

Pacific Choice Group's financial liabilities (including amount due to ultimate holding company and accruals and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

(n) Contingent liabilities and contingent assets

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Related party transactions

A party is considered to be related to Pacific Choice Group if:

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

ii. the party is an associate;

iii. the party is a jointly-controlled entity;

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

Critical accounting estimates and assumptions

Pacific Choice Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to Financial Information *(Continued)*

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Goodwill has been fully impaired at 30 June 2008.

Impairment of assets

Pacific Choice Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

Income taxes

Pacific Choice Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Pacific Choice Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER AND SEGMENT INFORMATION

Pacific Choice Group did not generate revenue during the Relevant Period.

As per HKAS 14 “Segment Reporting”, no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Pacific Choice Group only engage in investment holding. It is therefore not considered appropriate to disclose segment information.

Notes to Financial Information *(Continued)*

6. OTHER REVENUE

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Bank interest income	300

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*
For the period from 14 January 2008 (date of incorporation) to 30 June 2008				
China Eagle Development Limited (appointed on 14 January 2008)	—	—	—	—
Fairtime International Limited (appointed on 22 April 2008)	—	—	—	—
	—	—	—	—

Note:

No emoluments have been paid by Pacific Choice Group to the directors as an inducement to join or upon joining Pacific Choice Group or as compensation for loss of office and no directors have waived any emoluments during the Relevant Period.

Notes to Financial Information *(Continued)*

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

(b) Highest paid employees

The five highest paid employees of Pacific Choice Group include no executive director during the Relevant Period, details of whose emoluments as above. The remunerations of the remaining five individuals during the Relevant Period were as follows:

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Salaries and other benefits	20,648
Retirement benefits contribution scheme	11,700
	32,348

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

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Nil to HK$1,000,000	32,348

Notes to Financial Information *(Continued)*

8. LOSS BEFORE TAXATION

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Loss before taxation has been arrived at after charging:	
Auditors' remuneration	—
Depreciation	116,714
Directors' remuneration (Note 7)	—
Other staff costs	32,348
Operating leases rentals	118,331

9. TAXATION

No provision for profits tax has been made as Pacific Choice Group did not have any assessable profits for the Relevant Period.

There are no material unprovided deferred tax assets and liabilities as at 30 June 2008.

Notes to Financial Information *(Continued)*

10. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the Relevant Period attributable to ordinary equity holders of Pacific Choice and the weighted average number of ordinary shares in issue during the Relevant Period, as adjusted to reflect the share allotted on 22 April 2008 during the Relevant Period.

The calculations of basic and diluted loss per share are based on:

	For the period from 14 January 2008 (date of incorporation) to 30 June 2008 *HK$*
Loss attributable to ordinary equity holders of the Pacific Choice for the purpose of calculating the basic and diluted loss per share calculation	(3,098,524)
Weighted average number of ordinary shares in issue during the Relevant Period for the purpose of calculating the basic and diluted loss per share	4,167

Basic and diluted loss per share were presented in a single line because there was no any dilutive event existed during the Relevant Period.

11. GOODWILL

	HK$
Cost	
Acquisition of subsidiaries *(Note 18)*	2,734,490
At 30 June 2008	2,734,490
Impairment	
Impairment loss recognised during the Relevant Period	2,734,490
At 30 June 2008	2,734,490
Carrying amount	
At 30 June 2008	—

Notes to Financial Information *(Continued)*

11. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill with indefinite useful lives have been allocated to individual cash generating unit (CGU) determined based on the related segment. The carrying amounts of goodwill (net of impairment loss) as at 30 June 2008 allocated to this unit is as follow:

	At 30 June 2008
	HK$
Carrying amount	
Design, assemble, produce of high density and LCD TV and its related components	—

The recoverable amount of the above CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.23% per annum. Management believes that any reasonably possible further change in the key assumptions on which recoverable amount is based would not cause the aggregates carrying amount to exceed the aggregate recoverable of this CGU.

During the Relevant Period, the above segment has incurred net loss attributable to Pacific Choice Group of HK$345,573.

In the opinion of the directors of Pacific Choice, it is uncertain that the acquisition of Starwick Development Limited and Sheenway Limited will generate future economic benefit to the Pacitic Choice Group Limited, a full impairment loss of HK$2,734,490 was provided by Pacific Choice Group at the balance sheet date.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	**Office equipment**	**Total**
	HK$	*HK$*	*HK$*
Cost			
Acquisition of subsidiaries	1,204,358	209,998	1,414,356
Addition during the Relevant Period	—	188,015	188,015
Exchange difference	27,362	10,369	37,731
As at 30 June 2008	1,231,720	408,382	1,640,102
Depreciation			
Provided for the Relevant Period	100,661	16,053	116,714
Exchange difference	1,270	478	1,784
As at 30 June 2008	101,931	16,531	118,462
Carrying values			
As at 30 June 2008	1,129,789	391,851	1,521,640

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

Leasehold improvement	25%
Office equipment	25%

Notes to Financial Information *(Continued)*

13. INVENTORIES

	At 30 June 2008
	HK$
Raw materials	2,730,000

14. AMOUNTS DUE FROM SHAREHOLDERS

Particulars of amounts from shareholders are as follows:

Name of shareholder	Highest balance during the period	At 30 June 2008
	HK$	*HK$*
China Eagle Development Limited	24,977,335	24,977,335
Fairtime International Limited	7,800	7,800
		24,985,135

The amounts due from shareholders are unsecured, interest-free and repayable on demand.

15. ACCRUALS AND OTHER PAYABLES

	At 30 June 2008
	HK$
Accruals	11,969
Other payables	32,334,059
	32,346,028

The other payables mainly represent the consideration payable to TMDC for acquisition of Precise Media Group. The directors of Pacific Choice consider that the carrying amounts of accruals and other payables were approximate to their fair values.

Notes to Financial Information *(Continued)*

16. SHARE CAPITAL

	Number of shares At 30 June 2008	Amount At 30 June 2008 *HK$*
Ordinary shares of US$1 each		
Authorised:		
At 14 January 2008 (date of incorporation) and at end of the Relevant Period	50,000	390,000
Issued and fully paid:		
Issue of share at date of incorporation	1	8
Allotment of shares (Note i)	9,999	77,992
At end of the Relevant Period	10,000	78,000

Note i: During the Relevant Period, Pacific Choice allotted its own shares as follows:

Date of allotment	No. of ordinary shares at US$1 each	Issue price	Purpose of issuing shares
22 April 2008	9,999	US$9,999 (HK$77,992)	Raising capital

17. OPERATING LEASES COMMITMENTS

Pacific Choice Group as a lessee

As at 30 June 2008, Pacific Choice Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	At 30 June 2008 *HK$*
Within one year	167,331
In the second to the fifth year (inclusive)	—
	167,331

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

Notes to Financial Information *(Continued)*

18. ACQUISITION OF SUBSIDIARIES

On 12 April 2008, Pacific Choice acquired 100% of the issued share capital of Starwick Development Limited and Sheenway Limited for considerations of HK$8 (US$1) each. The amount of goodwill arising as a result of the acquisition was HK$2,734,490 in aggregate.

The net liabilities acquired in the transaction and the goodwill arising are as follows:

	Starwick Development Limited			Sheenway Limited			
	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Acquiree's carrying amount before combination	Fair value adjustment	Fair value	Total Fair value
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Net liabilities acquired:							
Property, plant and equipment	1,414,356	—	1,414,356	—	—	—	1,414,356
Inventories	2,730,000	—	2,730,000	—	—	—	2,730,000
Deposits and prepayments	239,600	—	239,600	9,450	—	9,450	249,050
Bank balances and cash	286,946	—	286,946	—	—	—	286,946
Amount from/(to) a shareholder	24,934,043	—	24,934,043	(17,112)	—	(17,112)	24,916,931
Accruals and other payables	(32,331,757)	—	(32,331,757)	—	—	—	(32,331,757)
	(2,726,812)	—	(2,726,812)	(7,662)	—	(7,662)	(2,734,474)
Goodwill on acquisition of a subsidiary			2,726,820			7,670	2,734,490
Total consideration			8			8	16
Net cash inflow arising on acquisition:							
Cash consideration paid							—
Bank balances and cash acquired							286,946
							286,946

Notes to Financial Information *(Continued)*

18. ACQUISITION OF SUBSIDIARIES *(Continued)*

Goodwill arose in the business combination because of the combination included a control premium paid to acquire Starwick Development Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, future market development and the workforce of Starwick Development Limited. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Starwick Development Limited contributed HK$354,254 and nil for Sheenway Limited to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, loss for the period contributed by Starwick Development Limited and Sheenway Limited would have been HK$1,593,310 and HK$7,720 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

19. MATERIAL RELATED TRANSACTIONS

Saved as disclosed elsewhere in the Notes to the Financial Information, Pacific Choice Group has entered into following related parties transactions:

1. Compensation of key management personnel

   The remuneration of directors and other members of key management during the Relevant Period was as follows:

	14 January 2008 (date of incorporation) to 30 June 2008
	HK$
Short-term benefits	—
Post-employment benefits	—
	—

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

2. Pacific Choice acquired Starwick Development Limited and Sheenway Limited on 12 April 2008 through its immediate holding company, China Eagle. For details of the transaction, please refer to Note 18.

Notes to Financial Information *(Continued)*

20. CAPITAL RISK MANAGEMENT

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

The capital structure of Pacific Choice Group consists of debt, cash and cash equivalents and equity attributable to equity holders of Pacific Choice Group, comprising issued share capital, reserves and retained earnings.

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

Consistent with others in the industry, Pacific Choice monitors capital on the basis of the gearing ratio. This ratio is calculated as at bank and other borrowings divided by total equity. Pacific Choice's strategy is to maintain a reasonable gearing ratio. The gearing ratio at 30 June 2008 was as follows:

	At 30 June 2008
	HK$
Bank and other borrowings	—
Total equity	(2,993,480)
Gearing ratio	N/A

Pacific Choice overall strategy remains unchanged during the Relevant Period. As at 30 June 2008, Pacific Choice was not subject to externally imposed capital requirements.

21. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 30 June 2008
	HK$
Financial assets	
Loans and receivables (including cash and cash equivalents)	25,033,716
Financial liabilities	
Other financial liabilities	32,346,028

Notes to Financial Information *(Continued)*

21. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and polices

Pacific Choice Group's major financial instruments include amount due from shareholders, cash and bank balances, amount due to ultimate holding company and other payables and accruals. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Market risk

(i) Currency risk

Pacific Choice Group is not exposed to foreign exchange risk arising from various current exposures, primarily with respect to Renminbi.

(ii) Interest rate risk

Pacific Choice Group does not have significant interest-bearing assets or liabilities. As a result, Pacific Choice Group's results ad operating cash flows are substantially independent of changes in market interest rate.

(iii) Price risk

Pacific Choice Group is not exposed to significant price risk. The management monitors the price movements and takes appropriate actions when it is required.

Credit risk

Pacific Choice Group is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Relevant Period in relation to the recognised financial asset is the carrying amount of those assets as stated in the balance sheet.

Liquidity risk

In the management of the liquidity risk, Pacific Choice Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance Pacific Choice Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details Pacific Choice Group's remaining contractual maturity for its non-derivative financial liabilities and derivative financial assets and liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Pacific Choice Group can be required to pay. The table includes both interest and principal cash flows. For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented.

Notes to Financial Information *(Continued)*

21. FINANCIAL INSTRUMENTS *(Continued)*

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

At 30 June 2008

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over one year	Total undiscounted cash flows	Carrying amount at 30 June 2008
	%	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-derivate financial liabilities							
Accruals and other payables	—	—	—	32,346,028	—	32,346,028	32,346,028
		—	—	32,346,028	—	32,346,028	32,346,028

(c) Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

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

Notes to Financial Information *(Continued)*

22. PARTICULARS OF SUBSIDIARIES

Particulars of Pacific Choice's subsidiaries as at 30 June 2008 are as follows:

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by Pacific Choice Group	Principal activities
Sheenway Limited *(Note i)*	The British Virgin Islands	US$1	100%	Investment holding
Gold Pioneer Enterprises Limited *(Note i)*	The British Virgin Islands	US$1	100%	Investment holding
Starwick Development Limited *(Note i)*	The British Virgin Islands	US$1	100%	Investment holding
Precise Media Limited *(Note i)*	Samoa	US$5,000,000	100%	Investment holding
聯合光電(蘇州)有限公司 *(Note i & ii)*	The People's Republic of China ("the PRC")	US$780,804	100%	Design, assemble, produce of high density and LCD TV and its related components

Note i: All of the subsidiaries had no debt securities outstanding as at 30 June 2008 or at any time during the Relevant Period.

Note ii: 聯合光電（蘇洲）有限公司 is registered as foreign investment enterprise in the PRC.

23. CAPITAL COMMITMENTS

1. China Eagle Development Limited, the immediate holding company of Pacific Choice Group has committed to inject capital to the following subsidiaries:

Name of subsidiaries	**Amount committed**	
	USD	*HK$*
聯合光電(蘇州)有限公司 ("聯合光電") *(Note i)*	4,219,196	32,909,729

Note i:

Pacific Choice Group is committed to inject capital to 聯合光電, the subsidiary incorporated on 3 November 2005 as a foreign investment enterprise at PRC and indirectly acquired by Pacific Choice on 12 April 2008, within 36 months after the incorporation date of 聯合光電, i.e. 3 November 2008 (or such later date approved by the relevant authorities in the PRC). The committed capital of USD4,219,196 to be injected to 聯合光電 includes the followings: (i) cash remittance of USD2,219,196; and (ii) production plants and office equipment of USD2,000,000.

2. At 29 February 2008, Starwick Development Limited ("Starwick"), one of the subsidiaries of Pacific Choice, has entered into an agreement with Taiwan Micro Display Corporation ("TMDC") for acquiring 100% equity interest in Precise Media Limited ("Precise Media"), the sales patent and sales machineries owned by TMDC with a consideration of US$25,000,000. At 26 March 2008, the transfer of 100% equity interest of Precise Media to Starwick has been completed. At 30 June 2008, consideration amounting to US$24,000,000 under the above agreement has not yet settled.

24. CONTINGENT LIABILITIES

Pacific Choice Group did not have any significant contingent liabilities as at the balance sheet date.

25. SUBSEQUENT EVENTS

No subsequent events took place subsequent to 30 June 2008.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Pacific Choice Group in respect of any period subsequent to 30 June 2008 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by Pacific Choice Group in respect of any period subsequent to 30 June 2008.

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

B. THE ACCOUNTANTS' REPORT OF PRECISE MEDIA GROUP FOR SIX MONTHS ENDED 30 JUNE 2008 AND FOR THE THREE YEARS ENDED 31 DECEMBER 2005, 2006 AND 2007

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

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

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

28 November 2008

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

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Precise Media Limited ("Precise Media") and its subsidiary (collectively referred to as "Precise Media Group"), for the three years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008 (the "Relevant Periods"), for inclusion in the circular of Karce International Holdings Company Limited (the "Company") dated 28 November 2008 (the "Circular") in connection with the conditional sale and purchase agreement dated 30 April 2008 (the "Share Acquisition Agreement") and the supplemental agreement to the Share Acquisition Agreement dated 24 October 2008 (the "Supplemental Agreement") entered into between Sourcestar Profits Limited ("Sourcestar Profits"), a wholly-owned subsidiary of the Company, China Eagle Development Limited ("China Eagle") and Fairtime International Limited ("Fairtime International") (collectively referred to as the "Vendors") pursuant to which Sourcestar Profits would acquire the entire equity interest in Pacific Choice Holdings Limited ("Pacific Choice") at an aggregate consideration of HK$2,700,000,000 (the "Consideration ") (collectively refer as the "Acquisition").

The Consideration for the Acquisition shall be satisfied (i) as to HK$25,000,000 payable in cash by Sourcestar Profits (or the Company) to Fairtime International; (ii) as to HK$375,000,000 by, at the option of Sourcestar Profits, issue of promissory note by Sourcestar Profits or cash payment by Sourcestar Profits (or the Company) to China Eagle (or its nominee(s)); (iii) as to HK$255,000,000 and HK$45,000,000 respectively by issue of convertible bonds (the "Tranche 1 Bonds") by the Company to China Eagle (or its nominee(s)) and Fairtime International (or its nominee(s)) respectively; and (iv) as to HK$2,000,000,000 by issue of convertible bonds by the Company to China Eagle and Fairtime International (or their respective nominee(s)) at the amounts of HK$600,000,000 (the "Tranche 2 Bonds"), HK$600,000,000 (the "Tranche 3 Bonds") and HK$800,000,000 (the "Tranche 4 Bonds") respectively in their respective equity interest in Pacific Choice (subject to adjustments).

Precise Media is a company incorporated in the Samoa with limited liability on 12 March 2002 and the share of which is wholly-owned by Starwick Development Limited ("Starwick Development"). Starwick Development is an investment holding company and acquired the entire interest in Precise Media on 26 March 2008. Precise Media Group is principally engaged in designing, assembling and producing of high density Liquid Crystal Display Television ("LCD TV") and related components.

Precise Media Group adopts 31 December as its financial year end date. No audited financial statements of Precise Media Group have been prepared since its incorporation date.

BASIS OF PREPARATION

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, for the purpose of this report, the Financial Information gives true and fair views of the state of affairs of Precise Media Group as at 31 December 2005, 2006 and 2007 and 30 June 2008 and of the results and cash flows of Precise Media Group for the Relevant Periods in accordance with HKFRSs.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of Precise Media are responsible for the preparation of the unaudited financial information of the Precise Media Group including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the six months ended 30 June 2007 (the "Comparative Unaudited Financial Information"), together with the notes thereto.

For the Financial Information for the six months ended 30 June 2007, our responsibility is to express a conclusion on the Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Comparative Unaudited Financial Information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express and audit opinion.

CONCLUSION

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

A. FINANCIAL INFORMATION ON PRECISE MEDIA GROUP

Consolidated Income Statements

	Notes	Years ended 31 December 2005 HK$	2006 HK$	2007 HK$	Six months ended 30 June 2007 HK$ (Unaudited)	2008 HK$
Turnover	*5*	—	—	—	—	—
Other revenue	*6*	—	10,589	33,786	18,391	1,112
Other income	*8*	—	—	34	—	—
Administrative expenses		(7,800)	(201,237)	(1,336,499)	(600,539)	(1,594,423)
Impairment loss recognised in respect of goodwill	*11*	—	(404,480)	—	—	—
Finance costs		—	—	—	—	—
Loss before taxation	*8*	(7,800)	(595,128)	(1,302,679)	(582,148)	(1,593,311)
Taxation	*9*	—	—	—	—	—
Loss for the year/period		(7,800)	(595,128)	(1,302,679)	(582,148)	(1,593,311)
Attributable to:						
Equity holders of Precise Media		(7,800)	(595,128)	(1,302,679)	(582,148)	(1,593,311)
Loss per share attributable to:						
Basic and diluted (in HK cents)	*10*	(0.78)	(31.12)	(26.05)	(11.64)	(31.87)

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

Consolidated Balance Sheets

		At 31 December			At 30 June
		2005	2006	2007	2008
	Notes	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets					
Goodwill	*11*	—	—	—	—
Property, plant and equipment	*12*	—	314,952	1,431,253	1,521,640
		—	314,952	1,431,253	1,521,640
Current assets					
Inventories	*13*	—	—	2,730,000	2,730,000
Amount due from the immediate holding company	*14*	7,768,800	32,751,807	32,744,007	32,744,007
Prepayments and deposits		—	3,025	210,778	57,742
Bank balances and cash		179	5,603,343	622,038	48,581
		7,768,979	38,358,175	36,306,823	35,580,330
Current liabilities					
Amount due to a fellow subsidiary		—	99,770	107,000	—
Other payables and accruals	*15*	—	124,503	162,745	1,146,028
		—	224,273	269,745	1,146,028
Net current assets		7,768,979	38,133,902	36,037,078	34,434,302
Total assets less current liabilities		7,768,979	38,448,854	37,468,331	35,955,942
Capital and reserves					
Share capital	*16*	7,800,000	39,000,000	39,000,000	39,000,000
Reserves		(31,021)	(551,146)	(1,531,669)	(3,044,058)
Total equity		7,768,979	38,448,854	37,468,331	35,955,942

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

Consolidated Statements of Changes in Equity

	Share capital	Exchange reserves	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2005	7,800,000	—	(23,221)	7,776,779
Loss for the year	—	—	(7,800)	(7,800)
At 31 December 2005 and at 1 January 2006	7,800,000	—	(31,021)	7,768,979
Allotment of shares	31,200,000	—	—	31,200,000
Exchange reserve arising on translation of foreign operations	—	75,003	—	75,003
Loss for the year	—	—	(595,128)	(595,128)
At 31 December 2006 and at 1 January 2007	39,000,000	75,003	(626,149)	38,448,854
Exchange reserve arising on translation of foreign operations	—	322,156	—	322,156
Loss for the year		—	(1,302,679)	(1,302,679)
At 31 December 2007 and at 1 January 2008	39,000,000	397,159	(1,928,828)	37,468,331
Exchange reserve arising on translation of foreign operations	—	80,922	—	80,922
Loss for the period	—	—	(1,593,311)	(1,593,311)
At 30 June 2008	39,000,000	478,081	(3,522,139)	35,955,942

Unaudited Statement of Changes in Equity
For the six months ended 30 June 2007 (Unaudited)

	Share capital	Exchange reserves	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2007	39,000,000	75,003	(626,149)	38,448,854
Exchange reserve arising on translation of foreign operations	—	164,113	—	164,113
Loss for the period	—	—	(582,148)	(582,148)
At 30 June 2007	39,000,000	239,116	(1,208,297)	38,030,819

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

Consolidated Cash Flow Statements

	Years ended 31 December 2005	2006	2007	Six months ended 30 June 2007	2008
	HK$	*HK$*	*HK$*	*HK$* (Unaudited)	*HK$*
Operating activities					
Loss before taxation	(7,800)	(595,128)	(1,302,679)	(582,148)	(1,593,311)
Adjustment for:					
Property, plant and equipment written off	—	—	7,834	—	—
Depreciation	—	3,414	310,960	97,895	228,038
Interest income	—	(10,589)	(33,786)	(18,391)	(1,112)
Gain on disposal of property, plant and equipment	—	—	(34)	—	—
Impairment loss recognised in respect of goodwill	—	404,480	—	—	—
Operating loss before movements in working capital	(7,800)	(197,823)	(1,017,705)	(502,644)	(1,366,385)
Increase in inventories	—	—	(2,730,000)	—	—
(Increase)/decrease in deposits and prepayments	—	(3,025)	(207,753)	(6,779)	153,036
(Increase)/decrease in amount due from the immediate holding company	—	(24,983,007)	7,800	—	—
Decrease in amount due to a fellow subsidiary	—	—	—	—	(107,000)
Increase in accruals and other payables	7,800	123,583	38,242	476,629	983,283
Net cash used in operating activities	—	(25,060,272)	(3,909,416)	(32,794)	(337,066)
Investing activities					
Purchase of property, plant and equipment	—	(292,600)	(1,368,839)	(1,341,221)	(204,630)
Acquisition of a subsidiary	—	(322,680)	—	—	—
Proceeds from disposals of property, plant and equipment	—	—	231	—	—
Interest received	—	10,589	33,786	18,391	1,112
Net cash used in investing activities	—	(604,691)	(1,334,822)	(1,322,830)	(203,518)
Financing activities					
Proceeds from allotment of shares	—	31,200,000	—	—	—
Net cash generated from financing activities	—	31,200,000	—	—	—
Net increase/(decrease) in cash and cash equivalents	—	5,535,037	(5,244,238)	(1,355,624)	(540,584)
Effect of exchange rate changes	—	68,127	262,933	183,699	(32,873)
Cash and cash equivalents brought forward	179	179	5,603,343	5,603,343	622,038
Cash and cash equivalents carried forward represented by bank balances and cash	179	5,603,343	622,038	4,431,418	48,581

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

Notes to the Financial Information

1. GENERAL INFORMATION

Precise Media is incorporated in Samoa as an exempted company with limited liability. The registered office of Precise Media is at P.O. Box 217, Apia, Samoa. The principal place of business is at Room 3914-16, Shell Tower, Times Square, Causeway Bay, Hong Kong. The immediate holding company of Precise Media is Starwick Development Limited, a company incorporated in the British Virgin Islands. Its intermediate holding company is Pacific Choice Holdings Limited, a company incorporated in the British Virgin Islands.

Precise Media Group is principally engaged in designing, assembling, producing high density and LCD TV and its related components. The Financial Information is presented in Hong Kong dollars, which is the functional currency of Precise Media.

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

During the Relevant Periods, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, Precise Media Group has consistently applied all these new HKFRSs over the Relevant Periods.

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

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Eligible Hedged Hems[2]
HKFRS 2 (Amendments)	Share-based Payment — Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) — Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation [4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and accounting principles generally accepted in Hong Kong (which also include Hong Kong Accounting Standards and Interpretations) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports including the listing documents of circulars. The accounting policies of Precise Media are materially consistent with the Company's accounting policies.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the financial statements.

The accounting policies set out below have been applied consistently to the Relevant Periods presented in this Financial Information.

(a) Basis of preparation

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

(b) Basis of consolidation

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

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

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Revenue recognition

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

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

(d) Retirement benefit costs

The employees of Precise Media Group's subsidiary which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over Precise Media Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheets.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and impairment loss.

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

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

(g) Leasing

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

Precise Media Group as lessee

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

(h) Impairment

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

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

(j) Provisions

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

(k) Foreign currencies

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

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation

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

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

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

(m) Financial instruments

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

Financial assets

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Effective interest method

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by an entity of Precise Media Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of Precise Media Group after deducting all of its liabilities.

Precise Media Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

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

Other financial liabilities

Precise Media Group's financial liabilities (including amount due to ultimate holding company and accruals and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

Notes to Financial Information *(Continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

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

(n) Contingent liabilities and contingent assets

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

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

(o) Related party transactions

A party is considered to be related to Precise Media Group if:

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

ii. the party is an associate;

iii. the party is a jointly-controlled entity;

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

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

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

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

Notes to Financial Information *(Continued)*

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

Critical accounting estimates and assumptions

Precise Media Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Goodwill has been fully impaired at 31 December 2006 and 2007 and 30 June 2008.

Impairment of assets

Precise Media Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

Income taxes

Precise Media Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Precise Media Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER AND SEGMENT INFORMATION

Precise Media Group did not generate revenue during the Relevant Periods.

As per HKAS 14 “Segment Reporting”, no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Precise Media Group did not generate revenue during the Relevant Periods. It is therefore not considered appropriate to disclose segment information.

Notes to Financial Information *(Continued)*

6. OTHER REVENUE

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Bank interest income	—	10,589	33,786	18,391	1,112

7. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
For the year ended 31 December 2005				
Chiu Tzu-yi (appointed on 14 December 2005)	—	—	—	—
For the year ended 31 December 2006				
Chiu Tzu-yi	—	—	—	—
For the year ended 31 December 2007				
Chiu Tzu-yi	—	—	—	—
For the six months ended 30 June 2007 *(Unaudited)*				
Chiu Tzu-yi	—	—	—	—

Notes to Financial Information *(Continued)*

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

(a) Directors' remuneration *(Continued)*

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*
For the six months ended 30 June 2008				
Chiu Tzu-yi (resigned on 26 March 2008)	—	—	—	—
Chan Yeuk-wai (appointed on 26 March 2008)	—	—	—	—
Chan Shun-yuen (appointed on 26 March 2008)	—	—	—	—
Hsu Ming-shan (appointed on 26 March 2008)	—	—	—	—
	—	—	—	—

Note: No emoluments have been paid by Precise Media Group to the directors as an inducement to join or upon joining Precise Media Group or as compensation for loss of office and no directors have waived any emoluments during the years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2007 and 2008.

Notes to Financial Information *(Continued)*

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

(b) Highest paid employees

The remuneration of the five highest paid employees during the Relevant Periods were as follows:

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Salaries and other benefits	—	8,533	144,094	81,845	45,816
Retirement benefits contribution scheme	—	5,746	35,065	17,129	20,188
	—	14,279	179,159	98,974	66,004

The emoluments of the highest paid employees for Relevant Periods were within the following bands:

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Nil to HK$1,000,000	—	14,279	179,159	98,974	66,004

Notes to Financial Information *(Continued)*

8. LOSS BEFORE TAXATION

		Years ended 31 December		Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Loss before taxation has been arrived at after charging:					
Auditors' remuneration	—	—	—	—	—
Depreciation:					
Owned assets	—	3,414	310,960	97,895	228,038
Directors' remuneration *(Note 7)*	—	—	—	—	—
Staff costs	—	14,279	218,904	116,575	83,817
Operating leases rentals	—	121,620	496,476	244,877	262,356
and after crediting:					
Gain on disposal of property, plant and equipment	—	—	34	—	—

9. TAXATION

No provision for Profits Tax has been made as Precise Media Group did not have any assessable profits for the Relevant Periods.

There are no material unprovided deferred tax assets and liabilities as at 31 December 2005, 2006 and 2007 and 30 June 2007 and 2008.

Notes to Financial Information *(Continued)*

10. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the years/periods attributable to ordinary equity holders of Precise Media and the weighted average number of ordinary shares in issue during the Relevant Periods, as adjusted to reflect the shares issued on 28 September 2006 during the Relevant Periods.

The calculations of basic and diluted loss per share are based on:

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Loss attributable to ordinary equity holders of Pecise Media, for the purposes of calculating the basic and diluted loss per share	(7,800)	(595,128)	(1,302,679)	(582,148)	(1,593,311)
Weighted average number of ordinary shares in issue during the year/period for the purposes of calculating the basic and diluted loss per share	1,000,000	1,912,329	5,000,000	5,000,000	5,000,000

Basic and diluted loss per share were presented in a single line because there was no any dilutive event existed during the Relevant Periods.

Notes to Financial Information *(Continued)*

11. GOODWILL

	HK$
Cost	
At 1 January 2005, 31 December 2005 and 1 January 2006	—
Acquisition of a subsidiary *(Note 18)*	404,480
At 31 December 2006, 31 December 2007 and 30 June 2008	404,480
Impairment	
At 1 January 2005 and 31 December 2005 and 1 January 2006	—
Impairment loss recognised during the year	404,480
At 31 December 2006, 31 December 2007 and 30 June 2008	404,480
Carrying amounts	
At 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005	—

Precise Media Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives have been allocated to individual cash generating unit (CGU) determined based on the related segment. The carrying amounts of goodwill (net of impairment loss) as at 31 December 2005, 2006 and 2007 and 30 June 2008 allocated to this unit are as follow:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*
Carrying amount				
Design, assemble, produce of high density and LCD TV and its related products	N/A	—	—	—

The recoverable amount of the above CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14.23% per annum. Management believes that any reasonably possible further change in the key assumptions on which recoverable amount is based would not cause the aggregates carrying amount to exceed the aggregate recoverable of this CGU.

During the Relevant Periods, the above segment has incurred net loss attributable to Precise Media Group's results are set out as follows:

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Net loss attributable to Pecise Media Group	N/A	191,032	1,328,644	708,317	1,593,310

In the opinion of the directors of Precise Media, it is uncertain that the acquisition of 聯合光電(蘇州)有限公司will generate future economic benefit to Precise Media, a full impairment loss HK$404,480 was provided by Precise Media at the balance sheet date.

Notes to Financial Information *(Continued)*

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement *HK$*	Office equipment *HK$*	Total *HK$*
Cost			
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Acquisition of a subsidiary *(Note 18)*	—	18,828	18,828
Additions	292,600	—	292,600
Exchange adjustment	6,710	248	6,958
At 31 December 2006 and 1 January 2007	299,310	19,076	318,386
Additions	1,162,915	205,924	1,368,839
Disposals/written off	—	(9,389)	(9,389)
Exchange adjustment	70,015	9,551	79,566
At 31 December 2007 and 1 January 2008	1,532,240	225,162	1,757,402
Additions	—	204,630	204,630
Exchange adjustment	98,665	42,921	141,586
At 30 June 2008	1,630,905	472,713	2,103,618
Depreciation and impairment			
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Provided for the year	—	3,414	3,414
Exchange adjustment	—	20	20
At 31 December 2006 and 1 January 2007	—	3,434	3,434
Provided for the year	268,128	42,832	310,960
Eliminated on disposals/written off	—	(1,359)	(1,359)
Exchange adjustment	11,142	1,972	13,114
At 31 December 2007 and 1 January 2008	279,270	46,879	326,149
Provided for the period	197,969	30,069	228,038
Exchange adjustment	23,877	3,914	27,791
At 30 June 2008	501,116	80,862	581,978
Carrying values			
At 30 June 2008	1,129,789	391,851	1,521,640
At 31 December 2007	1,252,970	178,283	1,431,253
At 31 December 2006	299,310	15,642	314,952
At 31 December 2005	—	—	—

Notes to Financial Information *(Continued)*

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

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

Office equipment	25%
Leasehold improvement	25%

13. INVENTORIES

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*
Raw materials	—	—	2,730,000	2,730,000

14. AMOUNT DUE FROM THE IMMEDIATE HOLDING COMPANY

Particulars of amount from the immediate holding company as at 31 December 2005, 2006, 2007 and 30 June 2008 are set out as follows:

Name of shareholder	**Highest balance during the year**	**At 31 December 2005**
	HK$	*HK$*
Taiwan Micro Display Corporation	7,800,000	7,768,800

Name of shareholder	**Highest balance during the year**	**At 31 December 2006**
	HK$	*HK$*
Taiwan Micro Display Corporation	32,751,807	32,751,807

Name of shareholder	**Highest balance during the year**	**At 31 December 2007**
	HK$	*HK$*
Taiwan Micro Display Corporation	32,744,007	32,744,007

Name of shareholder	**Highest balance during the period**	**At 30 June 2008**
	HK$	*HK$*
China Eagle Development Limited	32,744,007	32,744,007

The amount due from the immediate holding company is unsecured, interest-free and repayable on demand.

Notes to Financial Information *(Continued)*

15. ACCRUALS AND OTHER PAYABLES

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$	*HK$*	*HK$*	*HK$*
Accruals	—	4,779	12,945	11,969
Other payables	—	119,724	149,800	1,134,059
	—	124,503	162,745	1,146,028

The directors of Precise Media consider that the carrying amounts of accruals and other payables were approximate to their fair values.

16. SHARE CAPITAL

	Number of shares				Amount			
	At 31 December			At 30 June	At 31 December			At 30 June
	2005	2006	2007	2008	2005	2006	2007	2008
					HK$	*HK$*	*HK$*	*HK$*
Ordinary shares of US$1 each								
Authorised:								
At beginning of the year/period	1,000,000	1,000,000	5,000,000	5,000,000	7,800,000	7,800,000	39,000,000	39,000,000
Increase in authorised share capital *(Note i)*	—	4,000,000	—	—	—	31,200,000	—	—
At end of the year/period	1,000,000	5,000,000	5,000,000	5,000,000	7,800,000	39,000,000	39,000,000	39,000,000
Issued and fully paid:								
At beginning of the year/period	1,000,000	1,000,000	5,000,000	5,000,000	7,800,000	7,800,000	39,000,000	39,000,000
Allotment of shares *(Note ii)*	—	4,000,000	—	—	—	31,200,000	—	—
At end of the year/period	1,000,000	5,000,000	5,000,000	5,000,000	7,800,000	39,000,000	39,000,000	39,000,000

Note (i) By shareholder resolution passed at on 12 September 2006, Precise Media's authorised ordinary share capital was increased to US$5,000,000 (HK$39,000,000) by the creation of an additional 4,000,000 ordinary shares of US$1 each, ranking pari passu with the existing ordinary of Precise Media in all respects.

Note (ii) During the Relevant Periods, Precise Media allotted its own shares as follows:

Date of allotment	Number of ordinary shares at US$1 each	Issue price	Purpose of issuing shares
28 September 2006	4,000,000	US$4,000,000 (HK$31,200,000)	Raising capital

Notes to Financial Information *(Continued)*

17. RETIREMENT BENEFITS SCHEMES

Precise Media Group mainly operate in the Mainland China and is required to make contributions to state-managed retirement benefits scheme operated by the PRC government based on a certain percentage of the monthly payroll costs of the PRC employees.

The retirement benefits scheme contributions are approximately HK$5,746, HK$51,262, HK$23,495 and HK$25,205 during the years ended 31 December 2006 and 2007 and for the six months ended 30 June 2007 and 2008 respectively and nil for the year ended 31 December 2005.

18. OPERATING LEASES COMMITMENTS

Precise Media Group as a lessee

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

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	—	384,224	335,636	167,331
In the second to the fifth year (inclusive)	—	312,957	—	—
	—	697,181	335,636	167,331

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

Notes to Financial Information *(Continued)*

19. ACQUISITION OF A SUBSIDIARY

On 25 September 2006, Precise Media acquired 100% of the issued share capital of 聯合光電(蘇州)有限公司 at a consideration of HK$6,209,445 (approximately US$780,000). The amount of goodwill arising as a result of the acquisition was HK$404,480.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	HK$	*HK$*	*HK$*
Net assets acquired:			
Property, plant and equipment	18,828	—	18,828
Prepayments	2,559	—	2,559
Bank balances and cash	5,886,765	—	5,886,765
Accruals and other payables	(103,187)	—	(103,187)
	5,804,965	—	5,804,965
Goodwill on acquisition of a subsidiary			404,480
Total consideration			6,209,445
Satisfied by:			
Cash			6,209,445

	HK$
Net cash outflow arising on acquisition:	
Cash consideration paid	6,209,445
Bank balances and cash acquired	(5,886,765)
	322,680

Goodwill arose in the business combination because of the cost of combination included a control premium paid to acquire 聯合光電. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, future market development and the workforce of 聯合光電. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

聯合光電 contributed HK$1,941,032 to the Group's loss for the period between the date of acquisition and 31 December 2006.

If the acquisition had been completed on 1 January 2006, loss for the Relevant Periods would have been HK$593,824. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

Notes to Financial Information *(Continued)*

20. MATERIAL RELATED TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2007 and 2008 was as follows:

	Years ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(Unaudited)	
Short-term benefits	—	—	—	—	—
Post-employment benefits	—	—	—	—	—
	—	—	—	—	—

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

Saved as disclosed elsewhere in the Notes to the Financial Information, Precise Media Group has not entered into any significant transactions with related parties.

21. CAPITAL RISK MANAGEMENT

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

The capital structure of Precise Media Group consists of debt, cash and cash equivalents and equity attributable to equity holders of Precise Media Group, comprising issued share capital, reserves and retained earnings.

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

Notes to Financial Information *(Continued)*

21. CAPITAL RISK MANAGEMENT *(Continued)*

Consistent with others in the industry, Precise Media Group monitors capital on the basis of the gearing ratio. This ratio is calculated as at bank and other borrowings divided by total equity. Precise Media Group's strategy is to maintain a reasonable gearing ratio. The gearing ratio at 31 December 2005, 2006, 2007 and 30 June 2008 are as follows:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*
Bank and other borrowings	—	—	—	—
Total equity	7,768,979	38,448,854	37,468,331	35,955,942
Gearing ratio	0%	0%	0%	0%

Precise Media Group overall strategy remains unchanged during the Relevant Periods. As at 31 December 2005, 2006, 2007 and 30 June 2008, Precise Media Group was not subject to externally imposed capital requirements.

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$	*HK$*	*HK$*	*HK$*
Financial assets				
Loans and receivables (including cash and cash equivalents)	7,768,979	38,355,150	33,366,045	32,792,588
Financial liabilities				
Other financial liabilities	—	224,273	269,745	1,146,028

(b) Financial risk management objectives and polices

Precise Media Group's major financial instruments include amount due from immediate holding company, prepayment, cash and bank balances, amount due to immediate holding company and other payables and accruals. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Market risk

(i) Currency risk

Precise Media Group is not exposed to foreign exchange risk arising from various current exposures, primarily with respect to Renminbi.

Notes to Financial Information *(Continued)*

22. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

Precise Media Group does not have significant interest-bearing assets or liabilities. As a result, Precise Media Group's results ad operating cash flows are substantially independent of changes in market interest rate.

(iii) Price risk

Precise Media Group is not exposed to significant price risk. The management monitors the price movements and takes appropriate actions when it is required.

Credit risk

Precise Media Group is not exposed to credit risk in the event of the counterparties' failure to perform their obligations at Relevant Periods in relation to the recognised financial asset is the carrying amount of those assets as stated in the balance sheet.

Liquidity risk

In the management of the liquidity risk, Precise Media Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance Precise Media Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details Precise Media Group's remaining contractual maturity for its non-derivative financial liabilities and derivative financial assets and liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Precise Media Group can be required to pay. The table includes both interest and principal cash flows. For derivative instruments settle on a net basis, undiscounted net cash (inflows) outflows are presented.

At 31 December 2005

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	Over one year	Total undiscounted cash flows	Carrying amount at 31 December 2005
	%	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-derivate financial liabilities							
Amount due to the immediate holding company	—	—	—	—	—	—	—

Notes to Financial Information *(Continued)*

22. FINANCIAL INSTRUMENTS *(Continued)*

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

At 31 December 2006

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	Over one year	Total undiscounted cash flows	Carrying amount at 31 December 2006
	%	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-derivate financial liabilities							
Amount due to a fellow subsidiary	—	—	—	99,770	—	99,770	99,770
Other payables and accruals	—	—	—	124,503	—	124,503	124,503
		—	—	224,273	—	224,273	224,273

At 31 December 2007

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	Over one year	Total undiscounted cash flows	Carrying amount at 31 December 2007
	%	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-derivate financial liabilities							
Amount due to a fellow subsidiary	—	—	—	107,000	—	107,000	107,000
Other payables and accruals	—	—	—	162,745	—	162,745	162,745
		—	—	269,745	—	269,745	269,745

At 30 June 2008

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	Over one year	Total undiscounted cash flows	Carrying amount at 30 June 2008
	%	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-derivate financial liabilities							
Other payables and accruals	—	—	—	1,146,028	—	1,146,028	1,146,028

Notes to Financial Information *(Continued)*

22. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

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

23. PARTICULARS OF A SUBSIDIARY

Particulars of Precise Media's subsidiaries as at 31 December 2005, 2006 and 2007 and 30 June 2008 are as follows:

Name of company	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ paid up registered capital	Attributable equity interest held by Precise Media Group	Principal activities
聯合光電	The People's Republic of China	US$780,804	100%	Design, assemble, produce of high density and LCD TV and its related components

The subsidiary established in the PRC is registered as foreign investment enterprise.

The subsidiary had no debt securities outstanding as at 31 December 2005, 2006 and 2007 and 30 June 2008 or at any time during the Relevant Periods.

Notes to Financial Information *(Continued)*

24. CAPITAL COMMITMENTS

Precise Media is committed to inject capital to 聯合光電, the subsidiary incorporated on 3 November 2005 as a foreign investment enterprise at PRC and acquired by Precise Media on 25 September 2005, within 36 months after the incorporation date of 聯合光電, i.e. 3 November 2008 (or such later date approved by the relevant authorities in the PRC). The committed capital to be injected to 聯合光電 includes the followings: (i) cash remittance of USD2,219,196; and (ii) production plants and office equipment of USD2,000,000.

25. CONTINGENT LIABILITIES

Precise Media Group did not have any significant contingent liabilities as at the balance sheet date.

26. SUBSEQUENT EVENTS

No subsequent events took place subsequent to 30 June 2008.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Precise Media Group in respect of any period subsequent to 30 June 2008 up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by Precise Media Group in respect of any period subsequent to 30 June 2008.

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

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP FOR THE PERIOD FROM 14 JANUARY 2008 (DATE OF INCORPORATION OF THE TARGET COMPANY) TO 30 JUNE 2008

Set out below is the management discussion and analysis of the Target Group for the period from 14 January 2008 (date of incorporation of the Target Company) to 30 June 2008.

The Target Company is an investment holding company incorporated in the BVI with limited liability on 14 January 2008 and is beneficially owned to 90% by First Vendor and as to 10% by Second Vendor.

The Target Company has no major assets and operating business other than its sole beneficial interests in the entire issued share capital of Starwick Development, Gold Pioneer and Sheenway, which in turn will be the holder of the TMDC Sale Patents and the TMDC Sale Machineries for carrying out the research and development, manufacturing and distribution of LCoS televisions, enlarged display units and related components.

As the Target Group has not started operation, no turnover recorded for the period from 14 January 2008 (date of incorporation of the Target Company) to 30 June 2008. The Target Group recorded net loss attributable to the equity holders of the Target Company of approximately HK$2,949,000.

TMDC Sale Machineries and TMDC Sale Patents

Pursuant to the TMDC Agreement, the TMDC Sale Machineries mainly comprise colour analysers, spectrometers and so forth relating to the manufacturing of LCoS televisions and related components whereas, the TMDC Sale Patents comprise patents and/or patents applications in the PRC, Taiwan and the U.S. relating to micro-display elements and manufacturing of LCoS televisions and related components.

Each of the TMDC Sale Machineries and TMDC Sale Patents are related to the production of LCoS televisions. LCoS is a "mirco-projection" or "micro-display" technology typically applied in projection televisions. A typical LCD television uses transmissive LCD chips, allowing light to pass through the liquid crystal while in LCoS television, liquid crystals are applied directly to the surface of a silicon chip coated with an aluminized layer, with some type of passivation layer, which is highly reflective. LCoS technology can therefore produce higher resolution images than conventional LCD and plasma display technologies.

At present, the PRC Subsidiary is in the course of setting up a manufacturing base for the production of LCoS television in Suzhou, the PRC (the "Suzhou Plant"), which has leased a piece of land with a total floor area of approximately 3,500 square metres for the establishment of the Suzhou Plant. The initial annual production capacity of the Suzhou Plant is approximately 2 million units of LCoS televisions and it is expected to commence commercial production in or around early 2009.

Upon the completion of Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and its consolidated financial results will be consolidated with those of the Group.

Capital Structure

The Target Company was incorporated with 1 ordinary share of US$1. There was increase in issued share capital of 9,999 shares at US$1 per share through an allotment on 22 April 2008. The proceeds were used for financing the Target Group's ongoing operation and future business expansion. Save for the above, there has been no change in the capital structure of the Target Company during the period under review, nor in the subsequent period up to the Latest Practicable Date. As at the Latest Practicable Date, the authorized share capital of the Target Company was approximately HK$390,000 (comprising 50,000 shares of US$1 each) and the issued share capital of the Target Company was approximately HK$78,000 (10,000 shares of US$1 each).

Liquidity and Financial Resources

The Target Group currently finances its operation by the immediate holding company, the First Vendor.

Prudent financial management and selective investment criteria have enabled the Target Group to maintain a strong financial position. As at 30 June 2008, the Target Group's bank balances and cash was approximately HK$49,000.

As at 30 June 2008, the Target Group retained no bank loans and obligation under finance leases contract. Moreover, the Target Group did not have any charge on its assets or material contingent liabilities as at 30 June 2008.

As at 30 June 2008, the Target Group's gearing ratio (being the total indebtedness including bank loans and obligations under finance lease contracts over net assets attributable to equity holder of the Target Company) was undefined because the Target Group did not have any bank loans and obligations under finance lease contracts as at 30 June 2008.

As at 30 June 2008, the Target Group had net liabilities of approximately HK$2,993,000, In the opinion of the directors, the Target Group is expected to continue to meet its liabilities as they fall due as the immediate holding company has confirmed to provide continuing financial support to the Target Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due.

Foreign Exchange Risk Management

The Target Group's assets and liabilities, revenue and expenditures are denominated in Hong Kong dollars. It is the group's policy to adopt a conservative approach on foreign exchange exposure management. The Target Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The directors consider the exposure risk to foreign currency fluctuation is minimal.

Employees and Remuneration Policies

As at 30 June 2008, the Target Group employed 11 full time employees, all of which are based in the PRC. The Target Group recorded staff costs of approximately HK$32,000 for the period from 14 January 2008 (date of incorporation of the Target Company) to 30 June 2008. The Target Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. The Target Group did not operate any share option scheme for the period from 14 January 2008 (date of incorporation of the Target Company) to 30 June 2008.

Future Plan for Material Investments

Save for the Reorganization as set out in Letter from the Board in this circular, the Target Group did not have any future plan for material investment or capital assets as at the Latest Practicable Date.

Capital commitments

Save for the Reorganization as set out in Letter from the Board in this circular, as at 30 June 2008, the Target Group did not have any significant capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS OF PRECISE MEDIA AND THE PRC SUBSIDIARY (COLLECTIVETY, THE "PRECISE MEDIA GROUP") FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005, 2006 AND 2007

Set out below is the management discussion and analysis of Precise Media Group for the six months ended 30 June 2008 and for each of the three years ended 31 December 2005, 2006 and 2007.

Precise Media is an investment holding company incorporated in Samoa with limited liability on 12 March 2002. As at 30 June 2008, Precise Media is wholly owned by Starwick Development, a wholly-owned subsidiary of Pacific Choice.

Precise Media has no major assets and operating business other than its sole beneficial interests in the entire issued share capital of the PRC Subsidiary which in turn will be the holder of the TMDC Sale Machineries for carrying out the research and development, manufacturing and distribution of LCoS televisions, enlarged display units and related components.

As Precise Media Group has not started operation, no turnover recorded for each of the three years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008. Precise Media Group recorded net loss attributable to the equity holders of Precise Media of approximately HK$8,000, HK$595,000, HK$1,303,000, HK$582,000 and HK$1,593,000 for the year ended 31 December 2005, 2006 and 2007 and for each of the six moths 30 June 2007 and 2008 respectively.

TMDC Sale Machineries

Please refer to the section headed "TMDC Sale Machineries and TMDC Sale Patents" under "Management discussion and analysis of the Target Group for the period from 14 January 2008 (date of incorporation of the Target Company) to 30 June 2008" for details.

Capital Structure

Precise Media was incorporated with 1,000,000 ordinary share of US$1. There was increase in issued share capital of 4,000,000 shares at US$1 per share through an allotment on 28 September 2006. The proceeds were used for financing Precise Media Group's ongoing operation and future business expansion. Save for the above, there has been no change in the capital structure of Precise Media during the period under review, nor in the subsequent period up to the Latest Practicable Date. As at the Latest Practicable Date, the authorized and issued share capital of Precise Media was approximately HK$39,000,000 (comprising 5,000,000 shares of US$1 each).

Liquidity and Financial Resources

Precise Media Group currently finances its operation by its ultimate holding company, the First Vendor.

Prudent financial management and selective investment criteria have enabled Precise Media Group to maintain a strong financial position. As at 31 December 2005, 2006 and 2007 and 30 June 2008, Precise Media Group's bank balances and cash was approximately HK$Nil, HK$5,603,000, HK$622,000 and HK$49,000 respectively.

At 31 December 2005, 2006 and 2007 and 30 June 2008, Precise Media Group retained no bank loans and obligation under finance leases contract. Moreover, Precise Media Group did not have any charge on its assets or material contingent liabilities as at 31 December 2005, 2006 and 2007 and 30 June 2008.

As at 31 December 2005, 2006, 2007 and 30 June 2008, Precise Media Group's gearing ratio (being the total indebtedness including bank loans and obligations under finance lease contracts over net assets attributable to equity holder of Precise Media) was undefined because Precise Media Group did not have any bank loans and obligations under finance lease contracts as at 31 December 2005, 2006, 2007 and 30 June 2008.

As at 31 December 2005, 2006 and 2007 and 30 June 2008, Precise Media Group had net assets of approximately HK$7,769,000, HK$38,449,000, HK$37,468,000 and HK$35,956,000 respectively.

Foreign Exchange Risk Management

Precise Media Group's assets and liabilities, revenue and expenditures are denominated in Hong Kong dollars. It is the group's policy to adopt a conservative approach on foreign exchange exposure management. Precise Media Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The directors consider the exposure risk to foreign currency fluctuation is minimal.

Employees and Remuneration Policies

As at 31 December 2005, 2006, 2007 and 30 June 2008, Precise Media Group employed nil, 9, 12 and 7 full time employees, all of which are based in the PRC. Precise Media Group recorded staff costs of approximately HK$ Nil, HK$4,000, HK$219,000, HK$117,000 and HK$84,000 for the year ended 31 December 2005, 2006, 2007 and for the six months ended 30 June 2007 and 2008 respectively. Precise Media Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Precise Media Group did not operate any share option scheme during the years ended 31 December 2005, 2006, 2007 and for the six months ended 30 June 2007 and 2008.

Future Plan for Material Investments

Save for the Reorganization as set out in the Letter from the Board in this circular, Precise Media Group did not have any future plan for material investment or capital assets as at the Latest Practicable Date.

Capital commitments

Save for the Reorganization as set out in the Letter from the Board, as at 31 December 2005, 2006 and 2007 and 30 June 2008, Precise Media Group did not have any significant capital commitments.

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

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

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

28 November 2008

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

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Karce International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Pacific Choice Holdings Limited ("Pacific Choice") and its subsidiaries (hereinafter collectively referred to as "Pacific Choice Group") and Precise Media Limited and its subsidiary (hereinafter collectively referred to as the "Precise Media Group") (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interest in Pacific Choice (the "Acquisition") might have affected the financial information presented, for inclusion in Appendix III of the circular of the Company dated 28 November 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 3 of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

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

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

BASIS OF OPINION

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

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

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

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

OPINION

In our opinion:

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

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

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION

INTRODUCTION

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with the Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition took place on 31 December 2007 for the consolidated balance sheet and 1 January 2007 for the consolidated income statement and consolidated cash flow statement.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the unaudited pro forma consolidated balance sheet of the Group as at 31 December 2007 as set out in Appendix II of the Company's circular dated 30 September 2008, which provide information about how the proposed disposal of Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited (hereinafter referred to as the "Disposal") might have affected the financial information of the Group (the remaining group after the Disposal referred to as the "Remaining Group"), the audited consolidated balance sheet of Pacific Choice Group as at 30 June 2008 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The unaudited pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group are prepared based on the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2007 as set out in Appendix II of the Company's circular dated 30 September 2008, which provide information about how the Disposal might have affected the financial information of the Group, the audited consolidated income statement and consolidated cash flow statement of Precise Media Group for the year ended 31 December 2007 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The audited consolidated income statement and consolidated cash flow statement of Pacific Choice Group as set out in Appendix II to the Circular have not been included in preparation of the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group because Pacific Choice has not been established as at 31 December 2007 and for the year then ended.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2007 and to describe the actual financial results and cash flows of the Enlarged Group that would had been attained had the Acquisition been completed on 1 January 2007, nor purport to predict the Enlarged Group's future financial position or results of operations.

(a) Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2007. The unaudited pro forma consolidated balance sheet is based on the unaudited pro forma consolidated balance sheet of the Group as at 31 December 2007 as set out in Appendix II of the Company's circular dated 30 September 2008, which provide information about how the Disposal might have affected the financial information of the Group, the audited consolidated balance sheet of Pacific Choice Group as at 30 June 2008 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable.

As the unaudited pro forma consolidated balance sheet of the Enlarged Group after completion of the Acquisition has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group after completion of the Acquisition as at the date to which it is made up to or at any future date.

	Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group (upon completion of the Disposal alone) as at 31 December 2007	Audited Consolidated Balance Sheet of Pacific Choice Group as at 30 June 2008	Sub-total	Pro Forma Adjustments							Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group as at 31 December 2007
				Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS											
Non-current assets											
Property, plant and equipment	110,959	1,522	112,481			62,400					174,881
Prepaid lease payments	4,396	—	4,396								4,396
Intangible asset	—	—	—			718,000					718,000
Club debenture	1,180	—	1,180								1,180
	116,535	1,522	118,057								898,457
Current assets											
Inventories	24,092	2,730	26,822								26,822
Trade and other receivables	60,204	67	60,271						24,985		85,256
Amount due from immediate holding company	—	24,985	24,985						(24,985)		—
Available-for-sale investment	29,541	—	29,541								29,541
Derivative financial instruments	1,576	—	1,576								1,576
Bank balances and cash	264,113	49	264,162	(400,000)							(135,838)
	379,526	27,831	407,357								7,357
Current liabilities											
Trade and other payables	64,929	32,346	97,275				156,000	(187,200)			66,075
Derivative financial instruments	983	—	983								983
Tax liabilities	(146)	—	(146)								(146)
Obligation under finance lease — due within one year	593	—	593								593
Bank borrowings — due within one year	4,438	—	4,438								4,438
	70,797	32,346	103,143								71,943
Net current assets/(liabilities)	308,729	(4,515)	304,214								(64,586)
Net assets/(liabilities)	425,264	(2,993)	422,271								833,871
Capital and reserves											
Share capital	54,436	78	54,514		(78)						54,436
Reserves	359,842	(3,071)	356,771	69,796	3,071					108,607	538,245
	414,278	(2,993)	411,285								592,681
Non-current liabilities											
Obligation under finance lease — due after one year	278	—	278								278
Bank borrowings — due after one year	5,965	—	5,965								5,965
Convertible bonds	—	—	—	216,412							216,412
Deferred tax liabilities	4,743	—	4,743	13,792							18,535
	10,986	—	10,986								241,190
	425,264	(2,993)	422,271								833,871

Notes to the unaudited pro forma consolidated balance sheet

Under HKFRS 3 Business Combinations ("HKFRS 3"), the Company will apply the purchase method to account for the Acquisition. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Pacific Choice Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the Acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Company over the Company's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Pacific Choice Group at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

1. The consideration for the Acquisition to be satisfied by Sourcestar Profits Limited, a direct wholly-owned subsidiary of the Company, ("Sourcestar Profits") or the Company, is HK$2,700,000,000. The consideration is to be satisfied by:

	HK$'000
Cash deposit (Note 1(i))	25,000
Cash consideration/promissory note ("Promissory Note") *(Note 1(ii))*	375,000
Tranche 1 bonds ("Tranche 1 Bonds") *(Note 1(iii))*	300,000
	700,000
Contingent Consideration:	
Tranche 2 bonds, tranche 3 bonds and tranche 4 bonds ("Tranche 2 Bonds", "Tranche 3 Bonds" and "Tranche 4 Bonds" *(Note 1(iv))*)	2,000,000
	2,700,000

(i) The cash consideration in the amount of HK$25,000,000 has been paid by way of a non-refundable deposit upon signing of the conditional sale and purchase agreement (the "Acquisition Agreement");

(ii) The cash consideration/Promissory Notes in the amount of HK$375,000,000 would be paid by, at the option of Sourcestar Profits, the issue of the Promissory Note by Sourcestar Profits or cash payment by Sourcestar Profits (or the Company) to China Eagle Development Limited ("China Eagle") (or its nominee(s)). In preparation of the Unaudited Pro Forma Financial Information, it is assumed that Sourcestar Profits would settle the payment by cash.

(iii) In accordance with the Hong Kong Accounting Standards 32 "Financial Instruments: Presentation", the Tranche 1 Bonds should be separated as liability portion and equity portion. In preparing the Unaudited Pro Forma Financial Information on the Enlarged Group, Tranche 1 Bonds in the amount of HK$300,000,000 has taken to be its fair value as if it was issued on 31 December 2007. The adjustment of approximately HK$216,412,000 represented the liability portion of the Tranche 1 Bonds on the calculation of the discounted cash flow method. The pro forma adjustment represents deferred tax liabilities of approximately HK$13,792,000 arising from the Tranche 1 Bonds. The equity component of the Tranche 1 Bonds was approximately HK$69,796,000.

(iv) For the contingent consideration in the amount of HK$2,000,000,000 Sourcestar Profits or the Company would issue of Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds to China Eagle and Fairtime International Limited ("Fairtime International") in their respective interest, subject to the provision that the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the intellectual properties in liquid crystal on silicon ("LCoS") related technology for the manufacture of micro display ("MD") (the "TMDC Sale Patents") as shown in the reviewed (or, as the case may be, audited) consolidated financial statements of Pacific Choice Group prepared in accordance with HKGAAP for the six months from 1 January 2009 not less than HK$1,000,000,000 or for the twelve months from 1 January 2009 not less than HK$1,000,000,000 (the "Contingent Events"), (the portion of consideration related referred to as the "Contingent Consideration"). Since the Acquisition Agreement provides for an adjustment clause to the consideration contingent on future events and, in the opinion of the directors of the Company, the Contingent Events are not yet to be probable, the Contingent Consideration is excluded for the purposes of preparing the unaudited pro forma financial information.

2. The pro forma adjustment represents the following:

(i) The adjustment of approximately HK$78,000 represents the elimination of the share capital of Pacific Choice upon the consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group as if the Acquisition was completed on 31 December 2007;

(ii) The adjustment of approximately HK$3,071,000 represents the elimination of the pre-acquisition reserves of Pacific Choice Group upon the consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group as if the Acquisition was completed on 31 December 2007.

3. The pro forma adjustment of approximately HK$718,000,000 in relation to the intangible assets represents the fair value adjustments of the TMDC Sale Patents over its carrying amount on 31 December 2007, as if the Acquisition was completed on 31 December 2007.

The fair values of TMDC Sale Patents as at 31 December 2007 are determined with reference to valuation report on the TMDC Sale Patents of approximately HK$718,000,000 as set out in Appendix V to the Circular dated 28 November 2008 carried out by B.I. Appraisals Limited, an independent qualified professional valuers which is not connected to the Enlarged Group.

According to the valuation report provided by B.I. Appraisals Limited, the valuation method of the TMDC Sale Patents is based on discounted cash flow method.

The pro forma adjustment of approximately HK$62,400,000 to the property, plant and equipment represents the adjustment to value of the machineries and equipments as set out in the agreement dated 29 February 2008 and made between, among others, Taiwan Micro Display Corp, a company incorporated in Taiwan, ("TMDC") as vendor and Starwick Development Limited, a subsidiary of Pacific Choice ("Starwick"), as purchaser in connection with, inter alia, the sale and purchase of such machineries and equipment, the TMDC Sale Patents and entire issued share capital of Precise Media and as supplemented by the supplemental agreements made between the same parties on 5 September 2008 and 3 October 2008 respectively (the "TMDC Agreement"), which have been agreed to be transferred and assigned to 聯合光電(蘇州)有限公司, a subsidiary of Pacific Choice (or other nominee of Starwick) pursuant to the terms and conditions of the TMDC Agreement (the "TMDC Sale Machineries").

In accordance with the TMDC Agreement, the total consideration in acquiring the TMDC Sale Machineries, TMDC Sale Patents and entire issued share capital of Precise Media are approximately HK$195,000,000 (approximately US$25,000,000). In the opinion of the directors of the Company, it is considered that the TMDC Sale Machineries are attributable to approximately HK$62,400,000 (approximately US$8,000,000) of the total consideration and also taken such cost to be its fair value.

4. As at 30 June 2008, Pacific Choice had a capital commitment of approximately HK$156,000,000 (approximately US$20,000,000) in acquiring TMDC Sale Machineries and TMDC Sale Patents in accordance with the TMDC Agreement.

5. The pro forma adjustment represents the elimination of approximately HK$187,200,000 (approximately US$24,000,000) being the remaining consideration payable to TMDC in accordance with the TMDC Agreement. In accordance with the TMDC Agreement, on or before 30 November 2008 (or such later date as parties may agree), all purchase consideration payable by Starwick under the TMDC Agreement shall be settled on behalf of Starwick by issuance of convertible bonds by the Company, which is expected to be part of Tranche 1 Bonds to be issued by the Company to China Eagle (or its nominee) pursuant to the supplemental agreement date 24 October 2008 entered into between, among others, China Eagle, Fairtime International and Sourcestar Profits ("Supplemental Agreement").

6. The pro forma adjustment represents re-allocation of amount due from immediate holding company to trade and other receivables upon the consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group as if the Acquisition was completed on 31 December 2007.

7. The discount on the Acquisition was calculated on the basis of the excess of the net fair value of the identifiable assets, liabilities and contingent liabilities of Pacific Choice Group over the assumed fair value consideration paid. Details are set out as follows:

	HK$'000
Total consideration, at assumed fair value	700,000
Fair value of attributable interest in identifiable net assets value in Pacific Choice *(Note 7(i))*	(777,407)
Adjustment to other payable *(Note 4)*	156,000
Adjustment to other payable *(Note 5)*	(187,200)
Discount on the Acquisition	(108,607)

(i) The fair value of attributable interest in identifiable net assets value in Pacific Choice is arrived as follows:

	HK$'000
Net liabilities of Pacific Choice Group as at 30 June 2008	(2,993)
Fair value adjustment to TMDC Sale Patents *(Note 3)*	718,000
Adjustment to TMDC Sale Machineries *(Note 3)*	62,400
	777,407

(b) Unaudited pro forma consolidated income statement

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2007. The unaudited pro forma consolidated income statement is based on the unaudited pro forma consolidated income statement of the Group for the year ended 31 December 2007 as set out in Appendix II of the Company's circular dated 30 September 2008 which provide information about how the Disposal might have affected the financial information of the Group, the audited consolidated income statement of Precise Media Group for the year ended 31 December 2007 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable.

The audited consolidated income statement of Pacific Choice Group as set out in Appendix II to the Circular has not been included in preparation of the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group because Pacific Choice has not been established as at 31 December 2007 and for the year then ended.

As the unaudited pro forma consolidated income statement of the Enlarged Group after completion of the Acquisition has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group after completion of the Acquisition as at the date to which it is made up to or at any future date.

	Unaudited Pro Forma Consolidated Income Statement of the Group (upon completion of the Disposal alone) for the year ended 31 December 2007	Audited Consolidated Income Statement of Precise Media Group for the year ended 31 December 2007	Sub-total	Pro Forma adjustments *Note 1*	*Note 2*	*Note 3*	Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	238,996	—	238,996				238,996
Costs of sales	(219,332)	—	(219,332)				(219,332)
Gross profits	19,664	—	19,664				19,664
Other income	1,011	34	1,045				1,045
Discount on acquisition of a subsidiary	—	—	—	108,607			108,607
Selling and distribution costs	(5,429)	—	(5,429)				(5,429)
Administrative expenses	(30,191)	(1,336)	(31,527)				(31,527)
Gain on disposal of subsidiaries	60,397	—	60,397				60,397
Finance costs	(956)	—	(956)		(16,008)		(16,964)
Gain on fair value changes of investment properties	746	—	746				746
Impairment loss on available- for-sales investments	(28,008)	—	(28,008)				(28,008)
Profit/(loss) before taxation	17,234	(1,302)	15,932				108,531
Taxation	(681)	—	(681)			3,576	2,895
Profit/(loss) after taxation	16,553	(1,302)	15,251				111,426
Dividend	5,444	—	5,444				5,444
Earnings/(loss) per shares							
— Basic (cents)	3.04	(26.05)				*Note 4*	20.47
— Diluted (cents)	N/A	N/A				*Note 4*	9.85

Notes to the unaudited pro forma consolidated income staetements

1. The pro forma adjustment of approximately HK$108,607,000 represents fair value gain on the Acquisition. Details please refer to part (a) note 7 of the unaudited pro forma consolidated balance sheet.

2. The pro forma adjustment of approximately HK$16,008,000 represents the annual finance cost of imputed interest expenses of the Tranche 1 Bonds to be expensed in the consolidated income statement of the Enlarged Group with the imputed interest rate of 7.75% for the year ended 31 December 2007. These interest expenses will have the continuing effect on the financial statements of the Enlarged Group in subsequent years.

3. The pro forma adjustment of approximately HK$3,576,000 represents the adjustment of the deferred tax effect of Tranche 1 Bonds for the year ended 31 December 2007.

4. The calculation of pro forma basic earnings per share is based on the Enlarged Group's pro forma net profit attributable to the equity holders of the Company of approximately HK$111,426,000 divided by the weighted average number of ordinary shares of approximately 544,356,000 of the Enlarged Group upon the completion of Acquisition.

   The calculation of pro forma diluted earnings per share is based on the Enlarged Group's pro forma net profit attributable to the equity holders of the Company of approximately HK$127,434,000 divided by the weighted average number of ordinary shares of approximately 1,294,356,000 of the Enlarged Group upon the completion of Acquisition.

   (i) The unaudited pro forma net profit attributable to the equity holders of the Company for the purposes of calculating diluted earnings per share is arrived as follows:

	HK$'000
Unaudited pro forma basis earnings attributable to the equity holders of the Company	111,426
Add: Finance costs arising from issue of Tranche 1 Bonds	16,008
Unaudited pro forma diluted earnings attributable to the equity holders of the Company	127,434

   (ii) The unaudited pro forma weighted average number of ordinary shares for the purposes of calculating diluted earnings per share is arrived as follows:

	'000
Unaudited pro forma average number of ordinary shares	544,356
Add: Effect of dilutive potential shares arising from issue of Tranche 1 Bonds	750,000
Unaudited pro forma diluted earnings attributable to the equity holders of the Company	1,294,356

(c) Unaudited pro forma consolidated cash flow statement

The following is the unaudited pro forma consolidated cash flow statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2007. The unaudited pro forma consolidated cash flow statement is based on the unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 December 2007 as set out in Appendix II of the Company's circular dated 30 September 2008 which provide information about how the Disposal might have affected the financial information of the Group, the audited consolidated cash flow statement of Precise Media Group for the year ended 31 December 2007 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable.

The audited consolidated cash flow statement of Pacific Choice Group as set out in Appendix II to the Circular has not been included in preparation of the unaudited pro forma consolidated cash flow statement and consolidated cash flow statement because Pacific Choice has not been established as at 31 December 2007 and for the year then ended.

As the unaudited pro forma consolidated cash flow statement of the Enlarged Group after completion of the Acquisition has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group after completion of the Acquisition as at the date to which it is made up to or at any future date.

	Unaudited Pro Forma Consolidated Cash Flow statement of the Group (upon completion of the Disposal alone) for the year ended 31 December 2007	Audited Consolidated Cash Flow statement of Precise Media Group For the year ended 31 December 2007	Sub-total	Pro Forma adjustment					Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group for the year ended 31 December 2007
				Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities									
Profit/(loss) before taxation	17,234	(1,302)	15,932	92,599					108,531
Adjustments for:									
Finance costs	956	–	956		16,008				16,964
Discount on acquisition of a subsidiary	–	–	–			(108,607)			(108,607)
Reversal of allowance for doubtful debts	(358)	–	(358)						(358)
Allowance recognized for obsolete and slow moving inventories	122	–	122						122
Interest income	(132)	(34)	(166)						(166)
Depreciation and amortization	16,934	311	17,245						17,245
Written off of property, plant and equipment	–	8	8						8
Revaluation surplus on building	(331)	–	(331)						(331)
Loss on disposal of property, plant and equipment	29	–	29						29
Gain on disposals of subsidiaries	(60,397)	–	(60,397)						(60,397)
Unrealised gain on fair value change of derivative financial instruments	(7,022)	–	(7,022)						(7,022)
Impairment loss on available-for-sales investments	28,008	–	28,008						28,008
Operating cash flow before movements in working capital	(4,957)	(1,017)	(5,974)						(5,974)
Decrease/(increase) in inventories	5,240	(2,730)	2,510						2,510
Decrease/(increase) in trade and others receivables	2,641	(208)	2,433				8		2,441
Increase in amount due from a shareholder	–	8	8				(8)		–
(Decrease)/increase in trade and other payables	(6,049)	38	(6,011)						(6,011)
Cash used in from operations	(3,125)	(3,909)	(7,034)						(7,034)
Tax paid	(1,103)	–	(1,103)						(1,103)
Net cash flow from operating activities	(4,228)	(3,909)	(8,137)						(8,137)

	Unaudited Consolidated Cash Flow statement of the Group for the year ended 31 December 2007	Audited Consolidated Cash Flow statement of Precise Media Group For the year ended 31 December 2007	Sub-total	Pro Forma adjustments Note 1	Note 2	Note 3	Note 4	Note 5	Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group for the year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities									
Acquisition of property, plant and equipments	(18,680)	(1,369)	(20,049)						(20,049)
Interests received	132	34	166						166
Proceeds from disposals of property, plants and equipment	8	–	8						8
Proceeds from disposal of subsidiaries	250,000	–	250,000						250,000
Payments to acquire subsidiaries	–	–	–					(400,000)	(400,000)
Net cash flow from investing activities	231,460	(1,335)	230,125						(169,875)
Financing activities									
New bank loans obtained	12,209	–	12,209						12,209
Repayments of bank loans	(1,807)	–	(1,807)						(1,807)
Repayments of obligation under finance lease	(1,562)	–	(1,562)						(1,562)
Dividend	(5,444)	–	(5,444)						(5,444)
Interests paid on bank loans	(423)	–	(423)						(423)
Interests paid on finance leases	(533)	–	(533)						(533)
Net cash flow from financing activities	2,440	–	2,440						2,440
Net increase/(decrease) in cash and cash equivalents	229,672	(5,244)	224,428						(175,572)
Cash and bank balance brought forward	65,890	5,603	71,493						71,493
Exchanges reserves	4,149	263	4,412						4,412
Cash and cash balance carried forward	299,711	622	300,333						(99,667)

Notes to the unaudited pro forma consolidated cash flow statements

1. The pro forma adjustment to the consolidated cash flow statement of approximately HK$92,599,000 represents the recognition of the fair value gain on acquisition of a subsidiary of approximately HK$108,607,000 and finance cost of approximately HK$16,008,000 for the purpose of adjusting the profit before taxation.

2. The pro forma adjustment of approximately HK$16,008,000 represents the annual finance cost of imputed interest expenses of the Tranche 1 Bonds to be expensed in the consolidated income statement of the Enlarged Group with the imputed interest rate of 7.75% for the year ended 31 December 2007. These interest expenses will have the continuing effect on the financial statements of the Enlarged Group in subsequent years.

3. The pro forma adjustment of approximately HK$108,607,000 represents fair value gain on the Acquisition. Details please refer to part (a) note 7 of the unaudited pro forma consolidated balance sheet.

4. The pro forma adjustment of approximately HK$8,000 represents re-allocation of amount due from a shareholder to trade and other receivables upon consolidation of the Unaudited Pro Forma Financial Information on the Enlarged Group as if the Acquisition was completed on 31 December 2007.

5. The pro forma adjustment of HK$400,000,000 represents the cash payment as part of the consideration of the Acquisition. Details of the payments please refer to part (a) note 1(i) and 1(ii) of the pro forma consolidated balance sheet.

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

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

28 November 2008

Dear Sirs,

VALUATION OF VARIOUS PROPERTIES IN THE PEOPLE'S REPUBLIC OF CHINA

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

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

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

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

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

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

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

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

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

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

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

Our summary of values and valuation certificate are attached.

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

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

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

SUMMARY OF VALUES

Properties held by the Group for owner occupation in the PRC

No.	Property	Capital value in existing state as at 30 September 2008	Interest attributable to the Group	Capital value attributable to the Group as at 30 September 2008
1.	An industrial compound located at Renzhou Administrative Zone Shatian Town Dongguan Guangdong Province PRC	HK$16,216,000 (RMB14,595,000)	100%	HK$16,216,000 (RMB14,595,000)
2.	An hostel complex located at Renzhou Administrative Zone Shatian Town Dongguan Guangdong Province PRC	HK$11,339,000 (RMB10,205,000)	100%	HK$11,339,000 (RMB10,205,000)
	Total:	**HK$27,555,000**		**HK$27,555,000**

VALUATION CERTIFICATE

Properties held by the Group for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2008
1.	An industrial compound located at Renzhou Administrative Zone, Shatian Town, Dongguan, Guangdong Province, PRC	The property comprises a leveled site with an area of approximately 10,018.00 sq m (107,834 sq ft) on which an industrial compound of reinforced concrete construction mainly completed in various phases between 1996 and 1998 was erected. Main buildings of the industrial compound include two 2-storey factory buildings, a 3-storey office/factory building, a 3-storey factory building (formerly it was a canteen), a single-storey power room and a 2-storey workshop with a total gross floor area of approximately 13,058.46 sq m (140,561 sq ft). The property also comprises a single-storey garage/toilet with a total gross floor area of approximately 77.40 sq m (833 sq ft). The land use rights of the property were granted for a term of 50 years from 30 December 1995 to 29 December 2045 for industrial and ancillary facilities uses.	The property is occupied by the Group for manufacturing purposes.	HK$16,216,000 (RMB14,595,000) (100% attributable to the Group: HK$16,216,000) (RMB14,595,000)

Notes:

(1) Pursuant to the State-owned Land Use Rights Certificate 東府國用(1997)字第特116號 issued by Dongguan City Land Administration Bureau on 15 May 1997, the land use rights of the property with a site area of approximately 10,018 sq m is vested in 東莞沙田德盛硅橡膠製品有限公司 (Dongguan Shatian Tehsheng Silicon Rubber Products Co., Ltd., hereinafter referred to as "Tehsheng") for a term of 50 years commencing on 30 December 1995 and expiring on 29 December 2045 for industrial workshop and ancillary facilities uses.

(2) Pursuant to four Building Ownership Certificates 粵房地証字第0964014 & 0964015號 both dated 28 July 1997 and 粵房地証字第1664632 & 1664633 號both dated 30 November 1998, all issued by Dongguan City Land Administration Bureau, the title to the buildings with a total gross floor area of approximately 11,391.35 sq m is vested in Tehsheng.

(3) We have been advised that the relevant Building Ownership Certificates for the garage/toilet building, power room and workshop with a total gross floor area of 1,744.51 sq m have not been obtained. We have opined no commercial value to these buildings in our valuation. For indicative purpose, had the relevant Building Ownership Certificates for the said buildings been obtained, the depreciated replacement cost of these buildings as at 30 September 2008 was RMB669,000.

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

(i) Tehsheng legally owns the land use rights of the property and the building ownership of the buildings of the property with a total gross floor area of 11,391.35 sq m; and

(ii) Tehsheng is entitled to transfer, lease, mortgage or dispose of by other means the land use rights and buildings of the property with a total gross floor area of 11,391.35 sq m.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2008
2.	An hostel complex located at Renzhou Administrative Zone, Shatian Town, Dongguan, Guangdong Province, PRC	The property comprises a levelled site with a site area of approximately 5,096.00 sq m (54,853 sq ft) on which a hostel complex of reinforced concrete construction completed in various phases between 1996 and 1998 was erected. The complex consists mainly of four 5-storey and a 6-storey staff quarters building with a total gross floor area of approximately 10,252.64 sq m (110,359 sq ft). The land use rights of the property were granted for a term expiring on 25 August 2047 for industrial uses.	The property is occupied by the Group as staff quarters.	HK$11,339,000 (RMB10,205,000) (100% attributable to the Group: HK$11,339,000) (RMB10,205,000)

Notes:

(1) Pursuant to the State-owned Land Use Rights Certificate 東府國用(1997)字第特229號 issued by Dongguan City Land Administration Bureau on 26 August 1997, the land use rights of the property with an area of approximately 5,096 sq m is vested in 東莞沙田德盛硅橡膠製品有限公司 (Dongguan Shatin Tehsheng Silicon Rubber Products Co., Ltd., hereinafter referred to as "Tehsheng") for a term expiring on 25 August 2047 for industrial uses.

(2) Pursuant to the Building Ownership Certificates 粵房地証字第0964025, 0964026 & 0964027號 all dated 28 August 1997 and 粵房地証字第1664634 & 1664635號 both dated 30 November 1998, all issued by Dongguan People's Government, the title to the buildings with a total gross floor area of approximately 10,252.64 sq m is vested in Tehsheng.

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

(i) Tehsheng legally owns the land use rights of the property and the building ownership of the buildings of the property; and

(ii) Tehsheng is entitled to transfer, lease, mortgage or dispose of by other means the land use rights and buildings of the property.

2. *The following is the text of a letter, summary of values and valuation certificate on the property interests as at 30 September 2008 held by the Target Group prepared by the Valuer for the purpose of inclusion in this circular.*

B.I.
To Know Your Strength Better

B.I. Appraisals Limited
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28 November 2008

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

Dear Sirs,

In accordance with the instructions from Karce International Holdings Company Limited (hereinafter referred to as the "Company") for us to value the property leased by United Opto Electronics (Suzhou) Co., Ltd. in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property as at 30 September 2008 (hereinafter referred to as the "Date of Valuation"). It is our understanding that our valuation is to be used by the Company for reference purpose and that this valuation document may subsequently be included in the circular to be issued by the Company.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation, lists out the assumptions and the title investigation we have made in the course of our valuation, and states the limiting conditions.

BASIS OF VALUATION

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

Our valuation has been prepared in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

VALUATION METHODOLOGY

The property is considered to have no commercial value due either to the short-term nature of the lease or the prohibition against assignment or subletting or otherwise due to the lack of substantial profit rent.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement that would serve to affect its value. In addition, no account has been taken of any option or right of pre-emption concerning or effecting a sale of the property and no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature that could affect its value.

Other specific assumptions, if any, have been stated in the notes of the valuation certificate for the property.

TITLE INVESTIGATION

We have been provided by United Opto Electronics (Suzhou) Co., Ltd. with copies of title documents in relation to the property. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by United Opto Electronics (Suzhou) Co., Ltd. regarding the title to the property and the interest of United Opto Electronics (Suzhou) Co., Ltd. in such property.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the property. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made nor have any tests been carried out on any of the building services provided in the property. We are, therefore, not able to report that the property is free from rot, infestation or any other structural defects.

We have not conducted on-site measurements to verify the site and floor areas of the property but have assumed that the areas shown on the documents furnished to us are correct. Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore approximations only.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any redevelopment.

We have relied to a considerable extent on the information provided by the Company and accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, completion date of building, particulars of occupancy, tenancy information, site and floor areas and all other relevant matters in the identification of the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

REMARKS

We hereby confirm that we have neither present nor prospective interests in the Company, United Opto Electronics (Suzhou) Co., Ltd. and its holding company, the subject property or the value reported herein.

Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED

William C. K. Sham
Registered Professional Surveyor (G.P.)
China Real Estate Appraiser
MRICS, MHKIS, MCIREA
Executive Director

Note: Mr. William C. K. Sham is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has 25 years' experience in the valuation of properties in Hong Kong and has over 10 years' experience in the valuation of properties in the People's Republic of China and the Asia Pacific regions.

VALUATION CERTIFICATE

Property	Description and tenancy particulars	Market value in existing state as at 30 September 2008
Factory Block No. 59 of the industrial complex of Lou Feng Dong Jing Economic Development Co., Ltd. in Suzhou Industrial Park, Suzhou City, Jiangsu, Province, the PRC	The property comprises a 2-storey industrial building completed in about 2005. The gross floor area of the property is approximately 3,501.00 sq.m. (37,685 sq.ft.). The property is leased to United Opto Electronics (Suzhou) Co., Ltd. for a term of 3 years from 25 October 2005 to 24 October 2008. The current rent is approximately RMB35,010 per month. The property is currently occupied by United Opto Electronics (Suzhou) Co., Ltd. for office and workshop uses.	No commercial value

Notes:

(1) Pursuant to a copy of the lease contract entered into between 蘇州工業區婁葑東景經濟發展有限公司 (unofficial English translation as Suzhou Industrial Park Lou Feng Dong Jing Economic Development Co., Ltd., the "Lessor"), which is the owner of the property, and United Opto Electronics (Suzhou) Co., Ltd. (the "Lessee") on 20 October 2005, the property is leased by the Lessor to the Lessee. Major terms and conditions of the said lease contract are summarized as follows:

a) The gross floor area of the property is 3,501.00 sq.m.

b) The lease term is for three years from 25 October 2005 to 24 October 2008.

c) The rent is RMB35,010 per month.

d) The rent is to be paid every three months in advance.

e) The lease may be terminated by either party by serving a three-month written notice.

f) The Lessor is responsible for the maintenance and repair of the basic structural parts of the property.

(2) Pursuant to a copy of the lease contract entered into between the Lessor and the Lessee on 21 November 2008, the said tenancy mentioned in Note 1 has been renewed for a further term of three years with renewed monthly rent as follows:

a) RMB35,010 per month for the period from 25 October 2008 to 24 October 2009;

b) RMB38,511 per month for the period from 25 October 2009 to 24 October 2010; and

c) RMB42,012 per month for the period from 25 October 2010 to 24 October 2011.

(3) The status of title and grant of major approvals, consents or licences in accordance with the information provided by the Company are as fo1lows:

Certificate of State-owned Land Use	Yes
Certificate of Building Ownership	Yes
Lease Contracts	Yes

The following is the text of a valuation report in respect of the TMDC Sale Patents as at 31 August 2008 to be held by the Enlarged Group prepared by the Valuer for the purpose of inclusion in this circular.

B.I.
To Know Your Strength Better

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28 November 2008

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

Dear Sirs,

Re: The intellectual property in Liquid Crystal on Silicon related technology for the manufacture of Micro Display held by Taiwan Micro Display Corporation

In accordance with the instructions for us to value the intellectual property in Liquid Crystal on Silicon ("LCoS") related technology for the manufacture of Micro Display ("MD") (hereinafter referred to as the "Intangible Asset") exhibited to us as those held by Taiwan Micro Display Corporation (hereinafter referred to as the "Business Enterprise" or "TMDC"), the interest of which is proposed to be acquired by Karce International Holdings Company Limited (hereinafter referred to as the "Company") and/or its subsidiary (hereinafter collectively referred to as the "Group"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market value of the Intangible Asset as at 31 August 2008 (hereinafter referred to as the "Date of Valuation").

This report identifies the asset valued, describes the basis and methodology of our valuation, assumptions and limiting conditions, and presents our opinion of value.

PURPOSE OF VALUATION

This report is being prepared solely for the use of the directors and management of the Company for reference purpose. It is our understanding that our opinion of value and/or valuation report on the Intangible Asset may subsequently be included in the circular to be issued by the Company.

This report is not to be used for any purpose other than that mentioned above, including issue to third parties, without our prior approval of the use, form and context in which it is released.

B.I. Appraisals Limited assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on the information provided by the Company. The information provided to us includes the following:

a) descriptive information on TMDC;

b) copies of certificates/registration records for the patents held by TMDC;

c) copy of the sales agreement entered into between Gold Pioneer Enterprises Limited (the "Vendor") and 北京國鐵傳媒廣告有限公司 (unofficial English translation: Beijing National Railway Media Advertising Company Limited, the "Purchaser") on 16 September 2008 regarding the sales of TV products that will adopt the concerned patented technology (hereinafter referred to as the "Sales Contract");

d) copy of panel manufacturing flowchart;

e) product catalogue for 65-inch television;

f) copies of fee quotations for components to be purchased for television production;

g) the cost analysis of TMDC's products; and

h) a four-year (from 2009 to 2012) financial projection of the operation of TMDC's television manufacturing business (hereinafter referred to as the "Business").

In preparing this report, we have had discussions with representatives of TMDC and the Company in relation to the Intangible Asset and other relevant information regarding the Intangible Asset. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the business of television manufacturing which involves the Intangible Asset provided to us by TMDC and have considered such information and data which are considered to be true and accurate and reflecting the situation of the subject business and the Intangible Asset as at the Date of Valuation.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

THE BUSINESS ENTERPRISE

TMDC was incorporated in Taiwan on 29 February 2000 with a registered capital of NT$1.5 billion. It engages in the research and development of LCoS, which is a MD technology that is typically applied in projection televisions and the production and sales of LCoS television sets.

TMDC, headquartered in Chunan Science Based Industrial Park in Miaoli County of Taiwan, is formed by a professional team with thorough knowledge and experience in LCoS field and has set up a branch office in Taipei. The Business Enterprise focuses its business in the production of 65-inch LCoS television set and the 200-inch LCoS television wall by application of its patent technology in the production of MD Imager, the core component of a LCoS television set. TMDC, though being considered as one of the three television manufacturers (the other two being JVC and Sony) in the world who have the capability to produce LCoS television, is the only supplier of a complete set of core component in LCoS television production and is currently the only large-size LCoS television manufacturer in Taiwan.

According to the information provided to us, TMDC currently utilizes its production facilities in Miaoli County of Taiwan to carry out its manufacturing process. The production facilities occupy a site area of approximately 3,300 sq.m. with a total gross floor area of approximately 7,425 sq.m. The planned production will have a capacity of producing 1,200 sets of 65-inch LCoS television per day based on five production lines and five aging test line.

Apart from the production facilities in Miaoli County of Taiwan, TMDC has set up a manufacturing base for the production of LCoS televisions in Suzhou of Jiangsu Province in PRC. According to the tenancy agreement entered into between 蘇州工業園區婁葑東景經濟發展有限公司 (Unofficial English translation as Suzhou Industrial Park Lou Feng Dong Jing Economic Development Co., Ltd.) and United Opto Electronics (Suzhou) Co., Ltd., (i.e. the PRC Subsidiary as defined in this circular), the Suzhou plant has a total gross floor area of approximately 3,501 sq.m. The initial annual production capacity of the Suzhou plant is approximately 2 million units of the LCoS televisions and it is expected to commence commercial production in or around early 2009.

THE INTANGIBLE ASSET

The Intangible Asset include the following patents in LCoS related technology which are held by the Business Enterprise as at the Date of Valuation and which are to be acquired by the Company:

Patent No.	Patent Description	Place of Registration	Date of Patent	Date of Expiry
M167078	微型顯示元件 (Micro-Display Element)	Taiwan	27 Apr 2001	7 Apr 2012
I179417	微型顯示器之製造方法	Taiwan	8 Oct 2003	9 May 2020
I161595	微型顯示器之間隙柱組成方法	Taiwan	10 Dec 2002	7 Jan 2022
I220242	顯示面板之邊框及其構成方法	Taiwan	11 Aug 2004	15 Dec 2023
M263517	微型顯示面板之封裝外殼	Taiwan	1 May 2005	1 July 2014
I262343	顯示面板之框膠注入裝置及其注入方法	Taiwan	21 Sep 2006	15 Dec 2023
ZL 00264355.3	微 型 顯 示 元 件 (Micro-Display Element)	PRC	17 Oct 2001	26 Nov 2010
ZL 200310124548.9	顯示面板之框膠注入裝置及其注入方法	PRC	17 Jan 2007	30 Dec 2023
ZL 200420065966.5	微型顯示面板之封裝外殼	PRC	17 Aug 2005	15 Jul 2014
US 6,595,647 B1	Micro-Display Element	U.S.A.	22 Jul 2003	10 Aug 2020
US 6,562,640 B1	Method of Manufacturing Micro-Display	U.S.A.	13 May 2003	22 Aug 2020

We understand that upon acquisition of the Intangible Asset by the Group, ownership of the following technologies, which may have to be used in connection with the production of LCoS television and enlarged display units, the patents and/or patent applications of which have been terminated and/or withdrawn, will be vested in the Group:

Patent Description	Place of Registration/ Application	Patent Application No.	Patent No.
顯示面板之邊框及其構成方法	PRC	200310124563.3	Not applicable
組合式背投影電視機	PRC	200420002392.7	ZL 200420002392.7
投影光源燈件更換指示裝置	PRC	03203311.7	ZL 03203311.7
電動組合背投影電視機	PRC	200420059185.5	ZL 200420059185.5
微型投影裝置	PRC	200420059184.0	ZL 200420059184.0

We further understand that upon acquisition of the Intangible Asset by the Group, the exclusive licence to use the following patents, which may have to be used in connection with the production of LCoS television and enlarged display units, will be granted to the Group:

Patent Description	Place of Registration/ Application	Patent Application No.	Patent No.
投影光機的照明和影像調整裝置	PRC	200520103712.2	ZL 200520103712.2
投影光機的照明和影像調整裝置	Taiwan	094212807	M286929
組合式背投影電視機	Taiwan	093201777	M251417
投影光源燈件更換指示裝置	Taiwan	092200441	I216985
電動組合背投影電視機	Taiwan	093208271	M260965
微型投影裝置	Taiwan	093208272	M260756

THE SALES CONTRACT

Pursuant to the Sales Contract, the Vendor agreed to sell and the Purchaser agreed to buy certain quantity of television walls and 65-inch television sets in the brand name of “Blue Ocean” for a period of 1 January 2009 to 31 December 2012. We have been advised that the Intangible Asset will be applied as the core component of these Blue Ocean products.

According to the Sales Contract, the Purchaser will purchase a total 23,000 square metres ("sq.m.") of television wall and 28,000 sets of 65-inch television sets in 2009 at respective unit prices of US$5,500 per sq.m. and US$3,350 per set. The purchase volume for the 3-year period from 2010 to 2012 will be 20,000 sq.m. and 23,000 sets at the same unit prices in each year. The sales and the revenues in accordance with the Sales Contract for the period from 1 January 2009 to 31 December 2012 are summarized as below:

	Year 2009	**Year 2010**	**Year 2011**	**Year 2012**	**Total**
Unit Price					
— 65-inch TV *(US$/set)*	3,350	3,350	3,350	3,350	—
— TV Wall *(US$/sq.m.)*	5,500	5,500	5,500	5,500	—
Sales Volume					
— 65-inch TV *(sets)*	28,000	23,000	23,000	23,000	97,000
— TV Wall *(sq.m.)*	23,000	20,000	20,000	20,000	83,000
Revenues *(US$'000)*	**220,300**	**187,050**	**187,050**	**187,050**	**923,200**

OVERVIEW

Liquid Crystal on Silicon (LCoS)

Flat panel displays ("FPDs") are thin and lightweight video displays used in a variety of applications, including laptop and desktop computers, televisions, micro-displays, medical devices, and industrial instruments.

The development of portable/notebook personal computers ("PCs"), which require high resolution as well as limited thickness, provided a major incentive for the development of high-resolution FPDs (Freedonia Group 2004). High-resolution (or high-information content, "HIC") screens can display many lines of text and highly detailed graphics. These screens have a large number (several hundred thousand) of near-microscopic individually electronically addressable cells called picture elements (or pixels). They are capable of forming highly detailed images; the images can be erased and reformed, or refreshed, many times per second to give the illusion of motion.

FPDs are grouped into emissive and non-emissive types. Like cathode ray tubes ("CRTs"), emissive displays emit light, while non-emissive displays must have an external light source to make the images on the screen visible. The major emissive FPDs include: plasma displays, electroluminescent ("EL") displays, and vacuum fluorescent displays (all high resolution), and light-emitting diode displays (low resolution). Liquid crystal displays (LCDs) are non-emissive and require an external source of light. The two major types of LCDs are passive matrix (twisted nematic and super-twisted nematic, which show only a limited range of colors) and active matrix (which are capable of showing a full range of colors).

Micro-displays are displays that are so small that magnifying optics are needed to use them. A variety of flat panel technologies can be used to manufacture micro-displays. These include electroluminescence, organic light-emitting diode ("OLED"), vacuum fluorescence, LCoS, OLED on silicon, and tilted mirrors. They hold potential for a variety of uses, including high definition television ("HDTV"), projection systems, and near-to-eye devices such as viewfinders for digital cameras. Micro-displays are lightweight and can fit into small units.

LCoS is the newest rear projection TV technology. It is a micro-display technology that is typically applied in projection televisions. It is a reflective technology, but uses liquid crystals instead of individual mirrors. In LCoS displays, liquid crystals are applied directly to the surface of a silicon chip coated with an aluminized layer making it highly reflective. There may also be a polyimide alignment layer. As the liquid crystals open and close, the light is either reflected from the mirror below, or blocked. The LCoS technology requires less optical quality glass than LCD and plasma displays do, which makes it less expensive to manufacture devices such as televisions. This technology is the subject of intensive research and development activity, and represents an important emerging technology (Freedonia Group 2004).

Market

In 1998, the U.S. demand for FPDs accounted for just over 20 percent of the total U.S. demand for electronic displays. By 2008, FPDs are projected to account for nearly 85 percent of the total U.S. demand for these products (Freedonia Group 2004). By 2013, this percentage is predicted to be over 94 percent (Figure 1-1). This represents an increase of 19 percent per year through 2008. FPDs are expected to replace CRTs in almost every application, particularly in desktop computer monitors and television sets (which make up the majority of the demand for display products).

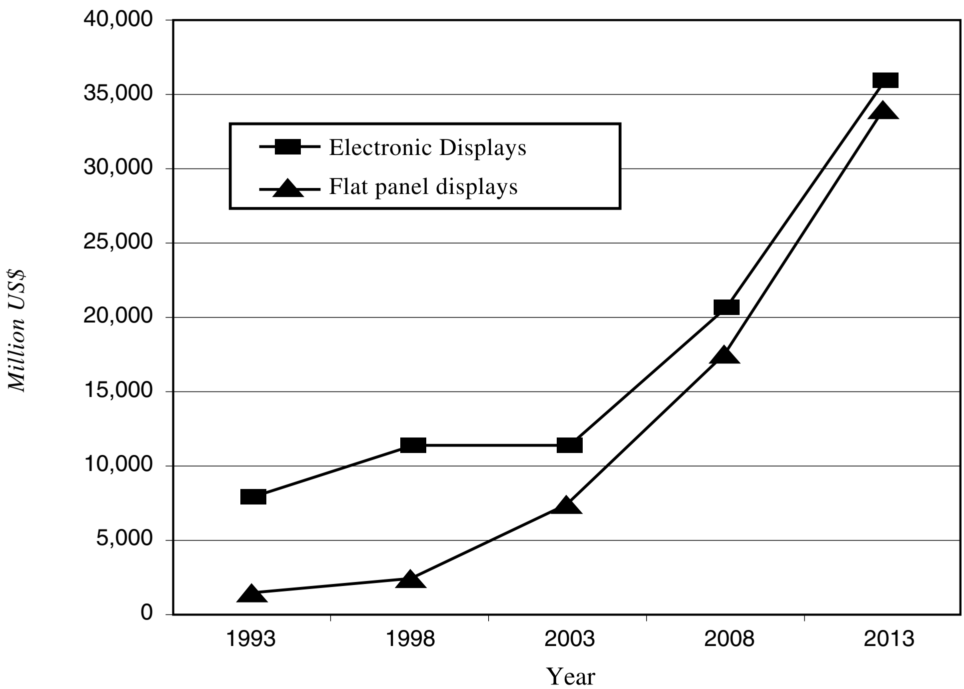

Figure 1-1. Sales by Year
(Adapted from: Freedonia Group 2004)

Most FPDs are manufactured in Asia: China, Japan, South Korea and Taiwan (Freedonia Group 2004). U.S. companies have concentrated on niche markets such as micro-displays, medical device displays, industrial instrument displays, and military/avionics displays.

LCDs are the dominant FPD technology. In 2003, they accounted for approximately 85 percent of the total FPD demand in the U.S., followed distantly by plasma displays, microdisplays, light-emitting diode ("LED") arrays, vacuum fluorescent displays (VFDs), OLED displays, EL displays, and other types. Active matrix LCDs using thin-film transistors (TFT) are predicted to continue this dominance of the FPD market. Plasma displays are expected to increase market share for HDTV and other large screen applications.

Figure 1-2 summarizes the projected market for FPDs by display type.

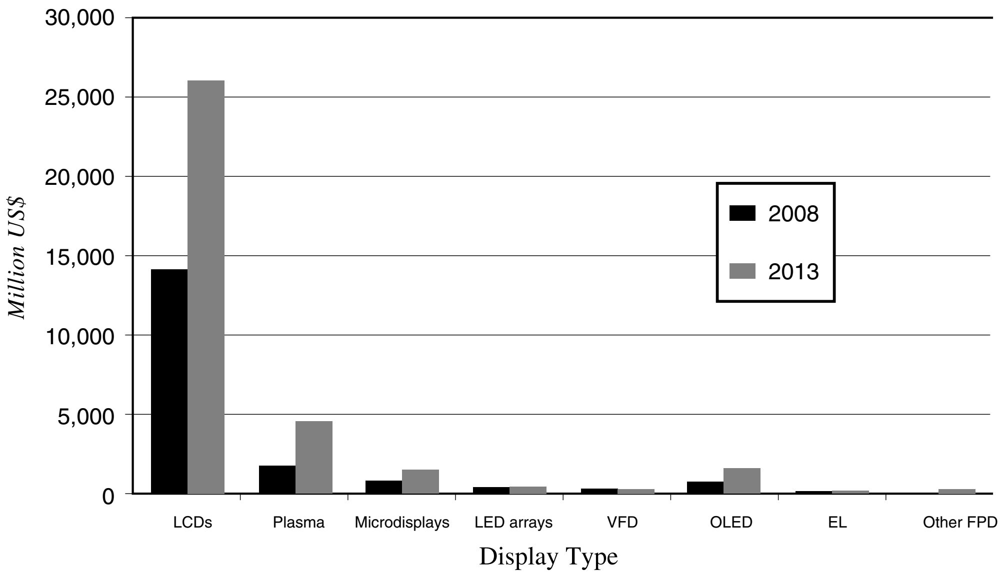

Figure 1-2. Projected Market for FPDs by Display Type
(Adapted from: Freedonia Group 2004)

By MD rear projection television ("RPTV") technology, LCD RPTVs and LCoS RPTVs each earned significant growth in Q4 2005 on a sell-in basis while Digital Light Processing ("DLP") RPTVs contracted after rapid Q3 2005 growth. LCoS RPTVs enjoyed dramatic growth due to the successful launch of Sony's Silicon X-tal Reflective Display ("SXRD") products in North America as well as the continued growth of JVC's D-ILA LCoS RPTVs. LCoS RPTV shipments rose 236% quarter-to-quarter and 405% year-to-year in Q4 2005, earning a 16% share of the MD RPTV market, up from 7% in Q3 2005.

Consumers embraced the benefits of higher resolution MD RPTVs in Q4 2005 with the 1080p (Note 1) share rising from 7% to 15% on 222% quarter-to-quarter growth. DLP and LCoS RPTVs experienced significant growth at 1080p resolution with the 1080p share of LCoS shipments growing from 13% to 64% and the 1080p share of DLP RPTV shipments rising from 13% to 18%. In North America, the 1080p share of MD RPTVs rose from 8% in Q3 2005 to 18% in Q4 2005. North America accounted for 99% of the 1080p MD RPTVs sold in Q4 2005 due to the plethora of broadcasted 1080i content which looks better on a 1080p than a 720p (Note 2) set and early adopters preparing for the availability of 1080p broadcasted and packaged content.

Notes:

1. 1080p is the shortname for a category of display resolutions. The number "1080" represents 1,080 lines of vertical resolution (1080 horizontal scan lines), while the letter "p" stands for progressive scan. 1080p can be referred to as full high definition to differentiate it from other HDTV.

2. 720p is the shortname for a category of display resolutions. The number "720" represents 720 horizontal scan lines of display resolution, while the letter "p" stands for progressive scan. When broadcast at 60 frames per second, 720p features the highest temporal (motion) resolution possible under th ATSC (Advanced Television Systems Committee) standard.

By region:

- North America remained the dominant region for MD RPTVs with an 87% share, on 47% quarter-to-quarter and 54% year-to-year growth to over 800,000 units. On a revenue basis, North America's share was slightly higher due to the adoption of more expensive LCoS and 1080p sets.

- In Europe, MD RPTVs earned rapid growth, up 166% quarter-to-quarter and 80% year-to-year, boosting its share of the MD RPTV market from 3% to 5%. Most of this growth was earned by Sony's LCD RPTVs which grew 330% quarter-to-quarter. Sony captured a 70% share in Q4 2005. Most of this growth was at 50'', with 50"-54" overtaking <50" for the first time in Europe.

- MD RPTVs also enjoyed impressive growth in Japan, rising 154% quarter-to-quarter. However, the Japanese market only accounted for a 1.3% unit share, up from 0.7%.

- MD RPTVs continue to struggle in the PRC despite the significant presence of CRT RPTVs. China was the only region to experience a sequential decline in Q4 2005 with shipments down 11% quarter-to-quarter and 24% year-to-year. As a result, its unit share fell from 3% to 2%.

- Rest of the world remained the second largest MD RPTV market with a 5% share, down from 6%, on 39% quarter-to-quarter and 19% year-to-year growth.

By size worldwide:

- 40"-44" MD RPTVs rose from 20% to 23% of the MD RPTV market on rapid growth in North America in the price sensitive holiday season. 40"-44" MD RPTV shipments were up 71% despite increased competition from LCD and plasma display panel ("PDP") TVs. Comparing all TV technologies at 40"-44", MD RPTVs maintained an 8% share.

- 45"-49" shipments rose 19%, but its share fell to 4%.

- 50"-54" remained dominant with a 42% share, up slightly from 41% on 50% growth. The 1080p share of the 50"-54" market rose from 9% in Q3 2005 to 16% in Q4 2005.

- 55”-59” rose from an 11% to a 12% share in Q4 2005 on 57% growth with the 1080p share rising from 5% to 9%.

- 60”+ shipments rose 32% with its share falling from 22% to 19%. The 1080p share surged, rising from 12% to 41%.

By 2008, devices that contain FPDs are projected to account for nearly 85 percent of the total U.S. demand for these products; by 2013, the percentage is predicted to reach 94 percent. FPDs are predicted to replace CRTs in almost every application, particularly in desktop computer monitors and television sets.

Demand for micro-displays is expected to grow at a rate of 21 percent per year, and is anticipated to reach US$750 million by 2008 (Freedonia Group 2004). The Micro Electrical Mechanical Systems (MEMS) used in these devices are the subject of intensive product research and development activity, and represent an important emerging technology.

The global RPTV market has seen its best days pass due to continued and hyper aggressive TV category competition from flat panels. Current-day plasma and LCD TV models have severely encroached upon RPTV’s once-untouchable turf, with both flat TV categories sporting high growth rates in the large sizes (greater then 50 inches). As such, we believe the RPTV market has run its course and will soon make way for all things flat panel despite current efforts to improve upon RPTV’s form factor (slim depth) and video performance (LED, 3 dimensional, laser backlights). Owning 84% of the global RPTV market, the United States is expected to be the last haven of opportunity for this TV category, yet will realize aggressive negative unit growth over the next four years.

RISK FACTORS

This valuation is based on the assumptions and financial projections provided by TMDC. While the assumptions and considerations of such matters and projections of future net cash flows have been carefully scrutinized, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of TMDC.

The business of TMDC is subject to uncertainty and there is no assurance that the business plan of TMDC and its business will materialize. In the course of our valuation, we have considered the following potential risks:

- There is strong reliance in key personnel.

- There is strong competition amongst different types of FPDs.

- The challenges faced by TMDC to compete successfully with advancement in technological development in the FPD manufacturing.

- There is increasing high cost of recruiting and maintaining technical and professional employees.

- Market risk associated with changes in interest rates, foreign exchange rates and government policies will affect the profitability of the Business Enterprise.

BASIS OF VALUATION AND ASSUMPTIONS

We have valued the Intangible Asset on the basis of its market value which is defined herein as the estimated amount at which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market value in continued existing use is further defined as the market value of an asset based on continuation of its existing use as part of an on-going business, assuming the asset could be sold in the open market for its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represents the highest and best use of the asset.

The opinion of market value in continued existing use is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the Intangible Asset or from some other alternate use.

This investigation is concerned solely with the value of the Intangible Asset and our opinion of value is not related to the earning capacity of the business. It is assumed that prospective earnings are adequate to support the concluded value of the Intangible Asset plus the value of other assets not included in this valuation, and sufficient net working capital. This report does not attempt to arrive at the value of the Business Enterprise as a total business entity.

In forming our opinion of the market value in continued existing use, we have assumed that the Intangible Asset will continue in its present existing use in the business of the Business Enterprise and subject to adequate potential profitability of the business.

Apart from the above, we have adopted certain specific assumptions in this valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licences to operate business in the locality in which TMDC operates or intends to operate would be officially obtained and renewable upon expiry.

- The Sales Contract will be duly executed by the Vendor and the Purchaser.

- The core component of each of the Blue Ocean television sets and television wall system will be manufactured by applying the Intangible Asset.

- The profit margin of the product will be able to be maintained at approximately 40% of the sale revenue.

- The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals.

- The financial projections provided will materialize.

- There are no outstanding debts and loans incurred at the Date of Valuation.

- There will be a sufficient supply of technical staff in the industry in which TMDC operates.

- TMDC will retain competent management, key personnel and technical staff to support its ongoing operation and development.

- There will be no major changes in the current taxation laws in the specific market areas and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

- There will be no major changes in the political, legal, economic or financial conditions in the specific market areas, which would adversely affect the revenues attributable to and profitability of TMDC.

- Interest rates and exchange rates in the specific market areas will not differ materially from those presently prevailing.

INVESTIGATION AND ANALYSIS

We confirm that we have carried out discussions with the management of the Company, made relevant inquiries and obtained such further information, as we consider necessary for the purpose of this valuation. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Company provided to us and have assumed their accuracy. We have also consulted other sources of financial and business information.

The valuation of an interest in the Intangible Asset requires consideration of all pertinent factors, which affect the operation of the business concerned and its ability to generate future investment returns. The factors considered in this valuation include the following:

- the nature of the Intangible Asset;

- the Business Enterprise and its history from inception;

- the nature of TMDC's business;

- the financial condition of the Business Enterprise;

- the economic outlook of Taiwan in general and the specific economic environment and market elements in the world which may affect TMDC's business as a whole;

- the financial and business risk of TMDC's business and its projected results; and

- investment returns and market transactions of entities engaged in similar lines of business.

VALUATION METHODOLOGY

We have considered a number of alternative valuation approaches and methods and concluded that, given the nature of the Intangible Asset and the information available, the Relief-from-royal Method is the most appropriate one for valuing the Intangible Asset.

Under the Relief-from-royal Method, an asset is valued based upon the incremental after-tax cash flow accruing to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for the use of that property. Accordingly, a portion of the Business Enterprise's earning, equal to the after-tax royalty that would have been paid for use of the concerned patents in LCoS related technology, can be attributed to the Intangible Asset.

Royalty license agreements are commonly constructed to cover the use of patents, trademark, know-how, technology and other intangible assets. The best evidence to determine a reasonable royalty rate is to inquire whether the patent owner has recently granted any licences to other third party to use the patents. However, for many product lines, there may not be licence agreement or prevailing rates for granting licences, which can provide guidelines to the patents under valuation. Hence, an estimate of a reasonable royalty must be made with the assumption that the patents were licensed at a fair rate as a result of arm's length negotiations. The overriding consideration in estimating a fair royalty rate is to examine the operating profit margin earned by the product to which the patents were applied. There must be adequate profit margin earned by the product to which the patents were applied. There must be adequate profit available to a potential licensee to allow for a reasonable profit after the payment of the royalty.

Taking into account the nature of the Intangible Asset, we have established a royalty rate of 20% on the sale revenues after analyzing the performance of the business concerned and considering the approximately 40% profit margin earned by the product to which the Intangible Asset were applied.

When developing the discount rate to apply to the future economic income streams attributable to the Intangible Asset, we have adopted the Capital Asset Price Model ("CAPM"). CAPM states that an investor requires excess returns to compensate systemic risks and provide no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systemic; other risks are referred to as non-systematic.

Under CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the systematic risks assumed. In addition, the rate of return of the subject business is affected by other firm specific risk factors that are independent of the general market.

In the course of our valuation, several listed companies in Hong Kong with similar business nature were selected as comparable companies, which include O2Micro International Limited (00457), Skyworth Digital Holdings Limited (00751) and TCL Multimedia Technology Holdings Limited (01070).

The discount rate of approximately 14.23% adopted was determined by the risk-free rate of approximately 2.78% (the yield of the 5-year Hong Kong Exchange Fund Note), market return of approximately 12.78% and estimated beta of the subject business of approximately 0.25 and firm specific risk factors including start-up risk premium 5.00% and size premium 4.02%.

VALUATION COMMENTS

We have not investigated any industrial safety environmental and health-related regulations in association with this particular production process. It is assumed that all-necessary licenses, procedures, and measures were implemented in accordance with the government legislation and guidance.

We have been provided with copies of patent certificates/registration records relating to the Intangible Asset. However, we have not examined the original documents to verify the ownership of the Intangible Asset. We have assumed no responsibility for the title to the Intangible Asset. Unless otherwise stated, it is assumed that individual items of the Intangible Asset are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. It is further assumed that there are no hidden or unapparent conditions of the Intangible Asset, which would render them more or less valuable.

LIMITING CONDITIONS

This valuation reflects facts and conditions existing as at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are true and accurate. The data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources, yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided in arriving at our opinion of value. We assume, without independent verification, the accuracy of all information provided to us. We have had no reason to doubt the truth and accuracy of the information furnished to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We would particularly point out that our valuation has relied heavily on the information as contained in the information provided to us.

Our conclusion of the market value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Neither the whole nor any part of this valuation report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this valuation report is for the sole use of the party to whom it is addressed and for the specific purpose stated above. No responsibility is accepted to any third party for the whole or any part of its contents.

REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in US Dollar (US$). Where necessary, the exchange rate adopted in our valuation was US$1=HK$7.80, which was approximately the prevailing exchange rate as at the Date of Valuation.

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that the market value of the Intangible Asset as at 31 August 2008, was reasonably represented by the amount of **US$92,000,000 (US DOLLARS NINETY-TWO MILLION ONLY**).

We hereby confirm that we have neither present nor prospective interest in the Company, TMDC, the Intangible Asset or the value reported.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED

William C. K. Sham
Registered Professional Surveyor (G.P.)
Registered Business Valuer
China Real Estate Appraiser
MRICS, MHKIS, MCIREA
Executive Director

Note: Mr. William C. K. Sham has been conducting asset valuations and consultancy works in the Greater China and the Asia Pacific regions for various purposes for 25 years. He has undertaken various valuation assignments on business enterprises and intangible assets since 1998 and has extensive experience in the valuation of patent and proprietary technology; infrastructure project including power plants, toll roads, port facilities; and business enterprises in various industries such as information technology, health products, pharmaceutical and biotechnology, media, energy, etc.

Set out below are the texts of letters in connection with the forecast underlying the valuation on the TMDC Sale Patents as at 31 August 2008 which is considered as a profit forecast under Rule 14.62(1) of the Listing Rules, received from HLB Hodgson Impey Cheng, the independent reporting accountants and Nuada Limited, the financial adviser, for the purpose of inclusion in this circular.

1. LETTER FROM THE REPORTING ACCOUNTANT

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

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

28 November 2008

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

Dear Sirs,

We report on the calculations of the discounted future estimated cash flows on which the asset valuation (the "Valuation") dated 28 November prepared by B.I. Appraisals Limited (the "Valuer") in respect of the Valuation of the intellectual property in Liquid Crystal on Silicon related technology for the manufacture of Micro Display held by Taiwan Micro Display Corporation ("TMDC") as at 31 August 2008 as set out in Appendix V of the circular of Karce International Holdings Company Limited (the "Company") dated 28 November 2008 (the "Circular") in connection with the proposed acquisition of the entire interest in Pacific Choice Holdings Limited ("Pacific Choice") by the Company. The Valuation which is determined based on the discounted cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THE REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows for the valuation which is regarded as a profit forecast under Rule 14.62 of the Listing Rules.

It is our responsibility to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of bases and assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and express no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by Hong Kong Institute of Certified Public Accountants. We examined the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the directors of the Company in evaluating whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled and for no other purpose. We accept no responsibility to any other person in respect of, arising out of in connection with our work. Our work does not constitute any valuation of the intellectual property in Liquid Crystal on Silicon related technology for the manufacture of Micro Display held by TMDC.

OPINION

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out in Appendix V of the Circular.

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

2. LETTER FROM THE FINANCIAL ADVISER

Nuada Limited
Corporate Finance Advisory

7th Floor, New York House
60 Connaught Road Central
Hong Kong

28 November 2008

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

Dear Sirs,

We refer to the valuation report dated 28 November 2008 prepared by B.I. Appraisals Limited (the "Valuer") in respect of the fair value of the intellectual property in Liquid Crystal on Silicon related technology for the manufacture of Micro Display (the "Intangible Asset") held by Taiwan Micro Display Corporation (the "TMDC") as at 31 August 2008 (the "Valuation Report"). The Valuation Report has been set out in Appendix V to the circular of Karce International Holdings Company Limited (the "Company") dated 28 November 2008 (the "Circular").

As set out on pages V-1 to V-15 to the Circular, the Valuation Report including the basis of valuation and assumptions and the financial projections, of which the Directors are solely responsible, has been prepared based on the cash flow projection of Intangible Asset for the period from 1 January 2009 to 31 December 2012 made by the Valuer and reviewed by the directors of TMDC (the "Projections").

We have discussed with you the basis and assumptions in the Valuation Report upon which the Projections has been made. We have also considered the letter dated 28 November 2008 issued by HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong addressed to you, regarding whether the Valuation Report was compiled properly so far as the calculations are concerned.

On the basis of the assumptions and calculations adopted by the Valuer in respect of the Projections after properly reviewed by you, we are of the view that the Projections, for which the Directors are responsible, has been made after due and careful enquiry by you.

The purpose of this letter in connection with the Projections undertaken by us is solely for the strict compliance under Rule 14.62(3) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. We, however, express no opinion in this letter on the actual results of the Projections as the Projections are based on hypothesis of the future event.

Yours faithfully,
For and on behalf of
Nuada Limited
Po Chan
Executive Director

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and immediately after the increase in the authorized share capital and upon full conversion of the Convertible Bonds will be as follows:

Authorized share capital:

		HK$
2,000,000,000	Shares as at the Latest Practicable Date	200,000,000
18,000,000,000	Shares to be created to increase the authorized share capital	1,800,000,000
20,000,000,000		2,000,000,000

Issued and to be issued share capital:

		HK$
652,356,000	Shares as at the Latest Practicable Date	65,235,600
5,750,000,000	New Shares to be issued upon full conversion of the Convertible Bonds at the Initial Conversion Price	575,000,000
6,402,356,000		640,235,600

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The new Shares to be allotted and issued as the Conversion Shares will, when issued and fully paid, rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue.

3. DIRECTORS' INTERESTS

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

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

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

Save for Mr. Tong's interest in a disposal agreement (the "Disposal Agreement") entered into by the Group on 2 May 2008 (details of which were disclosed in the Announcement and the circular of the Company dated 30 September 2008 respectively), as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

Save for Mr. Tong's interest in the Disposal Agreement and that Chan Shun Yuen (a proposed Director following the Acquisition Completion) is the sole shareholder of the company which in turn holds 10% of the Target Company proposed to be acquired as disclosed in "Letter from the Board" section of this circular, as at the Latest Practicable Date, none of the Directors nor proposed Directors had any direct or indirect interest in any assets which have been, or are proposed to be, acquired or disposed of by or leased to any member of Enlarged Group since 31 March 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

(c) Directors' interests in service contracts

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

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

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or , who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

(a) Interests in the Shares

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

Notes:

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

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

3. It was stated in the corporate substantial shareholder notice of Perfect Treasure Investment Limited filed on 29 February 2008 that it was interested in 87,800,000 Shares (representing 13.45% of the total issued Shares). To the best knowledge and belief of the Directors, Perfect Treasure Investment Limited was interested in 90,416,000 Shares (representing 13.86% of the total Shares) as at the Latest Practicable Date.

(b) Interests in the underlying Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage
China Eagle Development Limited (i.e. the First Vendor) *(Note 1)*	Beneficial owner	5,137,500,000	787.53%
Fairtime International Limited (i.e. the Second Vendor) *(Note 2)*	Beneficial owner	612,500,000	93.89%

Notes:

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

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

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had an interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

As at the Latest Practicable Date and save and except that Chan Shun Yuen, a proposed Director, is deemed to be interested in the underlying Shares in which the Second Vendor is interested as disclosed in paragraph 4(b) above, none of the Directors or proposed Director held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. LITIGATION

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

6. MATERIAL CONTRACTS

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

(i) the Acquisition Agreement (as supplemented by the Supplemental Agreement);

(ii) the Disposal Agreement;

(iii) the agreement dated 22 May 2008 entered into between Redditch Enterprises Limited and Xinyu Electronics Limited, Joyham Jade Limited, Sabic Electronic Limited and Habermann Limited ("Four BVI Companies") in relation to the supply of conductive silicon rubber keypads and printed circuit boards to the Four BVI Companies and their subsidiaries by the Group;

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

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

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

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

(viii) the TMDC Agreement;

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

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

(xi) the sale and purchase agreement dated 12 September 2008 and entered into among China Ample Investments Limited (a company wholly and beneficially owned by the Company) as vendor, KFE Hong Kong Co., Limited (a company wholly and beneficially owned by KFE Japan Co., Limited (a company incorporated in Japan whose shares are listed on the Nagoya Stock Exchange)) as purchaser and KFE Japan Co., Limited as warrantor of KFE Hong Kong Co., Limited (as supplemented by the supplemental agreement dated

26 September 2008), in connection with China Ample Investments Limited's disposal of the entire issued share capital of Jet Master Limited (a wholly-owned subsidiary of China Ample Investments Limited and an indirect wholly-owned subsidiary of the Company) to KFE Hong Kong Co., Limited at a consideration of US$3,000,000; and

(xii) the sales agreement entered into between Gold Pioneer and 北京國鐵傳媒廣告有限公司on 16 September 2008 regarding the sales of television products in the brand name of "Blue Ocean" on which the TMDC Sale Patents will be applied as core components.

7. COMPETING INTERESTS

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

8. EXPERTS AND CONSENTS

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

Name	Qualification
Savills Valuation and Professional Services Limited ("Savills")	Property valuer, chartered surveyor
B.I. Appraisals Limited	Professional valuer
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants, Certified Public Accountants
Nuada Limited	a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as under SFO

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

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

(iv) None of Savills, the Valuer, HLB and Nuada Limited has any direct or indirect interest in any asset which has been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

9. MISCELLANEOUS

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

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

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

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

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

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

(ii) the annual reports of the Company for the two years ended 31 December 2007 and the interim report of the Company for the six months ended 30 June 2008;

(iii) the accountants' reports on the Target Group and Precise Media (as consolidated with the PRC Subsidiary) included in Appendix II to this circular;

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

(v) the property valuation report of the Group prepared by Savills as set out in Appendix IV to this circular;

(vi) the property valuation report of the Target Group prepared by the Valuer as set out in Appendix IV to this circular;

(vii) the valuation report on the TMDC Sale Patents prepared by the Valuer as set out in Appendix V to this circular;

(viii) the letter from Nuada Limited in connection with the forecast underlying the valuation of the TMDC Sale Patents as set out in Appendix VI to this circular;

(ix) the letter from HLB in connection with the forecast underlying the valuation of the TMDC Sale Patents as set out in Appendix VI to this circular;

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

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

(xii) the circulars of the Company dated 30 September 2008 and 17 October 2008.

KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("SGM") of Karce International Holdings Company Limited (the "Company") will be held at Crystal Room No. 7, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, Hong Kong on Wednesday, 17 December 2008, at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company:

1. "**THAT** the conditional agreement dated 30 April 2008 (as supplemented by the agreement dated 24 October 2008) ("**Acquisition Agreement**") entered into between Sourcestar Profits Limited ("**Sourcestar Profits**", as the purchaser), China Eagle Development Limited, Fairtime International Limited (collectively the "**Vendors**"), the Company (as warrantor of Sourcestar Profits), Chan Shun Yuen and Hsu Ming Shan (copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) in relation to, among others, the acquisition ("**Acquisition**") of the entire issued share capital in Pacific Choice Holdings Limited ("**Target Company**") and the loans outstanding made by or on behalf of the Vendors to the Target Company by Sourcestar Profits from the Vendors, subject to the terms and conditions of the Acquisition Agreement as set out in the circular ("**Circular**") of the Company dated 28 November 2008 (copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby (including without limitation the issue of the Convertible Bonds (as defined in the Circular), the allotment and issue of the Conversion Shares (as defined in the Circular) upon exercise of the conversion rights attaching to the Convertible Bonds, and the issue of the Promissory Note (as defined in the Circular)) be and they are hereby approved, and that the directors of the Company ("**Directors**") be and they are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement or the transactions contemplated thereunder and the amendments thereto (to the extent such amendments are not material in the context of the entire transaction as a whole)."

** For identification purposes only*

2. "**THAT** the authorized share capital of the Company be and is hereby increased from HK$200,000,000 divided into 2,000,000,000 shares of par value HK$0.10 each ("**Shares**") to HK$2,000,000,000 divided into 20,000,000,000 Shares by the creation of 18,000,000,000 new Shares in the capital of the Company, and that the Directors be and they are hereby authorized to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may consider necessary, appropriate, desirable or expedient to give effect to or in connection with such increase in the authorized share capital of the Company."

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

Hong Kong, 28 November 2008

Notes:

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

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

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

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

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

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