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

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

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KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

**DISCLOSEABLE TRANSACTION
DISPOSAL OF SUBSIDIARY**

* for identification only

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DEFINITIONS

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

“Agreement”	the 出資轉讓合同 (Equity Interests Transfer Agreement) dated 4th January, 2005 entered into between the Vendor and the Purchaser in relation to the Disposal
“Announcement”	the announcement in relation to the Disposal issued by the Company on 6th January, 2005
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Karce International Holdings Company Limited
“DTEC”	東莞德鉅電子有限公司 (Dongguan Tehsutec Electronic Company Limited)
“Directors”	the directors of the Company
“Disposal”	the sale of the entire equity interests in DTEC pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	24th January, 2005, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	Power Universe International Limited
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company

DEFINITIONS

“Shareholders”	holders of the Share(s)
“Vendor”	Tachibana Limited, an indirect wholly-owned subsidiary of the Company
“HK\$”	the lawful currency of Hong Kong

LETTER FROM THE BOARD



KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

(泰盛實業集團有限公司*)

(Incorporated in Bermuda with limited liability)

Directors:

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

Non-executive Directors:

Mr. Lee Kwok Leung
Mr. Yang Yiu Chong, Ronald Jeffrey

Independent non-executive Directors:

Mr. Sun Yaoquan
Mr. Tsao Kwang Yung, Peter
Mr. Goh Gen Cheung

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place
of business in Hong Kong:*

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

27th January, 2005

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION DISPOSAL OF SUBSIDIARY

INTRODUCTION

As announced by the Board on 6th January, 2005, the Group had entered into the Agreement with the Purchaser to dispose of the entire equity interests in DTEC, an indirect wholly-owned subsidiary of the Company at a total consideration of HK\$12,000,000. The purpose of this circular is to provide you with further information in relation to the Disposal.

* for identification only

LETTER FROM THE BOARD

THE AGREEMENT

Date:

4th January, 2005

Parties:

Purchaser: Power Universe International Limited. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries by the Directors, the Purchaser and its ultimate beneficial owner are not connected persons (as defined in the Listing Rules) of the Company. To the understanding of the Directors, the Purchaser is a limited company incorporated in the BVI and is an investment holding company.

Vendor : Tachibana Limited, a company incorporated in the BVI and is an indirect wholly-owned subsidiary of the Company.

Assets to be disposed of:

The entire equity interests in DTEC owned by the Vendor.

Conditions precedent:

The completion of the Disposal is conditional upon:

- (a) the obtaining of the approval(s) from the relevant PRC authority(ies) which is/are responsible for approving the Disposal (including but not limited to 東莞市對外經濟貿易委員會 (Dongguan City Foreign Economic Trading Committee)) in relation to the Disposal;
- (b) the obtaining of the approvals from the board of directors of the Vendor, the Purchaser and the Company;
- (c) the execution of a share pledge agreement/deed by the Purchaser and the relevant members of the Group pursuant to which after completion, the Purchaser shall pledge all the equity interests in DTEC to the relevant members of the Group to secure the repayment of all the amounts due from DTEC to the relevant members of the Group;
- (d) the execution of an asset pledge agreement/deed by the Purchaser, DTEC and the relevant members of the Group pursuant to which after completion, the Purchaser shall procure DTEC to pledge all its assets to the relevant members of the Group to secure the repayment of all the amounts due from DTEC to the relevant members of the Group;
- (e) the payment of the whole amount of the consideration for the Disposal by the Purchaser; and

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- (f) the issuance of the Announcement.

The Vendor shall have the absolute right to waive all or any of the abovementioned conditions. If any of the conditions has not been fulfilled or waived on or before 14th February, 2005, the Vendor shall have the right to (but shall not be obligated to) rescind the Agreement and the Agreement will become void. Save as provided in the Agreement and/or any prior breach, none of the parties shall have any claims or rights against the other party in respect of such rescission.

Though the Vendor has the right to waive all or any of the abovementioned conditions, the Directors do not expect the Vendor to waive any of the conditions as at the date of this circular. Should the Vendor decide to waive any of the conditions, the Company will make relevant disclosure in further announcement(s).

Consideration:

The consideration of an aggregate amount of HK\$12,000,000 shall be settled in cash in three installments as follows:

- (a) an amount of HK\$4,000,000 which was transferred from an escrow account held by an escrow agent, which was not a connected person (as defined in the Listing Rules) of the Company, to pay and set off the consideration had been received by the Vendor as at the date of this circular;
- (b) a sum of HK\$2,000,000 had been received by the Vendor upon signing of the Agreement; and
- (c) the remaining balance amounting to HK\$6,000,000 shall be payable on the earlier of (i) 14th February, 2005 or (ii) the date on which the relevant PRC authority(ies) which is/are responsible for approving the Disposal (including but not limited to 東莞市對外經濟貿易委員會(Dongguan City Foreign Economic Trading Committee)) issued its/their approval(s) in relation to the Disposal.

The consideration has been determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms by reference to the net assets value of DTEC pursuant to the latest unaudited management account of DTEC as at 31st October, 2004 prepared in accordance with the generally accepted accounting practice in Hong Kong which amounted to approximately HK\$11,610,000. The consideration exceeds the net assets value of DTEC as at 31st October, 2004 by approximately HK\$390,000.

Completion:

Completion shall take place upon all of the conditions being fulfilled or waived. The Directors expect that the completion will take place on or before 31st May 2005.

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Share pledge and assets pledge:

As at 31st October, 2004, other members of the Group had advanced a total amount of approximately HK\$20,000,000 (subject to adjustment in view of the outstanding amounts as at 31st December, 2004 which was yet to be finalized) to DTEC as general working capital. It was agreed that all such advances shall be fully repayable after completion by DTEC to the relevant members of the Group on or before 31st December, 2005.

In order to secure the repayment of all the amounts due from DTEC to the relevant members of the Group, it was agreed in the Agreement that the following agreements/deeds shall be executed on or before completion, the terms of which shall be agreed by the Vendor:

- (a) a share pledge agreement/deed to be entered into between the Purchaser and the relevant members of the Group pursuant to which after completion, the Purchaser shall pledge all the equity interests in DTEC to the relevant members of the Group to secure the repayment of all the amounts due from DTEC to the relevant members of the Group; and
- (b) an asset pledge agreement/deed to be entered into by the Purchaser, DTEC and the relevant members of the Group pursuant to which after completion, the Purchaser shall procure DTEC to pledge all its assets (mainly consist of property, plant, machinery, equipment, stock and accounts receivables) to the relevant members of the Group to secure the repayment of all the amounts due from DTEC to the relevant members of the Group.

Such agreements/deeds have not been executed as at the date of this circular. The Directors confirmed that there was no specific timetable for the execution of such agreements/deeds but as mentioned above, the same were expected to be executed on or before completion.

The Directors consider that the requirements for both the share pledge and asset pledge are to provide greater security to the Group to secure the repayment of the amounts due from DTEC after completion. The share pledge refers to a pledge on the equity interests in DTEC held by the Purchaser after completion and the assets pledge refers to a pledge on all the assets of DTEC. Such double pledges have been agreed between the Vendor and the Purchaser after arm's length negotiations. The Directors consider that such double pledges will provide more comfort to secure the advances and are beneficial to the Group.

REASONS FOR THE DISPOSAL

The Group is principally engaged in the manufacture of and trading in electronic products, conductive silicon rubber keypads, printed circuit boards and telecommunication products.

DTEC is a wholly foreign owned enterprise incorporated in the PRC on 8th July, 1999. The entire equity interests of which are owned by the Vendor, an indirect wholly-owned subsidiary of the Company before the Disposal. DTEC is principally engaged in the business of manufacturing of conductive silicon rubber keypads. After the completion of the Disposal, DTEC will cease to be a subsidiary of the Company and the Company will cease to have any equity interest in DTEC. Accordingly, the equity interest in DTEC will no longer be consolidated in the accounts of the Group after the completion of the Disposal.

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The Group acquired DTEC in 2002. From there onwards, the Group owns two factories (including DTEC) which are both engaging in the business of manufacturing of conductive silicon rubber keypads (“**Rubber Keypads Business**”). The Disposal is part of the Group’s strategy to streamline its Rubber Keypads Business. The Directors consider that it is the appropriate timing for the Group to concentrate on the development of its Rubber Keypads Business in one factory only as the Directors believe that a more effective management on the business operations, key employees and client base etc. can be achieved on its Rubber Keypads Business after the Disposal. Also, since the consideration had been paid or will be payable in cash, the Directors believe that the proceeds received or receivable from the Disposal will also strengthen the cash flow position of the Group. Accordingly, the Directors believe that the Disposal will be beneficial to the Company and the Shareholders as a whole.

The net proceeds of the Disposal will be applied as additional working capital of the Group.

The net profits before taxation and extraordinary items of DTEC prepared in accordance with the generally accepted accounting practice in Hong Kong for the two years ended on 31st December, 2002 and 31st December, 2003 amounted to approximately HK\$5,273,300 and HK\$320,800 respectively and the net profits after taxation and extraordinary items of DTEC prepared in accordance with the generally accepted accounting practice in Hong Kong for the two years ended on 31st December, 2002 and 31st December, 2003 amounted to approximately HK\$4,634,900 and HK\$320,800 respectively.

The Directors confirmed that the gain or loss arising from the Disposal shall be the difference between the proceeds from the Disposal and the total of: (1) the carrying amount of all assets less liabilities pursuant to the relevant Hong Kong Accounting Standards/Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants; (2) the related unamortised goodwill and (3) the related accumulated exchange reserve of DTEC, as of the date of completion.

The Directors are of the view that the Group is not able to determine the gain or loss arising from the Disposal as at the date of this circular as the information required for such calculation as explained above will not be available until the date of completion of the Disposal. In view of the foregoing, the Directors are of the view that it will not be possible and appropriate for the Company to disclose such gain or loss arising from the Disposal in this circular as any disclosure of the same will be misleading and inaccurate. The Group will make relevant disclosure regarding the gain or loss arising from the Disposal as soon as the same can be ascertained in its forthcoming annual report for the year ended 31st December, 2004 or if the same can be ascertained before the issue of the annual report, in further announcement(s).

The Directors consider that the Disposal will not have any significant effect on (a) the assets and liabilities of the Group as the total consideration for the Disposal exceeds the net assets value of DTEC as at 31st October, 2004 only by approximately HK\$ 390,000 and (b) the earnings of the Group as only less than 2% of the net profits of the Group was contributed by DTEC.

The Directors consider that the terms of the Agreement have been arrived at after arm’s length negotiations based on normal commercial terms and to be fair and reasonable and in the interests of the Shareholders as a whole.

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GENERAL

The Disposal contemplated under the Agreement constituted a discloseable transaction of the Company under the Listing Rules.

ADDITIONAL INFORMATION

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

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

RESPONSIBILITY STATEMENT

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

1. DISCLOSURE OF INTERESTS**Interests and short positions of Directors and chief executive in the share capital of the Company and its associated corporations**

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

Directors' interests in the Shares

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

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

2. SUBSTANTIAL SHAREHOLDERS

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

would be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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

3. LITIGATION

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

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31st December, 2003, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, the Company had entered into service contract with each of the executive Directors for a term of 3 years and appointment letter with each of the non-executive Directors and each of the independent non-executive Directors for a term of 1 year.

6. COMPETING INTERESTS

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

7. MISCELLANEOUS

- (a) The company secretary as well as the qualified accountant of the Company is Mr. Wong Hei Chiu. Mr. Wong holds a bachelor's degree in business administration from Lingnan University, Hong Kong. He is a Certified Public Accountant, a fellow member of The Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principle place of business of the Company in Hong Kong is located at Units 1 and 2, 29th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (c) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.