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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)

**(1) THE SUPPLEMENTAL AGREEMENT TO  
THE AGREEMENT DATED 30 APRIL 2008 RELATING TO  
THE VERY SUBSTANTIAL ACQUISITION REGARDING  
THE ACQUISITION OF THE ENTIRE SHAREHOLDING INTEREST IN AND  
SHAREHOLDERS' LOANS DUE FROM THE TARGET COMPANY  
INVOLVING ISSUE OF CONVERTIBLE BONDS  
AND PROMISSORY NOTE;  
AND  
(2) RESUMPTION OF TRADING**

This announcement is made pursuant to Rule 14.36 of the Listing Rules. References are made to the Company's announcements dated 22 May 2008, 31 July 2008 and 26 September 2008.

**THE SUPPLEMENTAL AGREEMENT**

Further to the Announcement regarding, among other things, the entering into of the Acquisition Agreement, the Board announced that after trading hours on 24 October 2008, Sourcestar Profits (as purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as warrantor of Sourcestar Profits) entered into the Supplemental Agreement with the First Vendor, the Second Vendor and the Warrantors to amend certain terms and conditions of the Acquisition Agreement.

\* For identification only

Pursuant to the Supplemental Agreement, the Acquisition Consideration will be reduced from HK\$3,400 million to HK\$2,700 million (subject to adjustments as set out in the paragraph headed “Adjustments to the Acquisition Consideration” of the Announcement, if any) with the reduction of the principal amount of the Tranche 1 Bonds from HK\$1,000 million to HK\$300 million, which will be satisfied (i) as to the Deposit of HK\$25 million payable in cash by Sourcestar Profits (or the Company) to the Second Vendor (or its nominee(s)); (ii) 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)); (iii) as to HK\$255 million by the issue of the Tranche 1 Bonds by the Company to the First Vendor (or its nominee(s)); (iv) 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 (v) as to HK\$2,000 million (subject to the adjustment to the Acquisition Consideration as detailed in the paragraph headed “Earn-out adjustments” below) 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)). Further, the commencement date for calculating the earn-out adjustments has also been postponed from 1 May 2008 to 1 January 2009.

Despite the amendments to the terms and conditions of the Acquisition Agreement under the Supplemental Agreement, the Acquisition still constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules.

## **GENERAL**

A circular containing, 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; (iv) the valuation report of the TMDC Sale Patents; and (v) a notice of the SGM, will be despatched to the Shareholders. As set out in the Company’s announcement dated 26 September 2008, as more time is required for collating the information to be contained in the valuation report of the TMDC Sale Patents and the preparation of the accountants’ reports in accordance with Rule 14.69(4)(a)(i) of the Listing Rules for inclusion in the circular, an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 14.38 of the Listing Rules and for a further extension of time to despatch the circular to on or before 30 November 2008 and the Stock Exchange has granted the waiver.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 27 October 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 28 October 2008.

This announcement is made pursuant to Rule 14.36 of the Listing Rules. References are made to the Company’s announcements dated 22 May 2008 (the “**Announcement**”), 31 July 2008 and 26 September 2008. Capitalized terms used in this announcement shall have the same meaning as those defined in the Announcement unless otherwise stated therein.

Further to the Announcement regarding, among other things, the entering into of the Acquisition Agreement, the Board announces that after trading hours on 24 October 2008, Sourcestar Profits (as purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as warrantor of Sourcestar Profits) entered into a supplemental agreement (the “**Supplemental Agreement**”) with the First Vendor, the Second Vendor and the Warrantors to amend certain terms and conditions of the Acquisition Agreement.

In the course of due diligence exercise conducted by or on behalf of Sourcestar Profits, it had come to the notice of Sourcestar Profits that (i) certain patents held by TMDC which may have to be used in connection with the production of LCoS televisions and enlarged display units were not included in the TMDC Sale Patents and certain patents/patent applications in connection with the production of LCoS televisions and enlarged display units used to be registered under TMDC’s name in the PRC had been revoked; and (ii) the TMDC Sale Machineries are pledged as security for certain TMDC’s bank loans. In addition, due to the funding requirements, the construction plan of the PRC Subsidiary’s Suzhou Plant may have to be postponed. To the best knowledge of the Company, following further negotiations between the parties to the TMDC Agreement, supplemental agreements to the TMDC Agreement were entered into between such parties on 5 September 2008 and 3 October 2008 respectively to, among others, (1) revise the scope of the TMDC Sale Patents; (2) prohibit TMDC from making patent applications of the same/similar kind as those revoked or withdrawn patents/patent applications mentioned above; (3) govern 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)); (4) govern the time when the pledge created on the TMDC Sale Machineries should be released and when the TMDC Sale Machineries should be delivered to the PRC Subsidiary; and (5) impose certain non-competition undertakings on TMDC and its senior officers.

Accordingly, the Supplemental Agreement was entered into among the parties to the Acquisition Agreement after trading hours on 24 October 2008 to amend certain terms and conditions of the Acquisition Agreement, with details set out as below.

### **Acquisition Consideration**

The aggregate Acquisition Consideration will be reduced from HK\$3,400 million to HK\$2,700 million (subject to adjustments as set out in the paragraph headed “Adjustments to the Acquisition Consideration” of the Announcement, if any) with the reduction of the principal amount of the Tranche 1 Bonds from HK\$1,000 million to HK\$300 million. The reduction in the Acquisition Consideration was reached after arm’s length negotiations between the parties to the Supplemental Agreement with reference to the reduction of revised valuation (in a draft form and subject to finalization) of the TMDC Sale Patents to about US\$92 million (equivalent to approximately HK\$718 million) as at 31 August 2008 as valued by the Valuer.

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

- (i) as to HK\$25 million paid in cash by Sourcestar Profits (or the Company) to the Second Vendor as 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.

In addition, 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 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.

### **Earn-out adjustments**

As set out in the Announcement, 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 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 the HKGAAP for the period ending on six months, twelve months and eighteen months from 1 May 2008, 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. In view of the extension of the Long Stop Date as stated below, the fact that the construction plan of the Suzhou Plant may have to be postponed and upon mutual agreement among the parties to the Supplemental Agreement, the commencement date of the above-mentioned periods would be postponed from 1 May 2008 to 1 January 2009. While the initial annual production capacity of the Suzhou Plant is still expected to be approximately 2 million units of LCoS televisions as disclosed in the Announcement, it is currently expected that the Suzhou Plant would commence commercial production in or around early 2009, instead of the third quarter of 2008 as disclosed in the Announcement.

## **Conditions precedent**

The Acquisition Completion is subject to the conditions as disclosed under the paragraph headed “Conditions precedent” in the Announcement being fulfilled and remaining satisfied as at the Acquisition Completion Date (or waived, as the case may be). Upon mutual agreement among the parties to the Supplemental Agreement, references to the Acquisition Agreement in relevant conditions precedent under the Acquisition Agreement should mean the Acquisition Agreement as supplemented by the Supplemental Agreement. Further, reference to “HK\$1,400 million” in the condition precedent as contained in the Acquisition Agreement regarding 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\$1,400 million as at such reference date which is within the calendar year 2008 and which is no later than the Long Stop Date but no earlier than 31 March 2008, has been revised to “HK\$700 million” under the Supplemental Agreement.

As set out in the Announcement, if the conditions mentioned under the paragraph headed “Conditions precedent” in the Announcement 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 disclosed in the Company’s announcement dated 31 July 2008, the Vendors and Sourcestar Profits have on 30 July 2008 agreed in writing that the Long Stop Date be extended to 30 November 2008 or such later date as the Vendors and Sourcestar Profits may agree in writing. Upon mutual agreement among the parties to the Supplemental Agreement, the Long Stop Date will be further extended to 31 December 2008 or such later date as the Vendors and Sourcestar Profits may agree in writing.

## **Convertible Bonds**

Save for the reduction of the aggregate principal amount of the Convertible Bonds from HK\$3,000 million to HK\$2,300 million as a result of the reduction of the principal amount of the Tranche 1 Bonds from HK\$1,000 million to HK\$300 million, there is no other amendment to the terms of the Convertible Bonds.

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 date of this announcement; 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).

## **Effects on shareholding structure**

The following chart sets out the shareholding structure of the Company (i) as at the date of this announcement; 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 date of this announcement except for the issue of the Conversion Shares:

Shareholders	As at the date of this announcement		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	—	—
				(Note 4)
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
				(Note 4)
Other public	410,760,000	62.97	410,760,000	44.08
<b>Total</b>	<b>652,356,000</b>	<b>100</b>	<b>931,866,000</b>	<b>100</b>

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. 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 date of this announcement.
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. 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 date of this announcement) 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 date of this announcement, Golden Mount Limited, Perfect Treasure Investment Limited and the Vendors are not parties acting in concert with one another.

## **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 dated 29 February 2008 made between TMDC and Starwick Development and further pursuant to the business plans of the Vendors as set out in the Announcement.

In view of the above-mentioned findings in the course of the due diligence exercise by Sourcestar Profits and possible postponement of the construction plan of the PRC Subsidiary's Suzhou Plant, upon mutual agreement among the parties to the Supplemental Agreement, the Reorganization shall be further subject to the arrangement as set out in the agreement dated 5 September 2008 supplemental to the TMDC Agreement, among others, as below:

- (i) on or before 30 November 2008 (or such later date as parties may agree), all purchase prices payable under the TMDC Agreement dated 29 February 2008 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
- (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 for the TMDC Sale Machineries.

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.

Based on the above, the Directors consider that the terms of the Supplemental Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

Despite the amendments to the terms and conditions of the Acquisition Agreement under the Supplemental Agreement, the Acquisition still constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules.

## **GENERAL**

A circular containing, 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; (iv) the valuation report of the TMDC Sale Patents; and (v) a notice of the SGM, will be despatched to the Shareholders. As set out in the Company's announcement dated 26 September 2008, as more time is required for collating the information to be contained in the valuation report of the TMDC Sale Patents and the preparation of the accountants' reports in accordance with Rule 14.69(4)(a)(i) of the Listing Rules for inclusion in the circular, an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 14.38 of the Listing Rules and for a further extension of time to despatch the circular to on or before 30 November 2008 and the Stock Exchange has granted the waiver.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 27 October 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 28 October 2008.

By order of the Board

**Karce International Holdings Company Limited**

**Tong Shek Lun**

*Chairman and Managing Director*

Hong Kong, 27 October 2008



*As at the date of this announcement, the Board 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.*

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