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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)

TERMINATION OF THE VERY SUBSTANTIAL ACQUISITION AFTER COMPLETION ON 15 JANUARY 2009 – VERY SUBSTANTIAL DISPOSAL & RESUMPTION OF TRADING

Reference is made to the Acquisition Circular and the Announcements.

As disclosed in the Announcements, on 30 April 2008, Sourcestar (as the purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as the warrantor of Sourcestar) entered into the conditional Acquisition Agreement with the First Vendor, the Second Vendor and the Warrantors. Pursuant to the Acquisition Agreement, Sourcestar 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.

Notwithstanding completion of the Acquisition Agreement on 15 January 2009, the original production plan has not been realized for various reasons, which constitute breaches of certain undertakings on the part of the Vendors under the Acquisition Agreement. These include: the pledge by TMDC in favour of certain banks over the TMDC Sale Machineries has not been released, and title to the TMDC Sale Machineries without encumbrance has not been transferred to the Group.

* For identification purposes only

The Group has by itself and through its legal advisers issued demand letters to the Vendors and the Warrantors under the Acquisition Agreement requesting them to provide satisfactory explanations and to suggest remedial actions to address the above breaches.

In February 2010, the Company engaged lawyers and financial adviser trying to reach a settlement with the Vendors in relation to the breach of the Acquisition Agreement. The same has been disclosed in 2009 Annual Report that the Company tried to negotiate with the Vendors to unwind the Acquisition. On 5 March 2010, a letter was issued by the Group's legal adviser requesting the Vendors to provide satisfactory explanations and suggest remedial actions to the breach of the Acquisition Agreement. Thereafter, letters dated 21 April 2009, 28 April 2009 and 4 May 2009 have also been sent from the Group to the 1st Vendor. Notwithstanding the Company's good-faith approach to the Vendors to resolve the issues in an amicable manner and the Company's repeated requests for meetings to discuss about the possible alternatives on such resolution, the Vendors have continued to disregard the request of the Company. On 12 January 2011, another letter was issued by the legal adviser. Despite the repeated demands on the part of the Group, the Vendors and Warrantors failed and refused to remedy any of the breaches or failed to respond at all to the said demands.

The Group was legally advised that by reason of wrongful breaches by the Vendors and the Warrantors and their failure to take any remedial actions despite repeated demands by the Group, there was a total failure of consideration for what the Group has bargained and paid for under the Acquisition Agreement. A letter was therefore, issued by the Group's legal adviser dated 23 July 2012 to terminate the Acquisition Agreement by accepting the wrongful repudiation of the same on the part of the Vendors and the Warrantors. In the circumstances, those outstanding convertible bonds in the principal amount of HK\$2,000,000,000, namely, Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds, being the remaining balance of the consideration under the Acquisition Agreement will not be issued to the Vendors. A counsel has been retained to advise and to issue legal proceedings for claims of rescission and restitution of all consideration paid including cash of HK\$275,000,000, and cancellation of convertible bonds of a total principal amount of HK\$112,800,000 and promissory notes of HK\$87,500,000.

On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong in regard to the claim of restitution for total failure of consideration and rescission in connection with the Action. For details of the Action, please refer to the announcement of the Company dated 12 September 2012.

Even though the legal proceedings against the Vendors is still underway, considering that the Company can get back the Convertible Bonds and TMDC is willing to co-operate with the Company in order to get back the patents for their use, as one of the remedial actions to the above breaches and to mitigate the loss, the Company agreed to transfer back to TMDC the sales patents (excluding those have already expired), which were transferred to the Group from TMDC under the Acquisition Agreement, and to terminate a series of agreements wherein TMDC granted the Group the rights to use its patents, as well as other related agreements signed between TMDC and the Group. In return, TMDC shall tender back the Convertible Bonds to the Company for cancellation.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Disposal calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As no Shareholder has a material interest in the transaction, and therefore, no Shareholder is required to abstain from voting in respect of the proposed resolutions to approve the Disposal at the SGM.

THE SPECIAL GENERAL MEETING

A circular containing, among others, further details of the Disposal, and the notice convening the SGM to approve the Disposal and the transactions contemplated thereunder will be despatched to the Shareholders on or before 5 November 2012 in accordance with the Listing Rules.

Completion is subject to the approval of the Shareholders, and hence the Disposal may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended at 9:00 a.m. on 30 July 2012 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 15 October 2012.

INTRODUCTION

Reference is made to the Acquisition Circular and the Announcements.

As disclosed in the Acquisition Circular and Announcements, on 30 April 2008, Sourcestar (as the purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as the warrantor of Sourcestar) entered into the conditional Acquisition Agreement with the First Vendor, the Second Vendor and the Warrantors. Pursuant to the Acquisition Agreement, Sourcestar 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).

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 held 90% equity interest in Pacific Choice before the Acquisition Completion
 - (2) Fairtime International Limited, as the Second Vendor, which held 10% equity interest in Pacific Choice before the Acquisition Completion

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 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

Assets acquired or assigned under the Acquisition Agreement

- (i) the Acquisition Sale Shares, being the entire issued share capital of Pacific Choice; and
- (ii) the Acquisition Sale Debts, representing the face value of the total amounts due by Pacific Choice to the Vendors as at the Acquisition Completion Date.

Acquisition Consideration

The aggregate Acquisition Consideration was 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 was 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 was the balance thereof.

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

- (i) as to HK\$25 million payable in cash by Sourcestar (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, the issue of the Promissory Note by Sourcestar or cash payment by Sourcestar (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 Pacific Choice, subject to the provision of the paragraph headed “Earn-out adjustments” below.

All certificates for the entire Tranche 1 Bonds were held under escrow at Acquisition Completion 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.

The following table set out the breakdown of the consideration paid by the Company to the Vendors and TMDC:–

	The Second Vendor HK\$	The First Vendor HK\$	TMDC HK\$	Total HK\$
Cash deposit – paid in 2008	25,000,000	–	–	25,000,000
Promissory Note	–	375,000,000	–	375,000,000
– Early Redeemed on 16/02/2009	–	(125,000,000)	–	–
– Early Redeemed on 19/02/2009	–	(125,000,000)	–	–
– waived on 16/02/2009	–	(37,500,000)	–	–
– Outstanding	–	87,500,000	–	–
Convertible bonds of the Company (held in escrow by Mayfair Securities Ltd.) issued on 15/01/2009	<u>45,000,000</u>	<u>67,800,000</u>	<u>187,200,000</u>	<u>300,000,000</u>
Total	<u><u>70,000,000</u></u>	<u><u>442,800,000</u></u>	<u><u>187,200,000</u></u>	<u><u>700,000,000</u></u>

Adjustments to the Acquisition Consideration

Pursuant to the terms of the Acquisition Agreement, in addition to the adjustments to the Acquisition Consideration as detailed in the paragraph headed “Earn-out adjustments” below, the Vendors have warranted to Sourcestar 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 in advance.

If there are 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 their respective equity interest in Pacific Choice, 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:

- (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:

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

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 B.I. Appraisals Limited (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 then valuation report prepared by the Valuer, 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.

As a condition precedent to the Acquisition completions, 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:

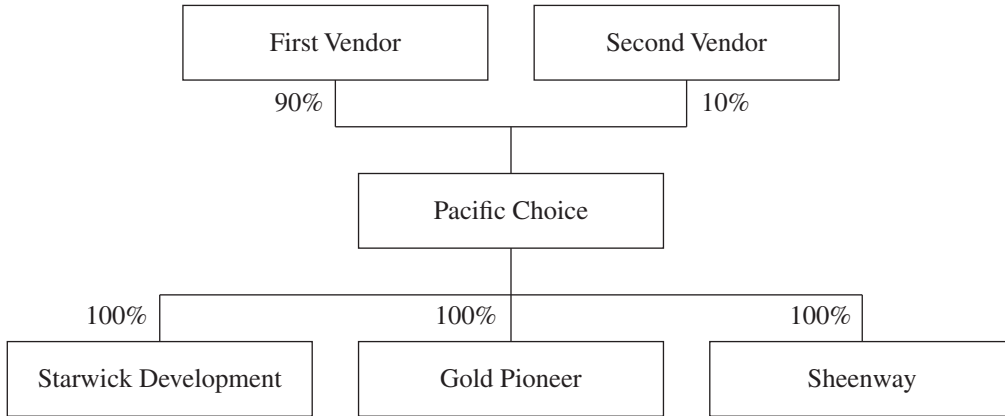
- (i) Precise Media has or will become a direct wholly-owned subsidiary of Starwick Development;
- (ii) the TMDC Sale Machineries will become vested in the PRC Subsidiary in the sense that they would be delivered to the PRC Subsidiary (or other person as nominated by Starwick Development) within three 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;

[#] As at the date of the Acquisition Circular, ie. 28 November 2008, amounts denominated in RMB was translated for the purpose of illustration only into HK\$ at the exchange rate of HK\$1.12 = RMB1.00

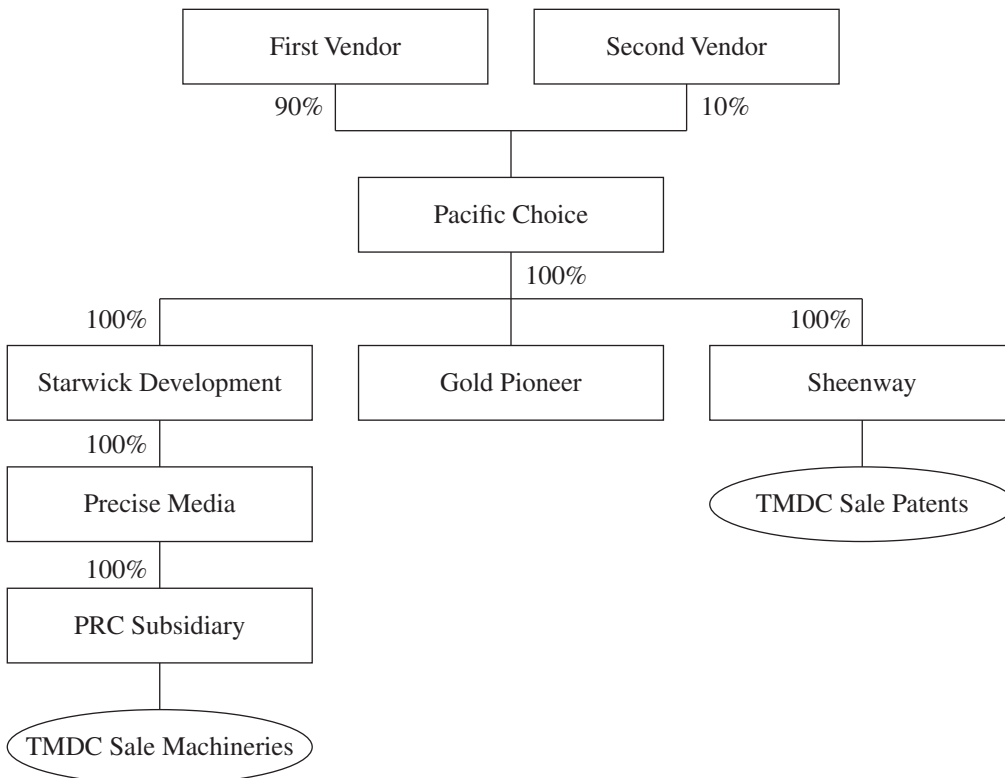
- (iii) the TMDC Sale Patents will be owned by Sheenway and (if required by Sourcestar) the registration of the TMDC Sale Patents in the name of Sheenway will have been effected;
- (iv) the officers of TMDC will enter into with the PRC Subsidiary legally valid and enforceable employment contracts in 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 Company and its subsidiaries; and
- (vi) immediately before the Acquisition Completion, the loans owing by the members of the Target Group (other than Pacific Choice) to the respective associates of the Vendors will be assigned to become loans owing by Pacific Choice to the Vendors.

Shareholding structure before and after the Reorganization and the Acquisition

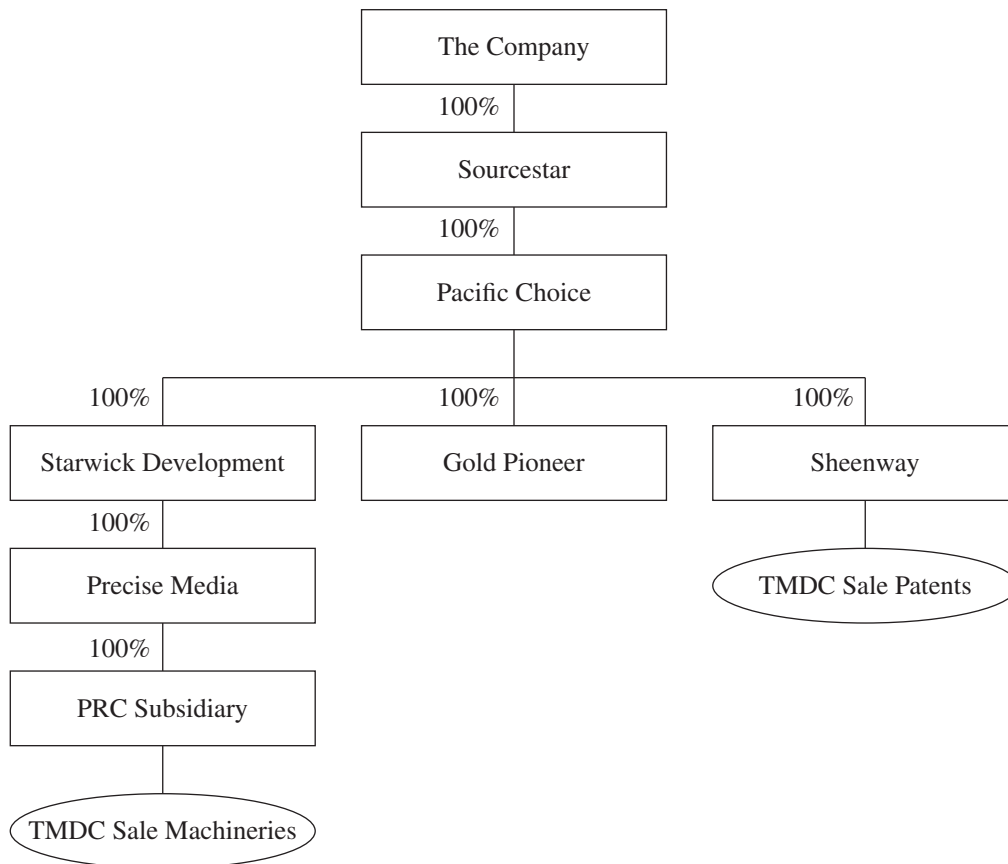
Immediately before the completion of the Reorganization and the Acquisition:



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



Immediately after the completion of the Reorganization and the Acquisition:



Completion of the Acquisition

On 15 January 2009, the Acquisition Agreement has proceeded to completion. However, in view of the fact that the purchase price payable by Starwick Development to TMDC under the TMDC Agreement has not been settled on behalf of Starwick Development by the convertible bonds of the Company before the Acquisition Completion (but have been so settled simultaneously at the Acquisition Completion) and that as at the date of the Acquisition Completion, the pledge (“**Pledge**”) created on the TMDC Sale Machineries has not been released, Sourcestar has agreed, subject to the following undertakings given by the Vendors and TMDC, to waive certain closing conditions to the Acquisition Completion:

1. The Vendors shall (and TMDC shall procure the Vendors to) procure the transfer of the ownership of the TMDC Sale Machineries from TMDC to Starwick Development within twelve months from the date of the Acquisition Completion to the effect that on or before the expiry of the said twelve-month-period, the Pledge will have been released. Prior to such transfer, TMDC shall allow any members of the Target Group to use or otherwise occupy the TMDC Sale Machineries at no costs.

2. Among the Tranche 1 Bonds to be issued to the First Vendors (or such person(s) as nominated by the First Vendor) on the date of the Acquisition Completion, a principal amount as to US\$4,000,000 (or its Hong Kong dollar equivalent of HK\$31,000,000 (at the exchange rate of US\$1: HK\$7.75)) will be withheld by Sourcestar (“**Withheld Consideration**”) and will, upon the transfer of the TMDC Sale Machineries in accordance with paragraph 1 above, be delivered to the escrow agent jointly appointed by the Vendors, Sourcestar and TMDC, who shall hold such Tranche 1 Bonds in accordance with the terms of the escrow agreement made in contemplation of Clause 3.4B of the Acquisition Agreement.
3. In the event that transfer of the ownership of the TMDC Sale Machineries from TMDC to Starwick Development does not take place within twelve months from the date of the Acquisition Completion (or any such later time (if at all) as Sourcestar may determine at its absolute discretion), the Acquisition Consideration shall be reduced by the Withheld Consideration.
4. The Vendors and TMDC shall, if so demanded by Sourcestar, indemnify Sourcestar in full and hold Sourcestar harmless of (i) any costs losses or expenses incurred or sustained for the purpose of purchasing, installing and using alternative machineries in place of the TMDC Sale Machineries; and (ii) any economic loss (including loss of profit) suffered or sustained by Sourcestar arising from or in connection with the interruption of the business caused by or in connection with the enforcement action taken by the pledgee of the TMDC Sale Machineries (or party(ies) deriving any rights therefrom) or the replacement by such alternative machineries for the TMDC Sale Machineries for whatever reasons (collectively, the “**Indemnified Costs**”).
5. Both the Vendors and TMDC acknowledge that one of the steps for the Reorganisation, i.e. that the TMDC Sale Machineries will become vested in the PRC Subsidiary to the effect that they will be delivered to the PRC Subsidiary (or other persons as nominated by the Starwick Development) within three years from the date of completion of the agreement dated 5 September 2008 supplemental to the TMDC Agreement, shall remain unchanged notwithstanding the arrangement in paragraph 1 above. In addition, by the time the TMDC Sale Machineries are to be delivered to the PRC Subsidiary (or other persons as nominated by Starwick Development), the Vendors and TMDC undertake to use their best endeavors and at their own costs to procure that the import of the TMDC Sale Machineries to the PRC shall comply with the relevant laws and regulations in the PRC.
6. The Vendors and TMDC further undertake that without the prior written consent from Sourcestar, TMDC shall not increase any of its indebtedness or liability which is secured by the Pledge, and TMDC shall, upon the request of Sourcestar, execute such documents and do such acts and things to perform and/or perfect the undertakings given hereunder.

The Dispute

Notwithstanding the undertakings given by the Vendors and TMDC, the title to the TMDC Sale Machineries without encumbrance has not been transferred to the Group. It was because pledge made by TMDC in favour of certain banks over the TMDC Sale Machineries has not been released. Moreover, despite employment contracts being entered into between certain officers from TMDC and the PRC Subsidiary at the time of the Acquisition Completion, such officers have not gone to the Suzhou Plant to render services to the Group for the purpose of carrying on the business. Trial production at the Suzhou Plant has not yet commenced. As a result, the original production plan has not been realized, which constitute breaches of certain undertakings on the part of the Vendors under the Acquisition Agreement.

According to the record of the Company, since Acquisition Completion, the Company has no control over any other physical assets, save and except the TMDC Sale Patents which have been transferred to Sheenway.

The Group has by itself and through its legal advisers issued demand letters to the Vendors and the Warrantors under the Acquisition Agreement requesting them to provide satisfactory explanations and to suggest remedial actions to address the above breaches.

In February 2010, the Company engaged lawyers and financial adviser trying to reach a settlement with the Vendors in relation to the breach of the Acquisition Agreement. The same has been disclosed in 2009 Annual Report that the Company tried to negotiate with the Vendors to unwind the Acquisition. On 5 March 2010, a letter was issued by the Group's legal adviser requesting the Vendors to provide satisfactory explanations and suggest remedial actions to the breach of the Acquisition Agreement. Thereafter, letters dated 21 April 2009, 28 April 2009 and 4 May 2009 have also been sent from the Group to the 1st Vendor. Notwithstanding the Company's good-faith approach to the Vendors to resolve the issues in an amicable manner and the Company's repeated requests for meetings to discuss about the possible alternatives on such resolution, the Vendors have continued to disregard the request of the Company. On 12 January 2011, another letter was issued by the legal adviser. Despite the repeated demands on the part of the Group, the Vendors and Warrantors failed and refused to remedy any of the breaches or failed to respond at all to the said demands.

The Group was legally advised that by reason of wrongful breaches by the Vendors and the Warrantors and their failure to take any remedial actions despite repeated demands by the Group, there was a total failure of consideration for what the Group has bargained and paid for under the Acquisition Agreement. A letter was therefore, issued by the Group's legal adviser dated 23 July 2012 to terminate the Acquisition Agreement by accepting the wrongful repudiation of the same on the part of the Vendors and the Warrantors. In the circumstances, those outstanding convertible bonds in the principal amount of HK\$2,000,000,000, namely, Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds, being the remaining balance of the consideration under the Acquisition Agreement will not be issued to the Vendors. A counsel has been retained to advise and to issue legal proceedings for claims of rescission and restitution of all consideration paid including cash of HK\$275,000,000, and cancellation of convertible bonds of a total principal amount of HK\$112,800,000 and promissory notes of HK\$87,500,000.

On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong Special Administrative Region in regard to the claim of restitution for total failure of consideration and rescission in connection with the Acquisition Agreement (the “**Action**”). For details of the Action, please refer to the announcement of the Company dated 12 September 2012.

Even though the legal proceedings against the Vendors is still underway, considering that the Company can get back the Convertible Bonds and TMDC is willing to co-operate with the Company in order to get back the patents for their use, as one of the remedial actions to the above breaches and to mitigate the loss, the Company agreed to transfer back to TMDC the sales patents (excluding those have already expired), which were transferred to the Group from TMDC under the Acquisition Agreement, and to terminate a series of agreements wherein TMDC granted the Group the rights to use its patents, as well as other related agreements signed between TMDC and the Group (the “**Disposal**”). In return, TMDC shall tender back the Convertible Bonds to the Company for cancellation.

On 27 July 2012, TMDC entered into the following Agreements with the Group for the Disposal.

TERMINATION DEED I: TERMINATION OF THE TMDC AGREEMENT (THE “TERMINATION DEED I”)

TMDC Agreement

Date

29 February 2008 (and supplemented by supplemental agreements dated 5 September 2008 and 3 October 2008)

Parties

- (1) TMDC, an Independent Third Party
- (2) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (3) Mr. Qiu, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, save that Mr. Qiu was the director and legal representative of the PRC Subsidiary and the director of TMDC, Mr. Qiu has no other relationship with the Vendors, TMDC and the Company. Mr. Qiu is an Independent Third Party

Terms

TMDC as vendors, Starwick Development as purchaser, and among others entered into a sale and purchase agreement on 29 February 2008 (which was supplemented by the supplemental agreements made between the same parties on 5 September 2008 and 3 October 2008 respectively) in connection with, inter alia, the sale and purchase of the TMDC Sale Machineries, the TMDC Sale Patents and the entire issued share capital in Precise Media at a consideration of US\$25,000,000.

Under 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.

Pursuant to the TMDC Agreement, Starwick Development, Sheenway and Pacific Choice entered into the Tenancy Agreement, the Patents Licensing Contract, the Patents Licensing Deed and the Supply Agreement with TMDC respectively.

Termination Deed I

Date

27 July 2012

Parties

- (1) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party
- (3) Mr. Qiu, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save that Mr. Qiu was the director and legal representative of the PRC Subsidiary and the director of TMDC, Mr. Qiu has no other relationship with the Vendors, TMDC and the Company. Mr. Qiu is an Independent Third Party

Terms

Each of TMDC, Mr. Qiu and Starwick Development unconditionally and irrevocably agreed to terminate the TMDC Agreement in accordance with the terms of the Termination Deed I.

Conditions precedent

The Termination Deed I is subject to the fulfillment of the following conditions on or before 30 November 2012:

- (1) The board of directors and shareholders of the Company (if required under the Listing Rules) having granted all necessary approvals and consents in respect of the cancellation of the TMDC Agreement and the termination of the transactions contemplated thereunder, and Termination Deed I;
- (2) TMDC having tendered back the Convertible Bonds to the Company for cancellation;
- (3) Starwick Development having transferred the entire issued share capital of Precise Media to TMDC or its nominees; and
- (4) Starwick Development having procured Sheenway and TMDC to enter into a patents transfer agreement and transferred the Patents to TMDC or its designated parties.

Upon the fulfillment of the conditions precedent of the Termination Deed I, the rights and liabilities of both parties under the TMDC Agreement will be retrospectively terminated from the date of the Termination Deed I.

TERMINATION DEED II: TERMINATION OF THE TENANCY AGREEMENT (THE “TERMINATION DEED II”)

Tenancy Agreement

Date

15 January 2009

Parties

- (1) TMDC, an Independent Third Party
- (2) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company

Terms

TMDC as the landlord and Starwick Development as the tenant entered into the Tenancy Agreement in relation to renting the premises located at 台灣竹南鎮南科段頂埔里10鄰科西一路8號 (No. 8 Kexi First Road, 10 Dingpuli, Nankeduan, Zhunan Town, Taiwan*) (the “**Premises**”) for a term of 3 years commencing from 15 January 2009 to 14 January 2012 at a rent of HK\$500,000.00 per month.

The Company cannot find any records for the rental payment.

Termination Deed II

Date

27 July 2012

Parties

- (1) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

Terms

Starwick Development and TMDC unconditionally and irrevocably agreed to terminate the Tenancy Agreement in accordance with the terms of the Termination Deed II. Both Starwick Development and TMDC confirmed and agreed unanimously that the Tenancy Agreement has expired. Both Starwick Development and TMDC shall release each other from all the liabilities and obligations under the Tenancy Agreement (including but not limited to any rents owed by Starwick Development to TMDC).

Conditions precedent

The Termination Deed II is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Tenancy Agreement and the termination of the relevant transactions contemplated thereunder, and the Termination Deed II; and
- (2) both Starwick Development and TMDC, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed II, the rights and liabilities of both parties under the Tenancy Agreement will be retrospectively terminated from the date of the Termination Deed II.

TERMINATION DEED III: TERMINATION OF THE PATENTS LICENSING CONTRACT (THE “TERMINATION DEED III”)

Patents Licensing Contract

Date

4 September 2008

Parties

- (1) TMDC, an Independent Third Party
- (2) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

Terms

TMDC as the licensor and Sheenway as the licensee entered into the Patents Licensing Contract on 4 September 2008, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use its patent registered in the PRC, namely “投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors*)” (Patent No. ZL 200520103712.2) (expiry date: 24 August 2015) (the “**PRC Patent**”), in consideration of US\$100 payable by Sheenway upon the execution of the Patents Licensing Contract. The Patents Licensing Contract and the rights and licences conferred therein shall commence on 4 September 2008 and expire on 11 August 2015. The license granted by TMDC is valid within the PRC and any other area specified by Sheenway.

Termination Deed III

Date

27 July 2012

Parties

- (1) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

Terms

TMDC and Sheenway agreed to unconditionally and irrevocably terminate the Patents Licensing Contract in accordance with the terms of the Termination Deed III. Upon the fulfillment of all the conditions precedent of the Termination Deed III, the right to use the PRC Patent will be terminated pursuant to Termination Deed III. All technical information possessed by Sheenway shall be returned to TMDC within seven Business Days from the date of the Termination Deed III. Nevertheless, the parties therein shall only release each other from their respective liabilities and obligations under the Patents Licensing Contract upon the Termination Deed III becoming effective.

* *For identification purposes only*

Conditions Precedent

The Termination Deed III is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Patents Licensing Contract and the termination of the relevant transactions contemplated thereunder, and the Termination Deed III; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed III, the rights and liabilities of both parties under the Patents Licensing Contract will be retrospectively terminated from the date of the Termination Deed III.

TERMINATION DEED IV: TERMINATION OF THE PATENTS LICENSING DEED (THE “TERMINATION DEED IV”)

The Patents Licensing Deed

Date

4 September 2008

Parties

- (1) TMDC, an Independent Third Party
- (2) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

Terms

TMDC as the licensor and Sheenway as the licensee entered into the Patents Licensing Deed on 4 September 2008, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use the following patents, all of which were registered in Taiwan (the “**Taiwan Patents**”), in consideration of US\$100 payable by Sheenway upon the execution of the Patents Licensing Deed:–

- (1) No. M286929 “**投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors)**” (expiry date: 26 July 2015);
- (2) No. M251417 “**組合式背投影電視機 (Combined rear-projection television*)**” (expiry date: 8 February 2014);
- (3) No. I216985 “**投影光源更換指示裝置 (Replacement indicator for projector light source*)**” (expiry date: 9 January 2015);
- (4) No. M260965 “**電動組合背投影電視機 (Electrical combined rear-projection television*)**” (expiry date: 25 May 2014); and
- (5) No. M260756 “**微型投影裝置 (Miniature projection device*)**” (expiry date: 25 May 2014).

Termination Deed IV

Date

27 July 2012

Parties

- (1) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

Terms

TMDC and Sheenway agreed to unconditionally and irrevocably terminate the Patents Licensing Deed in accordance with the terms of the Termination Deed IV. Upon the fulfillment of all the conditions precedent of the Termination Deed IV, the right to use the Taiwan Patents will be terminated pursuant to Termination Deed IV.

* *For identification purposes only*

Conditions Precedent

The Termination Deed IV is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Patent Licensing Deed and the termination of the relevant transactions contemplated thereunder, and the Termination Deed IV; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed IV, the rights and liabilities of both parties under the Patents Licensing Deed will be retrospectively terminated from the date of the Termination Deed IV.

TERMINATION DEED V: TERMINATION OF THE SUPPLY AGREEMENT (THE “TERMINATION DEED V”)

Supply Agreement

Date

15 January 2009

Parties

- (1) TMDC, an Independent Third Party
- (2) Pacific Choice, an indirect wholly-owned subsidiary of the Company and an investment holding company

Terms

TMDC as the supplier and Pacific Choice as the customer entered into the Supply Agreement on 15 January 2009, pursuant to which TMDC agreed to sell and Pacific Choice agreed to purchase the components for the manufacturing of the LCoS television for a term of 3 years commencing from 15 January 2009 to 14 January 2012.

Termination Deed V

Date

27 July 2012

Parties

- (1) Pacific Choice, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

Terms

TMDC and Pacific Choice agreed to terminate the Supply Agreement from the date of the Termination Deed V in accordance with the terms of the Termination Deed V, and both parties shall not be obliged to assume any liabilities for breaching the Supply Agreement.

Conditions Precedent

Termination Deed V is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Supply Agreement and the termination of the relevant transactions contemplated thereunder, and the Termination Deed V; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed V, the rights and liabilities of both parties under the Supply Agreement will be retrospectively terminated from the date of the Termination Deed V.

PATENTS TRANSFER AGREEMENT (THE “PATENTS TRANSFER AGREEMENT”)

Date

27 July 2012

Parties

Transferor : Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

Transferee : TMDC, an Independent Third Party

Terms

As a condition for the transfer of the Patents to TMDC by Sheenway, TMDC shall tender back the Convertible Bonds to the Company for cancellation within 15 Business Days from the date of entering into the Patents Transfer Agreement or a later date as agreed by Sheenway. In return, Sheenway (or its nominee) shall transfer the Patents to TMDC within 15 Business Days from the day of entering into the Patents Transfer Agreement or a later date as agreed by Sheenway.

Conditions Precedent

The completion of the Patents Transfer Agreement is subject to the fulfillment (or waiver, as the case may be) of the following conditions precedent, which shall remain to be satisfied on the completion date:

- (1) the shareholders and the board of Directors of the Company (if required under the Listing Rules) having granted all necessary approvals and consents in respect of the transfer of the Patents, cancellation of the Convertible Bonds and the relevant transactions contemplated thereunder;
- (2) the board of directors of Sheenway having approved the transfer of the Patents and the relevant transactions contemplated thereunder;

- (3) the board of directors of TMDC having approved the transfer of the Patents, tendering back the Convertible Bonds and the relevant transactions contemplated thereunder;
- (4) TMDC having tendered back the Convertible Bonds to the Company in accordance with the requirements;
- (5) the relevant patent authorities and departments (including the patent authorities and departments in the PRC, Taiwan and the United States) having agreed and registered the rights of the Patents under the name(s) of TMDC or parties designated by TMDC;
- (6) the transferor of the Patents Transfer Agreement, including its parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong); and
- (7) the representations and undertakings given by both parties to the Patents Transfer Agreement on the date of signing remaining to be true and accurate, and not omitting or misleading in all material aspects as at the completion of the transfer of the Patents by reference to the facts and circumstances subsisting at the completion of the transfer of the Patents.

The conditions precedent set out above (save for conditions numbered 1, 5 and 6) could be exempted or waived upon mutual agreement of Sheenway and TMDC. Sheenway and TMDC do not have any immediate intention to waive any of the conditions precedent at present. If the Company subsequently determines to waive the conditions precedent number 3 and 4, shareholder's approval will be sought beforehand. If the conditions mentioned above are not fulfilled in full (or, where applicable, waived by Sheenway and TMDC in writing) on or before 30 November 2012, the Patents Transfer Agreement shall lapse.

Completion

The completion of the transfer of the Patents 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 Patents Transfer Agreement shall agree.

INFORMATION ON TMDC

TMDC was incorporated in Taiwan. It principally 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 is formed by a professional team with thorough knowledge and experience in LCoS field. The business enterprise focuses its business in the production of 65-inch LCoS television set and the 200-inch LCoS television wall by applying its patent technology in the production of MD Imager, the core component of a LCoS television set.

INFORMATION ON PRECISE MEDIA, TMDC SALE MACHINERIES AND THE PATENTS

The TMDC Sale Machineries mainly comprise colour analysers, spectrometers and so forth relating to the manufacturing of LCoS televisions and related components whereas, the 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. Details of the Patents are set out as follows:–

Place of registration	Description	Expiry Date
PRC	顯示面板的框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method*)	30/12/2023
PRC	微型顯示面板的封裝外殼 (Packaging Shell for Micro-Display Panel*)	15/07/2014
Taiwan	微型顯示器之間隙柱組成方法 (Composition method of Gap Column for Micro-Display*)	07/01/2022
Taiwan	微型顯示器之製造方法 (Manufacturing Method for Micro-Display*)	09/05/2020
Taiwan	顯示面板之邊框及其構成方法 (Frame for Micro-Display and its constituting method*)	15/12/2023

* For identification purposes only

Place of registration	Description	Expiry Date
Taiwan	顯示面板之框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method*)	15/12/2023
Taiwan	微型顯示元件 (Micro-Display Element*)	07/04/2012
Taiwan	微型顯示面板之封裝外殼 (Packaging Shell for Micro-Display Panel*)	01/07/2014
U.S.	Method of manufacturing micro-display	22/08/2020
U.S.	Micro-Display Element	10/08/2020

Each of the TMDC Sale Machineries and the 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 direct 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.

Precise Media is an indirect wholly-owned subsidiary of the Company and an investment holding company. Its sole asset is United Opto-Electronics (Suzhou) Co., Ltd., its wholly-owned PRC subsidiary. However, the results of Precise Media have been treated as having been de-consolidated from that of the Group on 1 December 2009 since the Company has lost its control on Precise Media given that (i) the Company is not the administrator of Precise Media; (ii) the Company has not received its further financial statements; and (iii) the Company has lost its control on the board of directors of Precise Media. Therefore, the total assets of Precise Media are nil as shown on the consolidated financial statements of the Group. The Group has not recorded any profit or liabilities for the TMDC Sale Machineries and the Patents as the machinery, equipment and technology for the production of LCoS TV have never been delivered to the Company for further development.

* For identification purposes only

The following table set out the profit and loss effect attributable to the Acquisition for each of the year 2009 to 2012 (all information were extracted from the financial reports of the Company):–

	30/6/2009 HK\$	31/12/2009 HK\$	31/12/2010 HK\$	31/12/2011 HK\$	30/6/2012 HK\$
Asset value					
Fair value of LCoS TV	603,686,000	–	–	–	–
Reverse of intangible asset impaired	–	–	50,000,000	–	–
Liabilities					
Fair value of convertible bonds	300,000,000	176,785,000	201,389,000	229,583,000	245,128,000
Deferred tax liabilities	–	22,388,000	18,339,000	11,695,000	9,054,000
Fair value of promissory note	278,686,000	75,031,000	74,964,000	87,036,000	87,500,000
Profit/(Loss)					
Net (loss)/profit	–	(602,806,000) ^{note 1}	50,000,000 ^{note 2}	(35,000,000) ^{note 3}	–

Notes

- 1 Net (loss) on deconsolidation of subsidiaries
- 2 Net profit on reverse of intangible asset impaired
- 3 Net (loss) on refund of deposit of disposal in 2011

FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

Upon completion of the transaction, the company will not hold any shares of Precise Media. As such, Precise Media will cease to be a subsidiary of the Company since the financial results of Precise Media having been de-consolidated from that of the Group since 1 December 2009, the proceeds from the Disposal will be recorded as a profit in the financial statements of the Company. Upon the completion of the Disposal, it is expected that the Group would record a profit before tax of approximately HK\$187.2 million, being the difference between the value of the Convertible Bonds tendered back to the Company for cancellation and the total costs and expenses of the Disposal. Shareholders should note that the actual proceeds of the Company to be recorded from the Disposal will depend on the total costs and expenses of the Disposal on the date of completion.

PRINCIPAL BUSINESSES OF THE COMPANY

The Group is principally engaged in the trading of conductive silicon rubber keypad and related products.

Due to keen competition in the pricing of the conductive rubber keyboard market, the Company has not been able to secure new orders with reasonable profits from existing and potential customers ever since the second half of 2011 apart from the selling of Acrylonitrile Butadiene Styrene. In the second half of 2012, the Company recorded a turnover of approximately HK\$2.7 million from selling of Acrylonitrile Butadiene Styrene. The Company intends to continue to operate this business segment and is now studying the feasibility of working in cooperation with PRC notebook & computer keyboard manufacturers.

The Company's directors are of the view that the Company is maintaining a viable and sustainable business along the rubber/plastic related materials despite the small scale of transactions currently undertaken since the Company is able to enlarge the scale of this operation provided that there is sufficient working capital and/or credit facilities.

However, the success in trading of these materials relies very much on the sufficiency of credit facilities from banks and suppliers. The main task for the current board of directors is to unwind those convertible bonds and promissory note through the current settlement, technically in the form of a very substantial disposal to resolve the matter, coupled with all necessary legal proceedings.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

As disclosed in the Announcements and the paragraph headed "The Dispute", notwithstanding completion of the Acquisition Agreement in January 2009, the original production plan has not been realized for various reasons, which constitute breaches of certain undertakings on the part of the Vendors under the Acquisition Agreement. These include: despite employment contracts being entered into between certain officers from TMDC and the PRC Subsidiary at the time of the Acquisition Completion, such officers so far have not gone to the Suzhou Plant to render services to the Group for the purpose of carrying on the business. Trial production at the Suzhou Plant has not yet commenced. The pledge by TMDC in favour of certain banks over the TMDC Sale Machineries has not been released, and the title to the TMDC Sale Machineries without encumbrance has not been transferred to the Group. The Group has by itself and through its legal advisers issued demand letters to the Vendors and the Warrantors under the Acquisition Agreement requesting them to provide satisfactory explanations and to suggest remedial actions to address the above breaches.

In February 2010, the Company engaged lawyers and financial adviser trying to reach a settlement with the Vendors in relation to the breach of the Acquisition Agreement. The same has been disclosed in 2009 Annual Report that the Company tried to negotiate with the Vendors to unwind the Acquisition. On 5 March 2010, a letter was issued by the Group's legal adviser requesting the Vendors to provide satisfactory explanations and suggest remedial actions to the breach of the Acquisition Agreement. Thereafter, letters dated 21 April 2009, 28 April 2009 and 4 May 2009 have also been sent from the Group to the 1st Vendor. Notwithstanding the Company's good-faith approach to the Vendors to resolve the issues in an amicable manner and the Company's repeated requests for meetings to discuss about the possible alternatives on such resolution, the Vendors have continued to disregard the request of the Company. On 12 January 2011, another letter was issued by the legal adviser. Despite the repeated demands on the part of the Group, the Vendors and Warrantors failed and refused to remedy any of the breaches or failed to respond at all to the said demands.

At the meeting held on 20 April 2010, the Board resolved that the Company would first negotiate with the Vendors and the Warrantors for a proposal to sell Pacific Choice back to the Vendors. Other alternatives such as disposing Pacific Choice to other third parties as potential buyers has also been explored by the Company. Since October 2010, the directors have been trying to find a willing buyer. On 30 December 2010, the Company entered into a Heads of Agreement with a buyer, details of which were disclosed in the announcement of the Company dated 17 January 2011. However, the transaction was not completed by the long stop date of 30 June 2011 mainly because the buyer was unable to provide an acceptable fund proof in support of his future payments. Other than that buyer, there has been no buyer for this project or the Patents. The directors, therefore, considered that there is no solid genuine buyer in the market. Thereafter the directors resorted to negotiate with the Vendors and TMDC for unwinding the whole transaction.

After a lengthy and tedious negotiation process, the directors have eventually been able to come up with acceptable settlement terms with TMDC though the Vendors have remained intransigent up to the present moment. As one of the remedial actions to the above breaches, TMDC agreed to tender back the Convertible Bonds to the Company, and the Company shall transfer back the sales patents transferred by TMDC to the Group under the Acquisition Agreement to TMDC, in order to mitigate the loss of the Group under the Acquisition Agreement.

The Directors considered that the above suggested remedial action is in the interest of the Company and the shareholders as a whole because of the following reasons:–

1. the technologies under the Patents have become obsolete

The Directors, after studying the current outdoor television market, have come to an understanding that, nowadays, LED television has already taken the largest market share. Over the past 4 years, the market has been focusing on developing 3D televisions or televisions with slimming in size and weight and other advance features which are not readily available through the application of the old technologies applicable to the Patents. Whereas, the LCoS televisions built on the Patents were significantly bulkier than those available in the current market.

Without the original inventors and expertise, it would not be practicable or justifiable for the Company to develop the LCoS television based on the Patents. The Directors, therefore, are of the view that the technologies under the Patents have become obsolete from the Company's standpoint.

2. the consideration is a fair value of the Patents

According to the sales contract transferred pursuant to the Acquisition Agreement (the “**Sales Contract**”), a purchaser has agreed to purchase a total 83,000m² of LCoS television walls and 97,000 sets of 65-inch LCoS TV sets in the brand name of “Blue Ocean” for the period of 1 January 2009 to 31 December 2012 at respective unit price of US\$5,500 per m² and US\$3,350 per set. The acquired technology was the core component of those Blue Ocean products.

However, the machineries, equipment and technology for the production of LCoS televisions have never been delivered to the Company by TMDC for further development. In the circumstances, the Company could never produce any LCoS televisions based on the acquired technology and the original expected sales plan has never been implemented accordingly.

In view of the above, the fair value of the Patent is considered to be “Nil”. Moreover, taking into account of the initial valuation (in a draft form and subject to finalization) of the Patents as at 31 August 2012, the Patent is of no commercial value for the Company as valued by Stirling Appraisals Limited, an Independent Third Party, the Board is of the view that it would no doubt be beneficial to the Company if the disposal of the Patents could reduce the Company’s liabilities by HK\$187,200,000. Stirling Appraisals Limited is originally established in Australia and has brought together a number of appraisal experts in their respective fields. It has the experience in valuing various assets for listing companies, including but not limited to trade mark valuation, intangible assets valuation and business valuation.

The substance of the Disposal is to unwind the Acquisition. Nevertheless, the board strongly aimed at recovering the whole amount of HK\$662.5 million paid (i.e. the total consideration paid: HK\$700 million less promissory note waived on 16 February 2009: HK\$37.5 million) as far as possible in the following manner:

- (a) transferring back the Patents, excluding those already expired, to TMDC; and in return cancellation of the Convertible Bonds; and
- (b) issuing legal proceedings against the Vendors for claim of rescission and restitution of all consideration paid including cash of HK\$275,000,000 and cancellation of convertible bonds of a total principal amount HK\$112,800,000 and promissory notes of HK\$87,500,000.

The Group was legally advised that by reason of wrongful breaches by the Vendors and the Warrantors and their failure to take any remedial actions despite repeated demands by the Group, there was a total failure of consideration for what the Group has bargained and paid for under the Acquisition Agreement. A letter was issued by the Group’s legal adviser dated 23 July 2012 to terminate the Acquisition Agreement by accepting the wrongful repudiation of the same on the part of the Vendors and the Warrantors. A counsel has been retained to advise and to issue legal proceedings for claims of rescission and restitution of all consideration paid including cash of HK\$275,000,000, and cancellation of convertible bonds of a total principal amount of HK\$112,800,000 and promissory notes of HK\$87,500,000. On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong in regard to the claim of restitution for total failure of consideration and rescission in connection with the Acquisition Agreement. For details of the Action, please refer to the announcement of the Company dated 12 September 2012. The Action against the Vendors forms part of this process of unwinding the Acquisition.

The Company has obtained a legal opinion from counsel retained by the Company. Counsel advised that the Disposal would not have any adverse impact and effect on the legal action now contemplated against the Vendors because after the Company exercising the right to terminate the Acquisition Agreement and discharge the same by reason of breaches by the Vendors, the Company is entitled at law to take such action as necessary to restore the position of the Company and/or to mitigate any loss that has been suffered. The Disposal is therefore a lawful means for the Company to achieve partial restitution of part of the consideration paid and given under the Acquisition. In the absence of any settlement arrangement with the Vendors, the Company is legally advised and obliged to take out legal action to seek judicial remedies in the form of restitution against the Vendors for return of the balance of consideration paid and given to the Vendors. Both the Disposal and the contemplated legal action are lawful coterminous acts by the Company to achieve restitution of all the consideration that has been paid or given by the Company and/or alternatively to seek damages for breaches of contract.

Based on legal counsel's legal advice above, it is not unreasonable that the Company does not sell the Patents to a third party. The Disposal and the legal action as a whole would render the Company to clear all the liabilities under the convertible bonds and promissory notes issued by the Company under the Acquisition Agreement with the view to get back as much money and/or consideration given as quickly as possible. The directors therefore consider that the Disposal is for the benefit of the Company.

A valuation report on the value of the Patents as at 30 June 2012 will be included in the circular to provide further information of the Patents to the potential investor and the shareholders of the Company.

The Disposal was agreed after arm's length negotiations between the Company and TMDC, and is on normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Disposal calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

A SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder or his or her associates have a material interest in the transaction, and therefore, no Shareholder is required to abstain from voting on the resolutions in connection with the transaction.

A circular containing, among others, further details of the Disposal, and the notice convening the SGM to approve the Disposal and the transactions contemplated thereunder will be despatched to the Shareholders on or before 5 November 2012 in accordance with the Listing Rules.

Completion is subject to the approval of the Shareholders, the Disposal therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended at 9:00 a.m. on 30 July 2012 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 15 October 2012.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Announcements”	the announcements issued by the Company on 15 January 2009, 20 April 2009, 5 January 2010, 12 February 2010 and 23 April 2010
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“Acquisition”	the acquisition as set out in Acquisition Circular, being the acquisition of the entire issued share capital in Pacific Choice and the shareholder’s loan of Pacific Choice by Sourcestar pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement dated 30 April 2008 entered into between Sourcestar (as the purchaser), the First Vendor, the Second Vendor, the Company (as warrantor of Sourcestar) and the Warrantors in relation to the Acquisition and as supplemented by the supplemental agreement dated 24 October 2008
“Acquisition Circular”	the circular issued by the Company on 28 November 2008 in relation to the Acquisition
“Acquisition Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Consideration”	the total consideration of HK\$2,700 million payable by Sourcestar (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 Pacific Choice
“Acquisition Sale Shares”	being such number of share as shall represent the entire issued share capital in Pacific Choice held by the Vendors immediately before the Acquisition Completion

“Business”	the research and development, manufacturing and distribution of LCoS televisions, enlarged display units with related components by the Target Group
“Business Day”	a day (excluding Saturday and Sunday) on which banks are open for business in Hong Kong
“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
“Convertible Bond(s)”	the convertible bonds in a total principal amount of HK\$187,200,000 issued by the Company to TMDC and is currently held by Hong Kong International Securities Limited (formerly known as Mayfair Securities Limited) in escrow
“Director(s)”	the director(s) of the Company
“First Vendor”	China Eagle Development Limited, a company incorporated in the BVI with limited liability which held 90% equity interest in Pacific Choice immediately before the Acquisition Completion
“Gold Pioneer”	Gold Pioneer Enterprises Limited, a company incorporated in the BVI with limited liability whose entire issued share capital is held by Pacific Choice

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKGAAP”	accounting principles generally accepted in 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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Qiu”	邱子溢 (Qiu Zi Yi*)
“Pacific Choice”	Pacific Choice Holdings Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Patents”	such patents as set out in the Patents Transfer Agreement
“Patents Licensing Contract”	a patent licensing contract dated 4 September 2008 entered between TMDC as the licensor and Sheenway as the licensee, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use its patent registered in the PRC, namely “投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors*)” (Patent No. ZL200520103712.2) (expiry date: 24 August 2015)

“Patents Licensing Deed”	a patent licensing deed dated 4 September entered between TMDC as the licensor and Sheenway as the licensee, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use the patents registered in Taiwan
“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, an indirect wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China which, for the purposes of this announcement, 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
“Reorganization”	the reorganization of the Target Group pursuant to the Acquisition Agreement and the TMDC Agreement
“Second Vendor”	Fairtime International Limited, a company incorporated in the BVI with limited liability which held 10% equity interest in the Pacific Choice immediately before the Acquisition Completion
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)

“Shareholder(s)”	holder(s) of Shares
“Sheenway”	Sheenway Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“SGM”	a special general meeting of the Company to be convened to consider and, if thought fit, approve the transaction documents and the transactions contemplated thereunder by the Shareholders
“Sourcestar”	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 and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	a supply agreement dated 15 January 2009 entered between TMDC as the supplier and Pacific Choice as the customer, pursuant to which TMDC agreed to sell and Pacific Choice agreed to purchase the components for the manufacturing of the LCoS television for a term of 3 years commencing from 15 January 2009 to 14 January 2012
“Suzhou Plant”	the intention of the PRC Subsidiary to set up a manufacturing base for the production of LCoS televisions in Suzhou, the PRC

“Target Group”	Pacific Choice, Starwick Development, Gold Pioneer, Sheenway, Precise Media, the PRC Subsidiary and their respective subsidiaries (if any)
“Tenancy Agreement”	a tenancy agreement dated 15 January 2009 entered between TMDC as the landlord and Starwick Development as the tenant in relation to renting the premises located at 台灣竹南鎮南科段頂埔里10鄰科西一路8號 (No. 8 Kexi First Road, 10 Dingpuli, Nankeduan, Zhunan Town, Taiwan*)
“TMDC”	台灣微型影像股份有限公司 (Taiwan Micro Display Corp.), a company incorporated in Taiwan, an Independent Third Party
“TMDC Agreement”	the agreement dated 29 February 2008 entered into between, among others, TMDC as vendors, Starwick Development as purchaser 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 entered into 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

* For identification purposes only

“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
“Termination Deeds”	collectively, Termination Deed I, Termination Deed II, Termination Deed III, Termination Deed IV and Termination Deed V
“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 their respective equity interest in the Pacific Choice 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 their respective equity interest in the Pacific Choice 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 their respective equity interest in the Pacific Choice for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement

“United States” or “U.S.” the United States of America

“Vendors” the First Vendor and the Second Vendor

“Warrantors” Mr. Chan Shun Yuen (now known Mr. Chan Hau Kong)
and Ms. Hsu Ming Shan, the warrantors of the Vendors
under the Acquisition Agreement

By order of the Board
Karce International Holdings Company Limited
Sun Ying Chung
Chairman

Hong Kong, 12 October 2012

As at the date of this announcement, the board of Directors consists of two Executive Directors, Mr. Sun Ying Chung and Mr. Chan Sung Wai; two Non-Executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey; and three Independent Non-executive Directors, Mr. Lum Pak Sum, Mr. Mak Ka Wing, Patrick and Mr. Shum Kai Wing.