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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED**

**(泰盛實業集團有限公司\*)**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 1159)

**DISCLOSEABLE TRANSACTION:**

**TRANSFER OF ASSETS**

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20th January, 2006

\* *for identification only*

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## DEFINITIONS

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

“Agreement”	the asset transfer agreement dated 29th December, 2005 and entered into between Sabic Electronic and the Transferee with respect to the transfer and purchase of the Assets
“Ascalade Group”	Ascalade Inc. and its subsidiaries
“Ascalade Inc.”	Ascalade Communications Inc., a corporation incorporated pursuant to the laws of the Province of British Columbia and is listed on TSX
“Assets”	assets of the Group’s including plastic injection machineries, three air compressors, quarter facilities, office decoration, reliability laboratory decoration, plastic barrels, computers, printers, scanners, etc., 407 wooden shelves and 150 working platforms currently located in Humen, Dongguan, the PRC
“Board”	board of Directors
“Company”	Karce International Holdings Company Limited, an exempted company incorporated in Bermuda and whose securities are listed on the Stock Exchange
“Directors”	the directors of the Company from time to time
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	17th January, 2006, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Sabic Electronic”	Sabic Electronic Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

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## DEFINITIONS

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“Shares”	shares of HK\$0.1 each in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer”	the transfer and purchase of the Assets as stipulated under the Agreement
“Transferee”	Apex Glory Investments Limited, a company incorporated in the British Virgin Islands. To the Directors’ knowledge, information and belief having made all reasonable inquiry, the Transferee and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
“TSX”	Toronto Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the People’s Republic of China

*Unless otherwise specified in this circular, amounts denominated in Renminbi have been converted, for the purpose of illustration only, as to HK\$1.00 = RMB1.04.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Tong Shek Lun  
Mr. Li Ka Fai, Fred  
Ms. Ko Lai King, Kinny  
Ms. Chung Wai Yu, Regina

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Non-executive Directors:*

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

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

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

*Independent non-executive Directors:*

Mr. Sun Yaoquan  
Mr. Goh Gen Cheung  
Mr. Chan Ho Man

20th January, 2006

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION: TRANSFER OF ASSETS**

#### **INTRODUCTION**

As announced by the Board on 4th January, 2006, the Group had entered into the Agreement with the Transferee in relation to the transfer of the Assets. The purpose of this circular is to provide you with further information in relation to the Transfer.

#### **THE AGREEMENT**

On 29th December, 2005, Sabic Electronic entered into the Agreement with the Transferee with respect to the transfer of the Assets. Details of the Agreement are as follows:

##### **Parties**

- (a) Sabic Electronic; and
- (b) The Transferee. To the Directors' knowledge, information and belief having made all reasonable inquiry, the Transferee and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

\* for identification only

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## LETTER FROM THE BOARD

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### **Subject matter of the Agreement**

Pursuant to the Agreement, Sabic Electronic agreed to transfer and the Transferee agreed to purchase the Assets free from all encumbrances and third parties rights.

### **Consideration**

The consideration for the Transfer is approximately RMB16,620,000 (equivalent to approximately HK\$15,981,000) and shall be paid by the Transferee in one lump sum on or before the date of the Agreement as deposit and which will be used to settle the consideration upon completion.

The consideration for the Transfer is arrived at after an arm's length negotiation between Sabic Electronic and the Transferee by reference to the net book value of the Assets of approximately RMB15,797,000 (equivalent to approximately HK\$15,189,000) and the purchase cost of brand-new Assets of approximately RMB17,656,000 (equivalent to approximately HK\$16,977,000) both as at 31st December, 2004 as valued by 東莞市德正會計師事務所有限公司 (Dongguan City Diligent Certified Public Accountants), an independent valuer who, to the Directors' knowledge, is qualified to give valuation of the Assets.

To the Directors' knowledge, there is no comparable market in the PRC for the Assets and therefore the Group is unable to obtain reliable indicative information on the market value of the Assets. Based on the reasons that there is no comparable market in the PRC for the Assets and with a view to increase the liquidity of the Group, the Transfer was made at a consideration determined at a price higher than the net book value of the Assets and at a discount on the purchase cost of brand-new Assets, which the Board considers to be fair and reasonable and in the interests of the Group and its shareholders as a whole.

### **Conditions precedent**

The Transfer is subject to the following conditions:

- (a) (where necessary) all approvals from the PRC Customs have been obtained for the Transfer;
- (b) the board of directors of Sabic Electronic and the Transferee have passed resolutions to approve the Transfer and the Agreement; and
- (c) the Transferee has paid the consideration of approximately RMB16,620,000 (equivalent to approximately HK\$15,981,000) to Sabic Electronic.

Sabic Electronic and the Transferee have the absolute right to waive in whole or in part condition (a) above. Sabic Electronic also has the absolute right to waive in whole or in part the approval from the board of directors of the Transferee as referred to in condition (b) above and condition (c) while the Transferee has the absolute right to waive in whole or in part the approval from the board of directors of Sabic Electronic as referred to in condition (b) above. If any of the conditions have not been fulfilled or waived on or before 30th June, 2006, the Agreement will be of no effect, upon which Sabic Electronic is required to refund to the Transferee within five business days from the termination of the Agreement any payment of the consideration received prior to termination. As at the Latest Practicable Date, all the conditions have been fulfilled.

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## LETTER FROM THE BOARD

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### Completion

Completion of the Transfer took place on 6th January, 2006, being the fifth business day after the conditions have been fulfilled.

### REASONS FOR THE TRANSFER

In exploring the development of distribution and manufacture of telecommunications products, the Group had established an associate, Ascalade Communications Holdings Limited (“**Ascalade Holdings**”) in 2002, in which the Group then owned approximately 49%. To the Directors’ knowledge, Ascalade Holdings was principally engaged in the design, manufacture and distribution of cordless phones and other telecommunications products. In preparation for the listing on TSX, Ascalade Holdings became a wholly-owned subsidiary of Ascalade Inc..

The Group is providing the sub-contracting services to the Ascalade Group. The Assets are mainly used by the Group to undergo the manufacture of plastic components on cordless phones products which were sub-contracted by the Ascalade Group. Subsequent to the listing of Ascalade Inc. and the conversion of convertible debentures, as at the Latest Practicable Date, the Group had approximately 14.7% interests in the Ascalade Group.

On one hand, subsequent to the listing of Ascalade Inc., the Ascalade Group is contemplating to relocate its manufacturing facilities in order to reorganize and rationalize its production facilities by itself.

On the other hand, the Directors are of the view that it will be in the interests and for the benefit of the Group as a whole to concentrate its resources on the development of its core businesses, namely manufacturing and distribution of electronic calculators and organizers, conductive silicon rubber keypads and printed circuit boards.

Through the restructure of the Group’s internal production resources, the Group decided to transfer part of its existing manufacturing equipment, mainly the plastic injection machineries to the Ascalade Group and the Ascalade Group agreed to purchase the Assets. Since the Assets are mainly used by the Group to perform the sub-contracting services to the Ascalade Group and the revenue derived from the sub-contracting services was not material to the Group, the Directors confirmed that the transfer of the Assets to the Ascalade Group and cessation of the sub-contracting services to the Ascalade Group by using the Assets will not have a material effect on the operation of the Group. In this circumstances, the Directors confirmed that the Transfer is fair and reasonable, of normal commercial terms and will be in the interests and for the benefit of the Group as a whole.

### INFORMATION OF THE TRANSFEREE

To the Directors’ knowledge, information and belief having made all reasonable inquiry, the Transferee is a company incorporated in the British Virgin Islands and whose principal business activities is investment holding. The Transferee is a wholly-owned subsidiary of Ascalade Inc.. As at the Latest Practicable Date, the Group had approximately 14.7% interests in the Ascalade Group.

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## LETTER FROM THE BOARD

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### INFORMATION OF THE GROUP

The Group is principally engaging in the business of manufacturing and distribution of electronic calculators and organizers, conductive silicon rubber keypads and printed circuit boards.

### USE OF PROCEEDS

The net sales proceeds of the Transfer of approximately HK\$15,800,000 are intended to be used as general working capital of the Group.

### FINANCIAL EFFECT OF THE TRANSFER

The Directors confirmed that since the Assets were mainly equipment used in a process of the assembly production of a finished product, it is difficult to segregate the accurate amount of the relevant profits of the Group attributable to the Assets for the two financial years immediately preceding the Transfer.

The net book value of the Assets is approximately RMB15,797,000 (equivalent to approximately HK\$15,189,000) as at 31st December, 2004. It is estimated that, upon completion of the Transfer, the Group will record a profit of approximately HK\$792,000 (being the aggregate value of consideration received minus net book value of total assets being realised), subject to audit.

The Directors confirmed that the Transfer does not have any significant immediate effect on the earnings and liabilities of the Group.

### GENERAL

The Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the disclosure requirements by announcement and circular under Chapter 14 of the Listing Rules.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the Board  
**Karce International Holdings Company Limited**  
**Tong Shek Lun**  
*Chairman*



## RESPONSIBILITY STATEMENT

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

## 1. DISCLOSURE OF INTERESTS

## (a) Directors

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules, would be required to be notified to the Company and the Stock Exchange.

Name of Director	Type of interest	Number of Shares	Approximate percentage of shareholding
Mr. Tong Shek Lun	Corporate	231,180,000 <sup>(note)</sup> Long position	42%
Mr. Li Ka Fai, Fred	Corporate	231,180,000 <sup>(note)</sup> Long position	42%
Ms. Ko Lai King, Kinny	Corporate	231,180,000 <sup>(note)</sup> Long position	42%
Ms. Chung Wai Yu, Regina	Corporate	231,180,000 <sup>(note)</sup> Long position	42%

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

**(b) Substantial shareholders**

Save as disclosed below, as at the Latest Practicable Date, none of the Directors were aware of any person (other than a Director or a chief executive of the Company), who had an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or would be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Name	Number of Shares	Approximate percentage of shareholding
Sapphire Profits Limited ( <i>note 1</i> )	231,180,000 Long position	42%
Perfect Treasure Investment Limited ( <i>note 2</i> )	88,100,000 Long position	16%

*Notes:*

1. Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina own 90.41%, 3.46%, 3.46% and 2.67% of the issued share capital of Sapphire Profits Limited respectively.
2. Perfect Treasure Investment Limited is an indirectly wholly owned subsidiary of Sing Tao News Corporation Limited, a listed company on the Stock Exchange.

**2. LITIGATION**

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

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31st December, 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

**4. DIRECTOR'S SERVICE CONTRACT**

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

Save as disclosed above, none of the Directors has service contract with any member of the Group which is not expiring or determinable within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date.

#### **5. COMPETITION INTERESTS**

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

#### **6. MISCELLANEOUS**

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