

Karce International Holdings Company Limited

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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)

ANNOUNCEMENT

The Board is pleased to announce that on 4th November, 2004, the Group has entered into the Share Exchange Agreement to reorganize the shareholding interest of Ascalade Communications, an affiliated company of the Company, by transferring 49% of the issued share capital of Ascalade Communications to Ascalade Inc. in exchange for approximately 30.8 % of the issued share capital of Ascalade Inc.. The Reorganization is mainly to rationalize the structure of Ascalade Inc. to prepare for the Proposed Listing Exercise.

The Proposed Listing Exercise is still at its preliminary stage and the structure and terms of which are subject to finalization. The Group may make further announcement(s) in respect of the development of the Proposed Listing Exercise as and when appropriate. **The Proposed Listing Exercise may or may not materialize and the Shareholders and investors are advised to exercise caution when dealing in the Shares.**

Trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on 5th November, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 16th November, 2004.

THE SHARE EXCHANGE AGREEMENT

Date:

4th November, 2004

Parties:

1. Dragon, an indirect wholly-owned subsidiary of the Company.
2. Ascalade Inc. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries by the Directors, Ascalade Inc. and its ultimate beneficial owner are not connected persons (as defined in the Listing Rules) of the Company before completion of the Reorganization.

The subject transaction:

Dragon shall transfer to Ascalade Inc. 24,500 Ascalade Communications Shares, representing 49% of the issued share capital in Ascalade Communications in exchange for the allotment and issue of 16,170,000 Ascalade Inc. Shares, representing approximately 30.8 % of the issued share capital of Ascalade Inc., at an issue price of CAD 0.85 (equivalent to approximately HK\$ 5.36) per Ascalade Inc. Share (i.e. at an aggregate value of HK\$86,590,000 (16,170,000 Ascalade Inc. Shares x CAD 0.85 x 6.3)) upon completion of the Share Exchange Agreement. The Directors understand that the Exchange Shares to be held by Dragon may be subject to the following restrictions:

- (a) right of first refusal – shareholder of Ascalade Inc. will not be able to transfer its shareholding interest in Ascalade Inc. to any third party without first offering to sell such shares to the other shareholders of Ascalade Inc.;
- (b) drag along rights – where an offer for sale is made to all the shareholders of Ascalade Inc. by a third party and such offer has been accepted by shareholders holding not less than 75% of the issued share capital, then any shareholder who has not accepted the offer shall be deemed to have done so;

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- (c) piggy back rights – the selling shareholder shall prior to any sale of its shares of Ascalade Inc. to any third party causes the third party to offer to purchase the shares held by the other shareholders at the same price and on the same conditions as the selling shareholder shall sell such shares ; and
- (d) if the Proposed Listing Exercise is materialized, the Ascalade Inc. Shares to be held by Dragon may be subject to a 12 to 24-month lock up period.

The Directors confirmed that the consideration was determined on arm's length negotiations and normal commercial terms with reference to the consolidated results of Ascalade Communications and Arkon for the periods ended 30th June, 2004 and its growth trend compared with the industrial prospect as agreed between the relevant parties pursuant to the Proposed Listing Exercise. The Directors also confirmed that there would not be any cash inflow or outflow recorded by the Group solely in relation to the Reorganization.

Conditions:

The completion of the transaction is conditional upon, among others:

- (a) all of the issued Ascalade Communications Shares, apart from the Purchased Shares, shall also have been acquired by Ascalade Inc. in exchange for new Ascalade Inc. Shares;
- (b) Dragon shall have executed, delivered and performed all agreements and documents on its part to be performed under the Share Exchange Agreement and shall deliver a certificate as of the time of completion certifying that all representations and warranties of Dragon as contained in the Share Exchange Agreement are true and correct;
- (c) Dragon shall have delivered or caused to be delivered to Ascalade Inc. waivers of claims and demands against Ascalade Communications, save as all loans, advances, indebtedness, guarantee and counter guarantee (if any) owed to or given in favour of Dragon;
- (d) all necessary steps and proceedings as required by Ascalade Inc. shall have been taken to permit the Purchased Shares to be duly transferred and delivered to Ascalade Inc.;
- (e) Dragon shall have executed and delivered to Ascalade Inc. all documents as reasonably requested by Ascalade Inc. for the purpose of effecting the transfer and delivery of the Purchased Shares;
- (f) all necessary approvals from the Shareholders with respect to, *inter alia*, the Share Exchange Agreement shall have been obtained;
- (g) the Company shall have issued an announcement with respect to, *inter alia*, the Share Exchange Agreement pursuant to the Listing Rules;
- (h) Ascalade Inc. shall have executed, delivered and performed all agreements and documents on its part to be performed under the Share Exchange Agreement and shall deliver a certificate as of the time of completion certifying that all representations and warranties of Ascalade Inc. as contained in the Share Exchange Agreement are true and correct;
- (i) Ascalade Inc. shall have executed and delivered to Dragon all documents as reasonably requested by Dragon for the purpose of effecting the allotment and issue of the Exchange Shares; and
- (j) all necessary steps and proceedings as reasonably required by Dragon shall have been taken to permit the due allotment, issuance and delivery of the Exchange Shares to Dragon.

If any of the above conditions have not been fulfilled or waived in writing by Dragon and/or Ascalade Inc. (as the case may be) prior to completion of the Share Exchange Agreement, Dragon and/or Ascalade Inc. (as the case may be) may rescind the Share Exchange Agreement by written notice to the other party and, in such event, both parties shall be released from all obligations contained therein.

Completion:

Completion shall take place on or before 30th November, 2004 (Canadian time and i.e. 1st December, 2004 Hong Kong time) or such other date as the parties agreed in writing. There is no termination provision contained in the Share Exchange Agreement to terminate the same save as the right to rescind the Share Exchange Agreement due to non fulfillment of the conditions as mentioned above.

INFORMATION OF THE GROUP, ASCALADE INC. AND ASCALADE COMMUNICATIONS

The Group is principally engaged in the businesses of manufacturing and distribution of electronic calculators and organizers, conductive silicon rubber keypads, printed circuit boards, electronic toys products and cordless telephone products.

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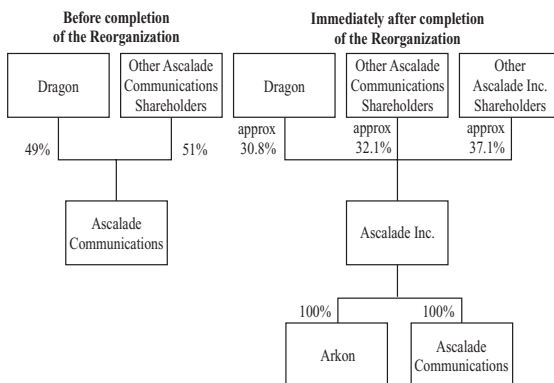
Ascalade Inc. is a corporation incorporated on 3rd November, 2004 pursuant to the laws of the Province of British Columbia. It is established as an investment holding company to take up the entire issued share capital of Ascalade Communications and Arkon so as to rationalize its structure to prepare for the Proposed Listing Exercise.

Ascalade Communications is a limited company incorporated in the British Virgin Islands and is an affiliated company of the Group. It is held as to 49% and 51% by Dragon and the Other Ascalade Communications Shareholders respectively before completion of the Share Exchange Agreement. Ascalade Communications and its subsidiaries are principally engaged in the design, manufacture and distribution of cordless phones and other telecommunications products for markets in Hong Kong, Europe and North America.

The Directors understand that as part of the preparation in connection with the Proposed Listing Exercise, upon completion, (1) the Other Ascalade Communications Shareholders will also have transferred their 51% equity interest in Ascalade Communications to Ascalade Inc. in exchange for Ascalade Inc. Shares and (2) Ascalade Inc. will also have acquired the entire issued share capital of Arkon by way of share exchange and will have issued shares to the Other Ascalade Inc. Shareholders. Accordingly, immediately after completion, Ascalade Communications and Arkon will become wholly owned subsidiaries of Ascalade Inc. and the only substantial assets of Ascalade Inc. will be its shareholding interests in Ascalade Communications and Arkon.

Arkon is a body corporate incorporated on 12 January 2001 under the laws of Canada. It is principally engaged in the businesses of research and design of consumer electronics products and the sales and marketing of these products.

The shareholding structures of Ascalade Communications before and immediately after completion of the Share Exchange Agreement are as follows:



Therefore upon completion of the Reorganization, Dragon will in effect have disposed of 18.2% shareholding interest in Ascalade Communications in exchange for approximately 30.8% shareholding interest in Arkon. The consolidated net assets value of Ascalade Communications as at 30th June, 2004 amounted to approximately HK\$28,753,000 and 18.2% of which amounted to approximately HK\$14,089,000. The consolidated net asset value of Arkon as at 30th June, 2004 amounted to approximately CAD4,452,000 (equivalent to approximately HK\$28,048,000) and 30.8% of which amounted to approximately CAD1,371,000 (equivalent to approximately HK\$8,637,000). No accounts have been prepared for Ascalade Inc. as at the date of this announcement.

The consolidated net profits before taxation and extraordinary items of Ascalade Communications for the two financial years ended 31st December, 2003 and 31st December, 2002 amounted to approximately HK\$22,792,000 and HK\$253,000 respectively and the consolidated net profits/(loss) after taxation and extraordinary items of Ascalade Communications for the two financial years ended 31st December, 2003 and 31st December, 2002 amounted to approximately HK\$18,836,000 and HK\$ (990,000) respectively.

The Directors also noted that following completion of the Share Exchange Agreement, Ascalade Inc. will issue or will have issued the following convertible securities to, among others, investors which are Independent Third Parties:

- warrants to purchase up to an aggregate of 1,268,640 Ascalade Inc. Shares (subject to adjustments) (“**Tranch A Warrants**”);
- warrants to purchase up to an aggregate of 1,400,000 Ascalade Inc. Shares (subject to adjustments) (“**Tranch B Warrants**”);

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- (c) up to an aggregate principal amount of CAD20,000,000 (equivalent to approximately HK\$126,000,000) convertible debentures (“**Convertible Debentures**”). The number of Ascalade Inc. Shares which can be converted from the Convertible Debentures will be determined based on the conversion price which is calculated with reference to the offer price pursuant to the Proposed Listing Exercise subject to adjustments. Since the offer price has not yet been determined, the maximum number or number of Ascalade Inc. Shares which can be converted from the Convertible Debentures cannot be ascertained as at the date of this announcement. However if the Proposed Listing Exercise has not occurred, the conversion price is proposed to be CAD0.85 (equivalent to approximately HK\$5.36) per Ascalade Inc. Share (subject to adjustments) and in such case, the total number of Ascalade Inc. Shares issuable from the Convertible Debentures will be approximately 23,530,000; and
- (d) debenture warrants (“**Debenture Warrants**”) to purchase up to an aggregate of 2,000,000 Ascalade Inc. Shares (subject to adjustments).

In the event that the Tranch A Warrants, Tranch B Warrants, Convertible Debentures (assuming a conversion price of CAD 0.85 per Ascalade Inc. Share) and Debenture Warrants are fully exercised, the shareholding interest of Dragon in Ascalade Inc. will be diluted from approximately 30.8% to 20%. The shareholding interests of (1) the Other Ascalade Communications Shareholders will be diluted from approximately 32.1 % to 20.9 % and (2) the Other Ascalade Inc. Shareholders will be diluted from approximately 37.1 % to 24.2 %.

The Directors confirmed that the gain or loss arising from the Reorganisation will be calculated based on the difference between the share of the carrying values of the net assets of Ascalade Communications being disposed of by the Group as at completion and the share of the fair values of the net assets of Arkon acquired by the Group as at completion.

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

REASONS FOR AND BENEFITS OF THE REORGANIZATION

The Reorganization is mainly to rationalize the structure of Ascalade Inc. to prepare for the proposed acquisition of its listing status on the Toronto Stock Exchange or other recognized major stock exchange and/or other similar fund raising exercise (“**Proposed Listing Exercise**”). The Proposed Listing Exercise, if materialised, is expected to create a synergy effect on the overall management of the business of Ascalade Group as it is expected that the research and development of Ascalade Group can be strengthened, its engineering capacity will be increased and its market recognition in North America will be enhanced. The Directors believe that through the Proposed Listing Exercise, Ascalade Group is able to attract extra funding and capital from investors to develop its business and enhance its net assets value and bases.

Though the effective shareholding interest of the Group in Ascalade Group will be diluted as a result of the Reorganization, the Directors believe that the Group will be able to gain a better return from its investment in Ascalade Group if the Proposed Listing Exercise is materialised as the net assets value of Ascalade Group is expected to appreciate in such case as explained above. Moreover, the Group will also have acquired equity interest in Arkon upon completion of the Reorganization.

Further, if the Proposed Listing Exercise is accomplished, the investment of the Group in Ascalade Group will be converted into marketable securities and tradable on a recognized stock exchange and thus is able to increase the liquidity and flexibility on the Group's investment in Ascalade Group.

The Proposed Listing Exercise is still at its preliminary stage and the structure and terms of which are subject to finalization. The Group may make further announcement(s) in respect of the development of the Proposed Listing Exercise as and when appropriate. **The Proposed Listing Exercise may or may not materialize and the Shareholders and investors are advised to exercise caution when dealing in the Shares.**

The Directors consider that the terms of the Share Exchange Agreement and the transactions contemplated therein are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL

As at the date of this announcement, the Board consists of four executive Directors, Mr. Tong Shek Lun, Mr. Li Ka Fai, Fred, Ms. Ko Lai King, Kinny and Ms. Chung Wai Yu, Regina, two non-executive Directors, Mr. Lee Kwok Leung and Mr. Yang Yiu Chong, Ronald Jeffrey and three independent non-executive Directors, Mr. Sun Yaoquan, Mr. Tsao Kwang Yung, Peter and Mr. Goh Gen Cheung.

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SUSPENSION AND RESUMPTION OF TRADING IN SHARES

Trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on 5th November, 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 16th November, 2004.

DEFINITIONS

The following defined terms are used in this announcement:

“affiliated company”	refers to a company which, in accordance with Hong Kong Financial Reporting Standards, is recorded using the equity method of accounting in any entity’s financial statements
“Arkon”	Arkon Networks Inc.
“Ascalade Communications”	Ascalade Communications Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is an affiliated company of the Group
“Ascalade Communications Shares”	ordinary shares of US\$1 each in the share capital of Ascalade Communications
“Ascalade Group”	Ascalade Inc., Ascalade Communications and its subsidiaries
“Ascalade Inc.”	Ascalade Communications Inc., a corporation incorporated pursuant to the laws of the Province of British Columbia
“Ascalade Inc. Shares”	common shares in the share capital of Ascalade Inc.
“Board”	the board of Directors
“Company”	Karce International Holdings Company Limited
“Directors”	the directors of the Company
“Dragon”	Dragon Spirit Enterprise Limited, a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly owned subsidiary of the Company
“Exchange Shares”	the 16,170,000 Ascalade Inc. Shares to be allotted and issued to Dragon in exchange for the transfer of the Purchased Shares from Dragon to Ascalade Inc. upon completion of the Share Exchange Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	referring to third parties not being a Group company nor connected persons (as defined in the Listing Rules) of the Group
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Other Ascalade Communications Shareholders”	meaning the other shareholders (apart from Dragon) of Ascalade Communications, which in aggregate hold 51% of the issued share capital of Ascalade Communications before completion of the Share Exchange Agreement. To the understanding of the Directors, the Other Ascalade Communications Shareholders and their respective ultimate beneficial owners are not connected persons (as defined in the Listing Rules) of the Company
“Other Ascalade Inc. Shareholders”	meaning the other shareholders (apart from Dragon and the Other Ascalade Communications Shareholders) of Ascalade Inc.. To the understanding of the Directors, the Other Ascalade Inc. Shareholders and their respective ultimate beneficial owners are not connected persons (as defined in the Listing Rules) of the Company
“Proposed Listing Exercise”	has the meaning ascribed under the section headed “Reasons for and benefits of the Reorganization”
“Purchased Shares”	the 24,500 Ascalade Communications Shares to be transferred by Dragon to Ascalade Inc. upon completion of the Share Exchange Agreement

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“Reorganization”	the transfer of the Purchased Shares, representing 49% of the issued share capital in Ascalade Communications from Dragon to Ascalade Inc. in exchange for the allotment and issue of the Exchange Shares, representing approximately 30.8% of the issued share capital of Ascalade Inc. to Dragon upon completion of the Share Exchange Agreement
“Share Exchange Agreement”	the Share Exchange Agreement dated 4th November, 2004 entered into between Dragon and Ascalade Inc. in respect of, inter alia, the Reorganization
“Shareholders”	holders of the Share(s)
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“HK\$”	the lawful currency of Hong Kong
“CAD”	the lawful currency of Canada. For information only, CAD has been translated to HK\$ as to CAD1 to HK\$ 6.3. No representation is made that such amounts were or could be exchanged at such rate

By order of the Board
Karce International Holdings Company Limited
Tong Shek Lun
Chairman

Hong Kong, 15th November, 2004

* *for identification only*

Please also refer to the published version of this announcement in The Standard dated 16 November 2004.