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## **Karrie International Holdings Limited**

**嘉利國際控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1050)**

### **MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF A WHOLLY FOREIGN-OWNED ENTERPRISE IN THE PRC AND INCREASE IN AUTHORISED SHARE CAPITAL AND SPECIFIC MANDATE TO ISSUE NEW SHARES**

#### **The Acquisition**

On 22 October, 2010 after the trading hours, the Group entered into the Sale and Purchase Agreement with the Vendor whereby the Group has conditionally agreed to acquire the Sale Equity Interests at a consideration of RMB105.12 million (equivalent to approximately HK\$123.68 million), which will be satisfied by the allotment and issue of the Consideration Shares at the Issue Price of HK\$0.425 per Consideration Share.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, on the Stock Exchange.

The Directors (excluding the independent non-executive Directors, whose view will be provided after reviewing the opinion of the independent financial advisor) considered that the Sale and Purchase Agreement was entered into on normal commercial terms in the ordinary and usual course of business of the Company after arm's length negotiation, and the terms are fair and reasonable, and in the interests of the Company and Shareholders as a whole.

#### **Implications under the Listing Rules**

Mr. Ho Cheuk Fai and Ms. Ho Po Chu, the controlling Shareholders, are ultimately interested in 97% of the issued share capital of the Vendor. Accordingly, the Vendor is as a connected person of the Company under Chapter 14A of the Listing Rules and the Acquisition constitutes a connected transaction of the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

In addition, as any of the applicable percentage ratios (as defined in the Listing Rules) exceeds 25% but is less than 100%, the Acquisition also constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules subject to the reporting, announcement and Shareholders' approval.

### **Increase in authorised share capital**

The Board proposes to increase the authorised share capital of the Company from HK\$80,000,000 divided into 800,000,000 Shares, to HK\$200,000,000 divided into 2,000,000,000 Shares, by the creation of an additional 1,200,000,000 unissued Shares.

### **SGM**

A SGM will be convened and held to consider and, if thought fit, to approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the grant of the specific mandate for the issue of the Consideration Shares; and (iii) the increase in the authorised share capital of the Company.

A circular will be despatched by the Company to the Shareholders on or about 12 November, 2010, containing (i) further details of the Acquisition; (ii) a letter from the independent board committee of the Company containing its advice and recommendation to the Independent Shareholders in respect of the Acquisition; (iii) a letter from an independent financial adviser to the independent board committee of the Company and the Independent Shareholders containing its advice to the independent board committee of the Company and the Independent Shareholders in respect of the Acquisition; (iv) a notice of the SGM; and (v) other information as required by the Listing Rules.

## **INTRODUCTION**

On 22 October, 2010 after the trading hours, the Group entered into the Sale and Purchase Agreement with the Vendor whereby the Group has conditionally agreed to acquire the Sale Equity Interests at a consideration of approximately RMB105.12 million (equivalent to approximately HK\$123.68 million), which will be satisfied by the allotment and issue of the Consideration Shares at the Issue Price of HK\$0.425 per Consideration Share.

## **THE SALE AND PURCHASE AGREEMENT**

### **Date**

22 October, 2010

### **Parties**

Vendor: Castfast Properties Development Co., Limited, a connected person of the Company

Purchaser: Kar Sharp Development Limited, a wholly-owned subsidiary of the Company

Indemnifier: Mr. Ho Cheuk Fai, the chairman and controlling Shareholder

### **Assets to be acquired**

The Vendor will sell and the Purchaser will purchase 100% of the equity interests in Yixing Karrie.

## Conditions

Completion of the Acquisition is, among others, conditional upon fulfillment or (where it is permitted under the Listing Rules and the applicable laws) waiver granted by the Purchaser of the following conditions:

- (a) approvals from the Independent Shareholders on the Sale and Purchase Agreement having been obtained;
- (b) an announcement and a circular to the Shareholders having been issued by the Company pursuant to the requirements of the Listing Rules;
- (c) the Purchaser being satisfied with the results of the due diligence review of the operations, legal status and financial position of Yixing Karrie;
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;
- (e) all the necessary or appropriate approvals, consents and other authorisations from the governmental authorities and third parties, including but not limited to approvals for the transfer of the equity interests in Yixing Karrie from the relevant approving authority, having been obtained;
- (f) obtaining legal opinions issued by a firm of PRC lawyers appointed by the Purchaser on the establishment, the operation of Yixing Karrie and the legal title of the Land, the substance of which shall be satisfactory to the Purchaser; and
- (g) all warranties given by the Vendor remaining true and accurate in all respects and not misleading up to Completion.

If any of the conditions as set out in the Sale and Purchase Agreement is not fulfilled or waived on or before 31 January, 2011 (or such other date as the parties may agree), the Sale and Purchase Agreement shall cease to have any effect save and except any antecedent breach.

## Consideration

The Consideration of approximately RMB105.12 million (equivalent to approximately HK\$123.68 million) was arrived at after arm's length negotiations between the Vendor and the Purchaser with reference to the aggregate of (i) the unaudited net asset value of Yixing Karrie of approximately RMB62.56 million (equivalent to approximately HK\$73.60 million) as at 30 September, 2010; (ii) the valuation surplus of the Land of approximately RMB12.00 million (equivalent to approximately HK\$14.12 million) based on the valuation of the Land made by an independent qualified valuer of approximately RMB64.50 million (equivalent to approximately HK\$75.88 million) as at 20 October, 2010; and (iii) the government incentives in respect of the Land of approximately RMB43.50 million (equivalent to approximately HK\$51.18 million). The Consideration represents a discount of approximately 10.96% of the aforesaid aggregate amount.

The Consideration will be satisfied by the Consideration Shares to be allotted and issued to the Vendor. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to receive all dividends, distributions and other payments declared to be made on or after the date of such allotment and issue.

Based on the Issue Price, an aggregate of 291,000,000 new Shares will fall to be issued upon completion of the Sale and Purchase Agreement, which represents:

- (a) approximately 50.42% of the issued share capital of the Company as at the date of this announcement; and
- (b) approximately 33.52% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price of HK\$0.425 per Consideration Share represents:

- (a) a discount of approximately 14.14% to the closing price of HK\$0.495 per Share as quoted on the Stock Exchange on 22 October, 2010; and
- (b) a discount of approximately 17.15% to the average closing price of HK\$0.513 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including 22 October, 2010.

The Issue Price was determined after arm's length negotiation between the Purchaser and the Vendor with reference to the recent trading prices of the Shares. The Directors (excluding the independent non-executive Directors, whose view will be provided after reviewing the opinion of the independent financial adviser) consider that the Issue Price is fair and reasonable.

### **Completion**

Completion of the Acquisition will take place on the fifth Business Day (or such other date as the parties may agree) after all the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled or waived.

### **Indemnities**

Mr. Ho Cheuk Fai agrees and undertakes to fully indemnify the Company and its subsidiaries against any land appreciation tax in respect of the Land and, if any, tax to be payable by Yixing Karrie in respect of the incentives provided by the government in respect of the Land.

### **APPLICATION FOR LISTING AND SPECIFIC MANDATE**

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange. The Board will seek approval from the Independent Shareholders at the SGM for the grant of a specific mandate for the issue of the Consideration Shares.

## SHAREHOLDING STRUCTURE OF THE COMPANY

The table below shows the shareholding of the Company (i) as at the date of this announcement; and (ii) immediately after allotment and issue of the Consideration Shares:

	No. of Shares held as at the date of this announcement	Approximate percentage of shareholding	No. of Shares held immediately after the allotment and issue of the Consideration Shares	Approximate percentage of shareholding
<i>Non-public Shareholders</i>				
New Sense (note 1)	243,804,000	42.25%	243,804,000	28.08%
Mr. Ho Cheuk Fai	12,492,000	2.16%	12,492,000	1.44%
Ms. Ho Po Chu (note 2)	55,100,000	9.55%	55,100,000	6.35%
Other directors of the Company (note 3)	14,486,000	2.51%	14,486,000	1.67%
the Vendor (note 4)	–	–	291,000,000	33.52%
<i>Sub-total:</i>	325,882,000	56.47%	616,882,000	71.06%
<i>Public Shareholders</i>	251,215,600	43.53%	251,215,600	28.94%
<b>Total:</b>	<b>577,097,600</b>	<b>100.00%</b>	<b>868,097,600</b>	<b>100.00%</b>

### Notes:

1. New Sense is a company incorporated in the British Virgin Islands, the entire issued share capital of which was owned by Equity Trust (BVI) Limited as trustee for a discretionary trust, The Ho Family Trust. Mr. Ho Cheuk Fai is the settlor of The Ho Family Trust.
2. Ms. Ho Po Chu is the spouse of Mr. Ho Cheuk Fai, the chairman and controlling Shareholder.
3. The 14,486,000 Shares were held by as to 12,104,000 Shares by Mr. Ho Cheuk Ming, 980,000 Shares by Mr. Kwok Wing Kin, Francis, 1,400,000 Shares by Mr. Lee Shu Ki and 2,000 Shares by Mr. Fong Hoi Shing, who are Directors. Mr. Ho Cheuk Ming is the younger brother of Mr. Ho Cheuk Fai.
4. The issued share capital of the Vendor is owned as to 87% by Honford Investments, 10% by Ms. Ho Po Chu and 3% by Mr. Lam Lung Kwong.
5. As at the date of this announcement, Mr. Lam Lung Kwong and his associates were interested in approximately 4.56% of the existing issued share capital of the Company. These interests will represent approximately 3.03% of the issued share capital of the Company as enlarged by the Consideration Shares. Mr. Lam Lung Kwong will resign from his role as the legal representative and director of Yixing Karrie upon completion of the Sale and Purchase Agreement.

The public shareholding will decrease from approximately 43.53% to 28.94% upon completion of the allotment and issue of the Consideration Shares. Despite such dilutive effect, the Directors are of the view that the allotment and issue of the Consideration Shares will provide the Company and the Shareholders the benefits as set out in the paragraph headed “Reasons for and benefit of the Acquisition” of this announcement. The Directors are further of the view that to settle the Consideration by way of the Consideration Shares will enable the Group to allocate its cash flow to other uses and expansion of the Group.

## **INFORMATION OF THE VENDOR AND YIXING KARRIE**

Yixing Karrie is a wholly foreign-owned enterprise established in the PRC on 3 December 2009, the entire registered capital of which is currently owned by the Vendor. The registered capital of Yixing Karrie was US\$15,000,000. As at the date of this announcement, the Vendor has contributed an aggregate of US\$12,000,000 of the registered capital of Yixing Karrie by cash. According to the approval issued by the relevant PRC government authority for the establishment of Yixing Karrie, the remaining US\$3,000,000 registered capital of Yixing Karrie is to be paid up on or before 2 December 2011.

The Vendor is a limited company incorporated in Hong Kong. As at the date of this announcement, the Vendor was ultimately and beneficially owned as to 87% by Honford Investments, 10% by Ms. Ho Po Chu and 3% by Lam Lung Kwong. Other than interested in approximately 4.56% of the existing issued share capital of the Company, being a director and shareholder of the Vendor, the legal representative and director of Yixing Karrie and director of other PRC subsidiaries of the Vendor, Mr. Lam Lung Kwong is independent of the Company and the connected persons of the Company and their respective associates.

The principal business of the Vendor is investment holding. In addition to Yixing Karrie, the Vendor controls other foreign investment enterprises established in the PRC principally engaged in the business of property development and construction works.

Yixing Karrie was established specifically to obtain the land use rights of the Land and responsible for the development and operation of the project to be developed on the Land.

The unaudited loss before and after taxation of Yixing Karrie for the nine months ended 30 September 2010 prepared under the Hong Kong Financial Reporting Standards was approximately RMB19.17 million (equivalent to approximately HK\$22.55 million).

As at 30 September 2010, the unaudited net asset value of Yixing Karrie prepared under the Hong Kong Financial Reporting Standards was approximately RMB62.56 million (equivalent to approximately HK\$73.60 million).

## **REASONS FOR AND BENEFIT OF THE ACQUISITION**

The Group is principally engaged in the metal and plastic business and electronic manufacturing services business. The management of the Group, after in-depth consideration, is of the view that the rising costs of investment environment, wages and electricity in the southern China will continue to pose pressure on the growth of the Group’s business. Therefore, apart from improving the Group’s industrial techniques to increase its competitiveness and to strengthen its existing business, from time to time, the management of the Group has been exploring and analysing other business opportunities. The Group may also consider diversifying into other businesses including but not limited to hotel, tourism, property and theme city for weddings to enhance the Group’s future development and income sources.

The Land will be used to develop a 18-floor commercial building with an estimated gross floor area of approximately 34,020 sq.m. The first and second floors of the commercial building is planned for use as shopping plaza or office and the other floors as hotel or service apartments. Taking into account factors such as the Group's development strategy and market conditions, the commercial building is planned to be leased out to generate rental income and/or for sale.

Yixing is located in Jiangsu, the PRC, a fast growing city. With the increasing living standard in these developing "second-tier" cities of the PRC, the demand for quality premises and a pleasant living environment with all accessory facilities, such as shopping plaza, located in the proximity in these regions is expected to be increased. The Directors believe that the Acquisition will enable the Group to grasp the opportunity to benefit from the development of these regions at the early stage which in turn will allow lower investment cost than that in the well-developed "first-tier" cities of the PRC.

Based on the existing plan of development, the total development cost (including land cost) of the project located on the Land is expected to be of approximately RMB154.56 million (equivalent to approximately HK\$181.84 million) which will be funded by the internal resources of the Group, borrowings from banks or other institutions or a combination of both means. The project is expected to be completed by the end of 2012. The Directors expect the Acquisition will contribute positively to the financial results and financial position of the Group.

In view of the fast economic growth and recovery in the "second-tier" cities of the PRC, the Directors believe that the Acquisition will benefit the Group in the following respects and which in turn will benefit the Company and the Shareholders as a whole:

- (a) enhance the sources of income of the Group;
- (b) diversify the business of the Group and reduce the Group's reliance on its existing manufacture business; and
- (c) seize the opportunity to acquire landbank and solid property development business during the economic rebound.

The Directors (excluding the independent non-executive Directors, whose view will be provided after reviewing the opinion of the independent financial advisor) considered that the Sale and Purchase Agreement was entered into on normal commercial terms in the ordinary and usual course of business of the Company after arm's length negotiation, and the terms are fair and reasonable, and in the interests of the Company and Shareholders as a whole.

## **IMPLICATIONS UNDER THE LISTING RULES**

Mr. Ho Cheuk Fai and Ms. Ho Po Chu, the controlling Shareholders, are ultimately interested in 97% of the issued share capital of the Vendor. Accordingly, the Vendor is as a connected person of the Company under Chapter 14A of the Listing Rules and the Acquisition constitutes a connected transaction of the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

In addition, as any of the applicable percentage ratios (as defined in the Listing Rules) exceeds 25% but is less than 100%, the Acquisition also constitutes a major transaction of the Company under Rule 14.06(3) of the Listing Rules subject to the reporting, announcement and Shareholders' approval.

## **INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY**

As at the date of this announcement, the authorised share capital of the Company was HK\$80,000,000 divided into 800,000,000 Shares, of which 577,097,600 Shares were issued and fully paid or credited as fully paid.

In order to accommodate the allotment and issue of the Consideration Shares and future expansion and growth of the Company, the Board proposes to increase the existing authorised share capital of the Company to HK\$200,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,200,000,000 unissued Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by Shareholders at the SGM, and no Shareholder is required to abstain from voting on such resolution.

### **GENERAL**

A SGM will be convened and held to consider and, if thought fit, to approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the grant of the specific mandate for the issue of the Consideration Shares; and (iii) the increase of the authorised share capital of the Company. New Sense, Mr. Ho Cheuk Fai, Ms. Ho Po Chu, Mr. Ho Cheuk Ming, Mr. Lam Lung Kwong and their respective associates, who together were interested in approximately 60.62% of the existing issued share capital as at the date of this announcement, will abstain from voting in the SGM.

A circular will be despatched by the Company to the Shareholders on or about 12 November, 2010, containing (i) further details of the Acquisition; (ii) a letter from the independent board committee of the Company containing its advice and recommendation to the Independent Shareholders in respect of the Acquisition; (iii) a letter from an independent financial adviser to the independent board committee of the Company and the Independent Shareholders containing its advice to the independent board committee of the Company and the Independent Shareholders in respect of the Acquisition; (iv) a notice of the SGM; and (v) other information as required by the Listing Rules.

### **DEFINITIONS**

“Acquisition”	the proposed acquisition of the Sale Equity Interests by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday, Sunday and a public holiday) on which licensed banks in Hong Kong are open for business
“Company”	Karrie International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange (stock code: 1050)
“connected person”	has the meaning ascribed to it under the Listing Rules



“Consideration”	RMB105.12 million (equivalent to approximately HK\$123.68 million), being the consideration payable by the Purchaser to the Vendor under the Sale and Purchase Agreement
“Consideration Shares”	291,000,000 new Shares to be issued by the Company to the Vendor for settlement of the Consideration
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Honford Investments”	Honford Investments Limited, a company incorporated in the British Virgin Islands and whose entire issued share capital is held by Equity Trust (BVI) Limited as the trustee for The Ho Family Trust.
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than New Sense, Mr. Ho Cheuk Fai, Ms. Ho Po Chu, Mr. Ho Cheuk Ming, Mr. Lam Lung Kwong and their respective associates
“Issue Price”	HK\$0.425 per Consideration Share
“Land”	the parcel of land with a site area of approximately 20,012 sq. m. located in Yixing (Lot no. 320282-024-194-000301), Wuxi, Jiangsu Province, the PRC under the land use right certificate number Yi Guo Yong 2010 No.24600167 (宜 國 用2010第24600167號)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Sense”	New Sense Enterprises Limited
“PRC” or “China”	the People’s Republic of China
“Purchaser”	Kar Sharp Development Limited, a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 22 October, 2010 entered into between the Purchaser, the Vendor and Mr. Ho Cheuk Fai in relation to the Acquisition
“Sale Equity Interests”	100% of the entire equity interests of the Yixing Karrie
“SGM”	a special general meeting of the Company to be convened to approve, among others, the Sale and Purchase Agreement, the grant of the Specific Mandate and the increase in the authorised share capital of the Company

“Shareholders”	holders of the Shares of the Company
“Shares”	shares of HK\$0.10 each in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Castfast Properties Development Co., Limited, a limited company incorporated in Hong Kong and is ultimately controlled by Mr. Ho Cheuk Fai and Ms. Ho Po Chu
“Yixing Karrie”	宜興嘉利商務大廈開發有限公司 (Yixing Karrie Commercial Building Development Co., Ltd.), a wholly foreign-owned enterprise established in the PRC whose entire registered capital is held by the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Reminbi, the lawful currency of the PRC
“US\$”	the United States dollars, the lawful currency of the United States of America
“sq. m.”	square metre
“%”	per cent

By order of the Board  
**Karrie International Holdings Limited**  
**Lee Shu Ki**  
*Director*

Hong Kong, 22 October, 2010

*In this announcement, amounts quoted in RMB have been translated into HK\$ at the reference rate of HK\$1.00=RMB0.85 for illustration purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be, converted at that or any other rate or at all.*

*As at the date of this announcement, the executive Directors are: Messrs. Ho Cheuk Fai, Kwok Wing Kin, Francis and Lee Shu Ki; the non-executive Director is: Mr. Ho Cheuk Ming; the independent non-executive Directors are: Messrs. So Wai Chun, Chan Sui Sum, Raymond and Fong Hoi Shing.*

\* *For identification purposes only*