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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
AND
NOTICE OF SGM**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**

**Menlo Capital Limited**

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 15 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 31 of this circular.

A notice convening a special general meeting of Karrie International Holdings Limited to be held at Function Room 1, 11/F., L'hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong at 10:00 a.m. on Monday, 6 December, 2010 is set out on pages 76 to 77 of this circular.

A proxy form for use at the special general meeting is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

* *For identification purpose only*

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“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
“Enlarged Group”	the Group upon the completion of the Acquisition
“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

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Menlo Capital”	Menlo Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO
“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. 320282-024-194-0003001), 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)
“Latest Practicable Date”	8 November, 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	a special general meeting of the Company to be convened on 6 December, 2010 to approve, among others, the Sale and Purchase Agreement, the grant of the Specific Mandate and the increase in the authorized 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”	Renminbi, 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

For the purpose of this circular, translations of RMB to HK\$ have been calculated using the exchange rate of HK\$1.00:RMB0.85.

LETTER FROM THE BOARD



Karrie International Holdings Limited
嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1050)

Executive Directors

Mr. Ho Cheuk Fai (*Chairman & CEO*)
Mr. Kwok Wing Kin, Francis
(Deputy Chairman & COO)
Mr. Lee Shu Ki
Ms. Chan Ming Mui, Silvia

Non-executive Director

Mr. Ho Cheuk Ming

Independent non-executive Directors

Mr. So Wai Chun
Mr. Chan Sui Sum, Raymond
Mr. Fong Hoi Shing

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

10th Floor
Southeast Industrial Building
611-619 Castle Peak Road
Tsuen Wan
New Territories
Hong Kong

Registered office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

12 November, 2010

To the Shareholders

Dear Sir/Madam,

**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
AND
NOTICE OF SGM**

INTRODUCTION

Reference is made to the announcement issued by the Company on 22 October, 2010, in which the Board announced that on 22 October, 2010, 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.

* *For identification purpose only*

LETTER FROM THE BOARD

The Acquisition constitutes a major and connected transaction of the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders in a general meeting.

The Directors would also propose at the SGM 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.

The purpose of this circular is to provide you with the information regarding (i) the Acquisition; (ii) the recommendation from Independent Board Committee; (iii) the recommendation from Menlo Capital to the Independent Board Committee and the Independent Shareholders; (iv) the notice of the SGM; and (v) other information as required by the Listing Rules.

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 interest 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;

LETTER FROM THE BOARD

- (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 of the Sale and Purchase Agreement.

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 government incentives are granted as the incentives for the contributions to be made by Yixing Karrie for the investment and development of the Yixing Economic Development Area. The government incentives are not subject to any condition or obligation and will be paid to Yixing Karrie by cash reimbursement. The Group was granted and received government incentives for its acquisition of a plot of land situated at the Yixing Economic Development Zone, Jiangsu Province, the PRC, details of this acquisition was disclosed in the Company's circular dated 18 February, 2008. Based on this past experience, the Directors believe that the risk of not receiving the government incentives in respect of the Land will be very remote.

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.

LETTER FROM THE BOARD

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 on 22 October, 2010, the date of the Sale and Purchase Agreement; 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, the date of the Sale and Purchase Agreement;
- (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; and
- (c) a discount of 26.72% to the closing price of HK\$0.58 per Share as at the Latest Practicable Date.

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 (including the independent non-executive Directors) 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 has been 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.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below shows the shareholding of the Company (i) as at the Latest Practicable Date; and (ii) immediately after allotment and issue of the Consideration Shares:

	No. of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding	No. of Shares held immediately after the issue and allotment of the Consideration Shares	Approximate percentage of shareholding
Non-public Shareholders				
New Sense (<i>note 1</i>)	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 (<i>note 2</i>)	55,100,000	9.55%	55,100,000	6.35%
Other directors of the Company (<i>note 3</i>)	14,486,000	2.51%	14,486,000	1.67%
the Vendor (<i>note 4</i>)	–	–	291,000,000	33.52%
Sub-total:	325,882,000	56.47%	616,882,000	71.06%
Public Shareholders	251,215,600	43.53%	251,215,600	28.94%
Total:	<u>577,097,600</u>	<u>100.00%</u>	<u>868,097,600</u>	<u>100.00%</u>

Notes:

- 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.
- Ms. Ho Po Chu is the spouse of Mr. Ho Cheuk Fai, the chairman and controlling Shareholder.
- 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.
- 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.
- As at the Latest Practicable Date, 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.

LETTER FROM THE BOARD

There will not be a change in control of the Company upon the allotment and issue of the Consideration Shares. 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 circular. 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.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, Yixing Karrie will become an indirect wholly-owned subsidiary of the Company. The accounts of Yixing Karrie will be consolidated into the consolidated financial statements of the Group.

Effect on assets and liabilities

As extracted from the audited consolidated balance sheet of the Group as at 31 March, 2010, the audited consolidated total assets and total liabilities of the Group were approximately HK\$1,740 million and HK\$998 million respectively. Upon completion of the Acquisition, as extracted from the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III to this circular, the Enlarged Group’s unaudited pro forma consolidated total assets and total liabilities would increase to approximately HK\$1,863 million and HK\$998 million respectively.

Effect on earnings

In light of the potential future prospects of Yixing Karrie after the commencement of business, the Directors are of the view that the Acquisition will likely to have a positive impact on the future earnings of the Enlarged 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 Latest Practicable Date, 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. Upon completion of the Acquisition, the Group will be responsible to pay for the remaining registered capital of US\$3,000,000 of Yixing Karrie.

The Vendor is a limited company incorporated in Hong Kong. As at the Latest Practicable Date, the Vendor was ultimately and beneficially owned as to 87% by Honford Investments, 10% by Ms. Ho Po Chu and 3% by Mr. Lam Lung Kwong. Other than interested in

LETTER FROM THE BOARD

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 land cost for the Land was RMB52.50 million (equivalent to approximately HK\$61.76 million).

The audited 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 audited 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.

According to the notice issued by Yixing City Development and Reform Commission (宜興市發展和改革委員會) to Yixing Karrie dated 19 October, 2010, the Land is approved to be used to develop a 21-floor commercial building with an estimated gross floor area of approximately 34,733 sq.m. and the total investment cost will be of approximately RMB198.50 million (equivalent to approximately HK\$233.52 million). The investment cost of the Land is expected to comprise development cost of approximately RMB154.56 million, in-house operation plus external sub-contracting of approximately RMB13.91 million, optional accessories for luxury renovation of approximately of RMB19.60 million, provisions for price fluctuations and others of approximately RMB8.00 million and others of approximately RMB2.43 million. The first and second floors of the commercial building are planned for use as shopping plaza or office and the other floors as hotel or service apartments. Taking into

LETTER FROM THE BOARD

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. The Group plans to initially hold the commercial building as investment property but will also sell certain parts of the commercial building depending on the market conditions.

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 increasing. 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.

The chairman of the Company, Mr. Ho Cheuk Fai, has been invested in the development of wedding theme city with all accessory facilities such as hotels, supermarkets, shopping mall, residential properties and various leisure facilities in Fenggang Qu, Dongguan, the PRC since 2001. Such "Wedding City" has stimulated the development of the economy of the surrounding areas in Fenggang Qu and received positive economic results and supports from the local government. The Directors may consider to leverage on the successful business model of Mr. Ho Cheuk Fai and explore the possibility of developing the commercial building to be built on the Land as a theme city for wedding to derive the most economic benefit. The Directors believe that with the experience of the Company's chairman, Mr. Ho Cheuk Fai, in the development of property projects and theme city, the Group has sufficient experience and is able to recruit experienced personnel and resources in the development of the project to be located on the Land.

Based on the existing plan of development, the Directors estimated that the total development cost (including land cost) of the project located on the Land 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. As at the Latest Practicable Date, the Land was ready for carrying out of the piling works but no construction works had been commenced. Yixing Karrie was in the process of applying for the relevant construction permits for the development of the Land. At present, Yixing Karrie has entered into couples of contracts, including construction contracts, with a total capital commitment amounted to approximately RMB5.27 million (equivalent to approximately HK\$6.20 million). 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

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- (c) seize the opportunity to acquire landbank and solid property development business during the economic rebound.

The Directors (including the independent non-executive Directors) 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.

The Directors has no current intention to dispose or scale down or discontinue its existing principal business of metal and plastic business and electronic manufacturing services. However, the Directors will continue to explore for other business opportunities such as property development, hotel and theme cities for wedding and when and where there are appropriate lands or property projects available for acquisition and having taking into factors including the Group's financial position, the market conditions and the development strategy of the Group, the Directors will consider to invest in these other lands and/or property projects. As at the Latest Practicable Date, other than the Acquisition, no lands or property projects had been specifically indemnified.

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 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 Latest Practicable Date, 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. Save for the Consideration Shares, the Board has no present intention to further issue any new 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.

LETTER FROM THE BOARD

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 Latest Practicable Date, will abstain from voting in the SGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. So Wai Chun, Mr. Chan Sui Sum, Raymond and Mr. Fong Hoi Shing, all being independent non-executive Directors. It has been established to advise the Independent Shareholders as to (a) whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and (b) whether to vote in favour of the ordinary resolutions for approving (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the grant of the specific mandate for the issue of the Consideration Shares.

INDEPENDENT FINANCIAL ADVISER

Menlo Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares).

SGM

Set out on pages 76 to 77 of this circular is a notice convening the SGM which will be held on Monday, 6 December, 2010 at 10:00 a.m. at Function Room 1, 11/F, L'hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong. At the SGM, ordinary resolutions will be proposed to approve (i) the increase in the authorised share capital of the Company; (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (iii) the grant of the specific mandate for the issue of the Consideration Shares. Any vote exercised by the Independent Shareholders at the SGM shall be taken by way of poll.

A form of proxy of the SGM is enclosed with this circular. Whether or not you are able to attend and vote at the SGM, you are requested to complete and deposited the same to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter of advice from the Independent Financial Adviser set out on pages 16 to 31 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares) and the letter from the Independent Board Committee set out on page 15 of this circular which contains its recommendation to the Independent Shareholders in relation to the same matters.

The Board (including the Independent Board Committee) having taken into account the advice of the Independent Financial Adviser in relation to the Sale and Purchase Agreement and transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares), is of the opinion that (i) the Sale and Purchase Agreement and transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole as well as the Sale and Purchase Agreement is on normal commercial terms. Therefore, the Directors (including the independent non-executive Directors) after taking into account the recommendation of the Independent Financial Adviser and the Independent Board Committee, recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares).

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter to the Independent Shareholders from the Independent Board Committee prepared for the purpose of incorporation into this circular:



Karrie International Holdings Limited

嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

12 November, 2010

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular issued by the Company to the Shareholders dated 12 November, 2010 (the “Circular”) of which this letter forms part. Unless the context otherwise defines, terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in connection with the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (the “Transactions”). Menlo Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transactions.

Your attention is drawn to the letter from the Board as set out on pages 4 to 14 and the letter from the Independent Financial Adviser as set out on pages 16 to 31 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Transactions are fair and reasonable so far as the Independent Shareholders and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder including the allotment and issue of the Consideration Shares.

Yours faithfully,

Independent Board Committee

So Wai Chun

*Independent
non-executive Director*

Chan Sui Sum, Raymond

*Independent
non-executive Director*

Fong Hoi Shing

*Independent
non-executive Director*

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from Menlo Capital in connection with the advice to the Independent Board Committee and the Independent Shareholders on the Acquisition, which has been prepared for the purpose of inclusion in this circular:



Menlo Capital Limited

Room 1807, West Tower, Shun Tak Centre
168 Connaught Road Central, Hong Kong

12 November 2010

*To the Independent Board Committee and the Independent Shareholders
of the Company*

Dear Sirs,

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

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular of the Company dated 12 November 2010 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 22 October 2010, 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. Mr. Ho Cheuk Fai and Ms. Ho Po Chu 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 the Listing Rules.

In formulating our opinion, we have relied on the accuracy of statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and which the Directors consider to be complete and relevant,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and have assumed that the statements made were true, accurate and complete at the time they were made and continue to be true on the date of the Circular. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Company are true at the time they were made and will continue to be true at the date of the despatch of the Circular.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our view and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent investigation into the business and affairs of the Company. We have taken all reasonable steps pursuant to the Listing Rules which include the following:

- (a) obtained all the information and documents relevant to an assessment of the fairness and reasonableness of the Acquisition, including but not limited to, the announcement of the Company dated 22 October 2010, the Board Letter, the Sale and Purchase Agreement, the valuation report from Ample Appraisal Limited (“Ample Appraisal”), the audited financial statements of the Yixing Karrie for the nine months ended 30 September 2010; the annual report of the Company for the years ended 31 March 2009 and 31 March 2010;
- (b) reviewed the performance and financial situation of the Company and the Yixing Karrie as well as the reasons and background of the Acquisition;
- (c) reviewed the terms of the Sale and Purchase Agreement;
- (d) reviewed the fairness, reasonableness and completeness of the assumptions made in the valuation report of Ample Appraisal;
- (e) without limiting the generality of paragraph (d) above, in relation to Ample Appraisal providing an opinion or valuation relevant to the Acquisition:
 - (i) interviewed Ample Appraisal including as to its expertise and any current or prior relationships with the Company, other parties to the Acquisition and connected persons of either the Company or another party to the Acquisition;
 - (ii) reviewed the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by Ample Appraisal’ report, opinion or statement); and
 - (iii) are not aware the Company or another party to the Acquisition has made formal or informal representations to Ample Appraisal.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinions and recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, we have considered the principal factors and reasons set out below:

I. Background and Reasons for 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 analyzing other business opportunities. The Group also considers diversifying into other businesses including but not limited to hotel, tourism and property to enhance the Group's future development and income sources.

Being set out under the sections "Chairman statement" and "Financial Section" in the annual report of the Company for the year ended 31 March 2010, the gross profit margin, the net profit margin, the restated revenue and net profit of the Group in recent years are as below:

Profit Margin and Net Profit

	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
(%)										
Gross Profit Margin	17.0	19.4	15.0	13.7	12.4	10.7	9.1	6.4	7.2	6.8
Net Profit Margin	2.9	6.8	6.9	5.3	5.7	5.2	3.8	0.5	0.8	0.4
<i>HK\$(million)</i>										
Turnover/Revenue	898	1,162	1,744	1,698	2,572	3,597	3,328	2,803	2,464	2,245
Net profit for the year	26	78	120	90	147	186	125	13	20	9

Based on the above figures, there is a trend of a continuing decrease in the both the profit margin and the net profit of the Group in the recent years. The decrease in profit reflects the facts that the rising costs of investment environment, wages and electricity in the southern China poses pressure on the growth of the Group's business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Latest Practicable Date, 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. Upon completion of the Acquisition, the Group will be responsible to pay for the remaining registered capital of US\$3,000,000 of Yixing Karrie.

The Vendor is a limited company incorporated in Hong Kong. As at the date of Latest Practicable Date, the Vendor is ultimately and beneficially owned as to 87% by Honford Investments, 10% by Ms. Ho Po Chu and 3% by Mr. 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 projects to be developed on the Land. The land cost for the Land was RMB52.50 million (equivalent to approximately HK\$61.76 million).

The audited 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 audited 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).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the notice issued by Yixing City Development and Reform Commission to Yixing Karrie dated 19 October, 2010, the Land is approved to be used to develop a 21-floor commercial building with an estimated gross floor area of approximately 34,733 sq.m. and the total investment cost will be of approximately RMB198.50 million (equivalent to approximately HK\$233.52 million). The investment cost of the Land is expected to comprise development cost of approximately RMB154.56 million, by in-house operation, plus external subcontracting of approximately RMB13.91 million, optional accessories for luxury renovation of approximately of RMB19.60 million, provisions for price fluctuation and others of approximately RMB8.00 million and others of approximately of RMB2.43 million. 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. The Group plans to initially hold the commercial building as investment property but will also sell certain parts of the commercial building depending on the market conditions.

REASONS FOR AND BENEFIT OF THE ACQUISITION

Yixing is located in Jiangsu, the PRC, a fast growing city. With the increasing living standard of 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.

	2005	2006	2007	2008	2009
	RMB	RMB	RMB	RMB	RMB
Yixing city household disposable income (per 2.5 persons)	34,580	40,223	45,883	53,166	59,491
Growth rate		16%	14%	16%	12%
Average selling prices of residential houses (per sq.m.)	2,438	2,679	3,019	3,471	not available
Growth rate		10%	13%	15%	not available

Sources: Yixing Government website www.yixing.gov.cn

Based on the statistic figures released by the Yixing Government as set out above, both the household disposable income and the average selling prices of residential houses in Yixing are growing in recent years which is in favour of the market value of the property development projects in Yixing, including the project in relation to the Land.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The chairman of the Company, Ho Cheuk Fai, has been invested in the development of wedding theme city with all accessory facilities such as hotels, supermarkets, shopping mall, residential properties and various leisure facilities in Fenggang Qu, Dongguan, the PRC since 2001. Such “Wedding City” has stimulated the development of the economy of the surrounding areas in Fenggang Qu and received positive economic results and supports from the local government. The Directors may consider to leverage on the successful business model of Ho Cheuk Fai and explore the possibility of developing the commercial building to be built on the Land as a theme city for wedding to derive the most economic benefit. The Directors believe that with the experience of the Company’s chairman, Ho Cheuk Fai, in the development of property projects and theme city, the Group has sufficient experience and is able to recruit experienced personnel and resources in the development of the project to be located on the Land.

Based on the existing plan of development, the Directors estimated that 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. As at the Latest Practicable Date, the Land was ready for carrying out of the piling works but no construction works had been commenced. Yixing Karrie was in the process of applying for the relevant construction permits for the development of the Land. At present, Yixing Karrie has entered into couples of contracts, including construction contracts, with a total capital commitment amounted to approximately RMB5.27 million (equivalent to approximately HK\$6.20 million). 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 the recovery in the “second-tier” cities of the PRC, the Directors believe that 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors has no current intention to dispose or scale down or discontinue its existing principal business of metal and plastic business and electronic manufacturing services. However, the Directors will continue to explore for other business opportunities such as property development, hotel and theme cities for wedding and when and where there are appropriate lands or property projects available for acquisition and having taking into factors including the Group's financial position, the market conditions and the development strategy of the Group, the Directors will consider to invest in these other lands and/or property projects. As at the Latest Practicable Date, other than the Acquisition, no lands or property projects had been specifically identified.

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. Having considered that the existing business of the Group is principally engaged in the metal and plastic business and electronic manufacturing services business. The Group has not been engaged in commercial property development projects. Accordingly, we are of the view that the Acquisition is not in the ordinary course of business of the Group.

Since April 2010, the PRC Government has adopted various measures to slow down the price upsurge of the PRC residential properties. Having taken into account of (i) the stable growth of the gross domestic product ("GDP") in the PRC in last twenty years; (ii) the continuous upward adjustments of currency exchange rates of RMB in recent years; and (iii) the easing in funding in the consumer markets in the PRC ensuring the continuous growth of the GDP in the PRC and the continuous upward adjustments in RMB exchange rates in the coming years; we are of the view that the prices in both the residential and the commercial-entertainment buildings will be in a general growth trend with occasional mild adjustments.

Having considered that (i) the rising costs of investment environment, wages and electricity in the southern China poses pressure on the growth of the Group's existing manufacturing services business; (ii) the diversification in the property development business including the Acquisition may broaden the income base and reduce the reliance on the existing manufacturing business of the Group; (iii) the household disposable income and the average selling price of residential houses are growing in Yixing; (iv) the Chairman of the Group, has experience in the establishment of wedding theme city, hotels, supermarket, shopping mall, residential properties and various leisure facilities in the PRC; (v) certain experts will be recruited for the development, the management and the thereafter services of project in relation to the Land to enhance the success of the project; and (vi) the prices in both the residential and the commercial-entertainment buildings will be in a general growth trend; we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. Terms of the Acquisition

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 subsidiaries of the Company

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

Assets to acquire

The Vendor will sell and the Purchaser will purchase 100% of the equity interest in the 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 operations, legal status and financial position of Yixing Karrie;
- (d) the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange;
- (e) all the necessary or appropriate approvals, consents other authorisations from the governmental authorities and third parties, including but not limited approvals for the transfer of the equity interest 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, operation of Yixing Karrie and the legal title of the Land, the substance of which shall be satisfactory to the Purchaser; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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 later date as the Vendor and the Purchaser 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 approximately RMB12.00 million (equivalent to approximately HK\$14.12 million) based on the valuation of the Land made by an independent qualified Ample Appraisal 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 government incentives are granted as the incentives for the contributions to be made by Yixing Karrie for the investment and development of Yixing Economic Development Area. The government incentives are not subject to any condition or obligation and will be paid to Yixing Karrie by cash reimbursement. The Group was granted and received government incentives for its acquisition of a plot of land situated at the Yixing Economic Development Zone, Jiangsu Province, the PRC, details of this acquisition was disclosed in the Company's circular dated 18 February 2008. Based on this past experience, the Directors believe that the risk of not receiving the government incentive in respect of the Land will be very remote.

The Consideration will be satisfied by the Consideration Shares to be issued and allotted to the Vendor. The Consideration Shares, when issued and allotted, shall rank *pari passu* in all respects with the Shares in issue on the date of issue and allotment 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 on 22 October 2010, the date of the Sale and Purchase Agreement; and
- (b) approximately 33.52% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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, the date of the Sale and Purchase Agreement;
- (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; and
- (c) a discount of 26.72% to the closing price of HK\$0.58 per Share as at the Latest Practicable Date.

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) 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 Vendor and the Purchaser 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.

We have reviewed the Sale and Purchase Agreement. We are of the view that the Sale and Purchase Agreement is on normal commercial terms.

Consideration of the Acquisition

The Consideration of 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 approximately RMB12.00 million based on the valuation of the Land made by an independent qualified Ample Appraisal 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Valuation of the Property

Being stated in the valuation report on the Property from Ample Appraisal, as set out in Appendix V to this circular, Ample Appraisal's valuation of the Property is Ample Appraisal's opinion of its market value which means "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests of similar nature, in particular located in the PRC, Ample Appraisal have normally adopted a market approach in assessing the land portion of the property, and the cost approach in valuing buildings and structures (if any) in the process of construction on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole.

In the valuation of the land portion, reference has been made to the sales evidence as available to Ample Appraisal in the neighbourhood, and the standard land price in similar locations of Yixing, Wuxi.

From our recent site inspection, Ample Appraisal found the land was still in early planning and formation stage without any material building works, thus the value of the property in Ample Appraisal's valuation would mostly take into account the land portion.

In valuing the Property, Ample Appraisal stated that they have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules and the Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

We have also discussed with Ample Appraisal the assumptions applied by them as set out in the valuation report. We consider that their assumptions are in line with the market practice and have no reason to doubt the assumptions applied by Ample Appraisal in preparing the valuation report. However, we wish to draw the attention of the Shareholders that the assumptions made in the valuation report are by nature subject to future uncertainty.

The Consideration will be satisfied by the Consideration Shares to be issued and allotted to the Vendor. The Consideration Shares, when issued and allotted, shall rank *pari passu* in all respects with the Shares in issue on the date of issue and allotment 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the audited accounts of the Group as at 31 March 2010, the net assets value of the Group was HK\$741.5 million while there were 577,097,600 Shares in issue. Accordingly, the net asset value per Share was approximately HK\$1.285. The Issue Price of HK\$0.425 per Consideration Share represents a discount of approximately HK\$0.86 to the net asset value per Share of approximately HK\$1.285. However, we are of the view that the interests of the Independent Shareholders are better reflected by the market price of the Shares, under which the Independent Shareholders' interest can be realized immediately. Therefore, to compare with the prevailing market price of the Shares is more appropriate in accessing whether the Issue Price is fair and reasonable so far as the interests of the Independent Shareholders are concerned.

The Issue Price of HK\$0.425 per Consideration Share represents 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. On the other side, the Consideration of approximately RMB105.12 million (equivalent to approximately HK\$123.68 million) represents a discount of approximately 10.96% of the amount arrived at RMB118.1 million being the aggregate of (i) the unaudited net asset value of Yixing Karrie of approximately RMB62.56 million; (ii) the valuation surplus of the Land approximately RMB12.00 million; and (iii) the government incentives in respect of the Land of approximately RMB43.50 million.

Having considered that (i) the rising costs of the Group's existing manufacturing services business; (ii) the Acquisition may broaden the income base and reduce the reliance on the existing business of the Group; (iii) the household disposable income and the average selling price of residential houses are growing in Yixing; (iv) the Chairman of the Group, has experience in the establishment of wedding theme city, hotels, supermarket, shopping mall, residential properties and various leisure facilities in the PRC; (v) certain experts will be recruited for the project in relation to the Land; (vi) the prices in both the residential and the commercial-entertainment buildings will be in a general growth trend; (vii) the Issue Price of the Consideration Share represents a discount to the net asset value per Share; and (viii) the interests of the Independent Shareholders are better reflected by the Issue Price against the prevailing market price of the Shares; we consider that a net discount of approximately 3.18%, being the difference between the discounts to the prevailing market price of 14.14% and the discount to the aggregate value of Yixing Karrie of 10.96%, is fair and reasonable as far as the interests of the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. Effects on Shareholding Dilution

The table below shows the shareholding of the Company (i) as at the Latest Practicable Date; and (ii) immediately after allotment and issue of the Consideration Shares:

	No. of Shares held as at the Latest Practicable Date	Approximate percentage of shareholding	No. of Shares held immediately after the issue and allotment 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%
Sub-total:	325,882,000	56.47%	616,882,000	71.06%
<i>Public Shareholders</i>	251,215,600	43.53%	251,215,600	28.94%
Total:	<u>577,097,600</u>	<u>100.00%</u>	<u>868,097,600</u>	<u>100.00%</u>

Notes:

- 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 settler of The Ho Family Trust.
- Ms. Ho Po Chu is the spouse of Mr. Ho Cheuk Fai, the chairman and controlling Shareholder.
- 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.
- 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. As at the Latest Practicable Date, 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 issue and allotment of the Consideration Shares. Despite such dilutive effect, the Directors are of the view that the issue and allotment 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” in the Board Letter. Having considered that the settlement of the Consideration by way of the Consideration Shares may enable the Group to allocate its cash flow to other uses or expansion of the Group, we are the view that the dilution effect on the shareholding interests of the Independent Shareholders is fair and reasonable.

IV. Financial Effects of the Acquisition

The Consideration of 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 approximately RMB12.00 million based on the valuation of the Land made by an independent qualified Ample Appraisal 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 allotment and issue of the Consideration Shares.

As set out in Appendix III headed “Unaudited pro forma financial information of the Enlarged Group” in this Circular, the financial effects of the Acquisition will be as follows:

(i) Net assets value

According to the pro forma financial, the net assets value of the Group immediately after the completion of the Acquisition will be substantially improved to HK\$865.2 million by approximately HK\$123.68 million, being the amount of the Consideration.

(ii) Liquidity

Based on the pro forma financial of the Enlarged Group, the improvement in the currents assets by HK\$47.6 million in aggregate will be attributable to the increase of the prepayments, deposits and other receivables of approximately HK\$41.0 million and a slight increase of the cash and bank balances of approximately HK\$6.6 million through the Acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company will fund the development project by internal resources and/or borrowings. As at 31 March 2010, the cash and bank balance of the Group was approximately HK\$328.0 million while the development cost of the project will be approximately RMB154.56 million (approximately HK\$181.8 million equivalent). Despite the Group being able to finance the project, the reduction on cash position, if any, will have a negative impact on the financial situation of the Group.

(iii) Gearing

The gearing of the Group was approximately 1.35 as at 31 March 2010, represented by the total liabilities of approximately HK\$998.3 million to the total equity of approximately HK\$741.5 million.

Based on the pro forma financial of the Enlarged Group, the Acquisition will result in an increase in equity of the Group by approximately HK\$123.68 million and will not affect the total liabilities of the Group. Accordingly, the gearing position of the Enlarged Group will be substantially improved from 1.35 to 1.15 after the Acquisition which is a substantial improvement.

The Group may fund the development project by borrowings when it is in need. Assuming the development cost of the project of RMB154.56 million (approximately HK\$181.8 million equivalent) to be financed by borrowings in full, the estimated gearing of the Group will increase from 1.15 to 1.36, which will represent a slight increase from the gearing position of 1.35 before the Acquisition based on the accounts as at 31 March 2010.

According to the above analysis, despite the development of the project may have an impact on the liquidity of the Group and/or an increase of the gearing ratio of the Group, the Acquisition will have an increase of the cash position, substantial improvement in the net asset value and the substantial improvement gearing position of the Group immediate after the Acquisition which are in the interests of Company and the Shareholders as a whole.

V. Opinion

Having taken into consideration of the above principal factors and reasons, in particular:

1. the Acquisition to broaden the income base and reduce the reliance on the existing manufacturing business of the Group, despite not in line with the ordinary course of business of the Group, is in the interests of Company and the Shareholders as a whole;
2. despite the development of the project may have an impact on the liquidity and/or the gearing position of the Group, the Acquisition will have respective improvements in the net asset value, the liquidity and the gearing position of the Group immediate after the Acquisition which are in the interests of Company and the Shareholders as a whole;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. the Sale and Purchase Agreement is on normal commercial terms;
4. despite the Issue Price of the Consideration Share represents a discount to the net asset value per Share as at 31 March 2010, the Consideration of a net discount of approximately of 3.18%, being the difference between the discounts to the prevailing market price of the Shares of 14.14% and the discount to the aggregate value of Yixing Karrie of 10.96%, is fair and reasonable as far as the interests of the Independent Shareholders are concerned; and
5. the dilution effect on the shareholding interests of the Independent Shareholders is fair and reasonable, having considered that the settlement of the Consideration by way of the Consideration Shares may enable the Group to allocate its cash flow to other uses or expansion of the Group.

VI. Recommendation

We are of the view that (i) the Acquisition to broaden the income base and reduce the reliance on the existing manufacturing business of the Group is in the interests of the Company and the Shareholders, despite not in the ordinary course of business of the Company; (ii) the Sale and Purchase Agreement is on normal commercial terms; and (iii) the terms of the Sale and Purchase Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder including the allotment and issue of the Consideration Shares.

Yours faithfully,
For and on behalf of
Menlo Capital Limited
Michael Leung
Executive Director

1. INTRODUCTION

The following is summary of the financial position and results of the Group as at and for each of the three years ended 31 March 2008, 2009 and 2010 which are incorporated by reference in this circular. They could be found in the annual reports of the Company published with the title “Annual Report 2007/08” dated 3 July 2008 from pages 108 to 190, “Annual Report 2008/09” dated 9 July 2009 from pages 100 to 182 and “Annual Report 2009/10” dated 19 July 2010 from pages 115 to 190, all of which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.karrie.com.hk).

2. SUMMARY OF FINANCIAL INFORMATION

Results	For the year ended 31 March		
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000
Revenue	2,802,974	2,463,926	2,245,172
Cost of sales	<u>(2,623,931)</u>	<u>(2,286,474)</u>	<u>(2,093,154)</u>
Gross profit	179,043	177,452	152,018
Distribution and selling expenses	(34,948)	(30,709)	(27,276)
General and administrative expenses	<u>(117,225)</u>	<u>(120,387)</u>	<u>(112,703)</u>
Operating profit	26,870	26,356	12,039
Finance income	14,853	10,071	3,312
Finance costs	(20,071)	(12,888)	(5,392)
Share of profit/(loss) of associated companies	<u>–</u>	<u>201</u>	<u>(2,682)</u>
Profit before taxation	21,652	23,740	7,277
Income tax (expenses)/credit	<u>(8,504)</u>	<u>(3,307)</u>	<u>1,833</u>
Profit for the year	<u>13,148</u>	<u>20,433</u>	<u>9,110</u>
Profit attributable to:			
Equity holders of the Company	13,148	22,081	12,497
Minority interest	<u>–</u>	<u>(1,648)</u>	<u>(3,387)</u>
	<u>13,148</u>	<u>20,433</u>	<u>9,110</u>
Earnings per share attributable to equity holders of the Company during the year (expressed in HK cents)			
– Basic	<u>2.80</u>	<u>3.80</u>	<u>2.20</u>
– Diluted	<u>2.80</u>	<u>3.80</u>	<u>2.20</u>
Dividends	<u>4,329</u>	<u>8,657</u>	<u>5,771</u>

Financial position

	As at 31 March		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	46,873	72,096	64,835
Deposits for acquisition of land use right	26,400	–	–
Property, plant and equipment	378,328	435,732	471,378
Investment in associated companies	400	601	28,299
Other non-current assets	–	–	12,803
Deferred tax assets	387	349	1,692
	<u>452,388</u>	<u>508,778</u>	<u>579,007</u>
	-----	-----	-----
Current assets			
Inventories	264,352	227,062	269,636
Trade receivables	430,742	419,064	416,150
Amount due from an associated company	–	–	10,226
Prepayments, deposits and other receivables	151,412	69,486	43,119
Tax prepaid	4,783	4,017	2,331
Time deposit	–	–	91,312
Cash and bank balances	353,140	641,440	328,003
	<u>1,204,429</u>	<u>1,361,069</u>	<u>1,160,777</u>
	-----	-----	-----
Total assets	<u><u>1,656,817</u></u>	<u><u>1,869,847</u></u>	<u><u>1,739,784</u></u>

	As at 31 March		
	2008	2009	2010
	HK\$'000	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	188,700	118,700	76,300
Deferred tax liabilities	8,753	6,880	4,742
Provision for long service payments	9,793	12,929	8,264
	<u>207,246</u>	<u>138,509</u>	<u>89,306</u>
Current liabilities			
Trade payables	351,379	298,596	405,143
Accruals and other payables	202,365	200,465	187,140
Receipts in advance	2,614	3,636	4,884
Amount due to an associated company	811	211	305
Short-term bank borrowings	216,561	487,235	311,530
	<u>773,730</u>	<u>990,143</u>	<u>909,002</u>
Total liabilities	<u>980,976</u>	<u>1,128,652</u>	<u>998,308</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	57,720	57,710	57,710
Other reserves	212,326	199,748	199,812
Retained earnings			
– Proposed final dividend	–	8,657	5,771
– Others	405,371	432,054	438,780
	<u>675,417</u>	<u>698,169</u>	<u>702,073</u>
Minority interest	424	43,026	39,403
Total equity	<u>675,841</u>	<u>741,195</u>	<u>741,476</u>
Total equity and liabilities	<u>1,656,817</u>	<u>1,869,847</u>	<u>1,739,784</u>

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 March, 2010, the date to which the latest published audited consolidated financial statements of the Group were made up.

INDEBTEDNESS OF THE ENLARGED GROUP**Borrowings**

As at the close of business on 30 September, 2010, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had aggregate outstanding bank borrowings of approximately HK\$478 million which were guaranteed by the corporate guarantees of the certain companies comprising the Group.

Charge on assets

As at the Latest Practicable Date, the Enlarged Group has not taken out any charges on any of its assets.

Contingent liabilities

As at 30 September 2010, the Enlarged Group had no material contingent liabilities.

Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 September, 2010. The Directors have confirmed that there have been no material changes in the Enlarged Group's indebtedness and contingent liabilities since 30 September, 2010.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group still faces many challenges in the forthcoming year in respect of rising production costs (especially labour costs), fluctuation of exchange rate and the European credit crisis. The Group takes an optimistic but cautious view for its prospects and expects that it will attain for a low double digits growth next year.

Since Dongguan, the PRC is still a sound city infrastructure with sufficient supply of raw materials, the Group has no present intention to relocate its production plants from Dongguan, the PRC to other relatively less economic developed outlying provinces of the PRC or nearby countries.

The manufacturing sector faces many difficulties in many aspects under current business environment. The business uncertainty will become greater if the Group chooses to rely only on its manufacturing business. In order to balance its income and profit, the Group needs to seek breakthrough and innovation to diversify from core business activities.

The Group recognises that hotel, tourism, property and theme city for wedding can stimulate population flow for the purpose of establishing an independent small community and therefore strive to implement the appropriate business model to achieve such area. The Group also believes that the local economy and community construction can be improved by appropriate business model.

The establishment of wedding theme city, hotels, supermarket, shopping mall, residential properties and various leisure facilities around factories in Fenggang Qu, Dongguan, the PRC by Mr. Ho Cheuk Fai has proved to stimulate the economy of the surrounding areas in Fenggang Qu. More importantly, the “Wedding City” in Fenggang Qu, Dongguan, the PRC earns the support and trust from the local government by providing incentive funding to the activities in the Wedding City.

The valuable experience of Mr. Ho Cheuk Fai in other industries can certainly assist the Group to diversify its business into hotel, tourism, property and theme city for weddings. The acquisition of Yixing Karrie is the milestone of the Group for exploring new business opportunities.

WORKING CAPITAL

After taking into account the available banking facilities and the internal resources of the Enlarged Group, the Directors are of the opinion that the Enlarged Group, after taken into account the Acquisition, will have sufficient working capital for its present requirements, that is for the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

(A) ACCOUNTANT'S REPORT ON YIXING KARRIE

The following is the text of the accountant's report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the financial information of Yixing Karrie, for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

12 November 2010

The Directors
Karrie International Holdings Limited

Dear Sirs,

We report on the financial information of 宜興嘉利商務大廈開發有限公司 (Yixing Karrie Commercial Building Development Co., Ltd.) (the “Target Company”) which comprises the balance sheets of the Target Company as at 31 December, 2009 and 30 September, 2010, and the statements of comprehensive income, the statements of changes in equity and the cash flow statements of the Target Company for the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 and the nine months ended 30 September, 2010 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of Karrie International Holdings Limited (the “Company”) and is set out in Sections I to III below for inclusion in Appendix I of the circular of the Company dated 12 November, 2010 (the “Circular”) in connection with the proposed acquisition of the Target Company by the Company.

The Target Company was incorporated in the People's Republic of China (the “PRC”) on 3 December, 2009 as a limited liability company.

The financial statements of the Target Company for the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 and the nine months ended 30 September, 2010 were audited by PricewaterhouseCoopers, Hong Kong pursuant to separate terms of engagement with the Target Company.

The financial information has been prepared based on the audited financial statements of the Target Company with no adjustment made thereon.

Directors' responsibility

The directors of the Target Company during the Relevant Periods are responsible for the preparation and the fair presentation of the financial statements of the Target Company in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting policies presently adopted by the Company and its subsidiaries (together, the “Group”) as set out in the audited annual consolidated financial statements of the Company for the year ended 31 March, 2010 as set out in Appendix I of the Circular and the new accounting standards introduced that are effective and will be adopted by the Group since 1 April, 2010, where applicable. This responsibility includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December, 2009 and 30 September, 2010 and its results and cash flows for each of the Relevant Periods then ended.

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of the Target Company prepared by the directors of the Company as at 31 December, 2009 and 30 September, 2010 and for the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 and the nine months ended 30 September, 2010:

BALANCE SHEETS

	<i>Note</i>	As at 31 December, 2009 RMB'000	As at 30 September, 2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	–	53,850
Property, plant and equipment	8	–	193
Long-term prepayments and receivables	9	–	11,378
		-----	-----
		–	65,421
Current assets			
Other receivables	9	–	34,822
Cash and bank balances	10	20,930	5,638
		-----	-----
		20,930	40,460
		-----	-----
Total assets		<u>20,930</u>	<u>105,881</u>
EQUITY			
Capital and reserves			
Share capital	11	20,955	81,754
Accumulated losses		(25)	(19,191)
		-----	-----
Total equity		-----	-----
		20,930	62,563
		-----	-----
LIABILITIES			
Non-current liabilities			
Deferred income	12	–	43,318
		-----	-----
		20,930	105,881
		-----	-----

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

STATEMENTS OF COMPREHENSIVE INCOME

		For the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 RMB'000	For the nine months ended 30 September, 2010 RMB'000
Revenue		–	–
General and administrative expenses	<i>13</i>	(25)	(19,225)
Operating loss		(25)	(19,225)
Finance income		–	59
Loss before taxation		(25)	(19,166)
Taxation		–	–
Loss for the period		(25)	(19,166)
Other comprehensive income, net of tax		–	–
Total comprehensive loss for the period		<u>(25)</u>	<u>(19,166)</u>

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 3 December, 2009 (date of incorporation)	–	–	–
Comprehensive income			
Loss for the period	–	(25)	(25)
Transaction with owners			
Proceeds from capital contribution by owner	<u>20,955</u>	<u>–</u>	<u>20,955</u>
At 31 December, 2009	20,955	(25)	20,930
Comprehensive income			
Loss for the period	–	(19,166)	(19,166)
Transaction with owners			
Proceeds from capital contribution by owner	<u>60,799</u>	<u>–</u>	<u>60,799</u>
At 30 September, 2010	<u><u>81,754</u></u>	<u><u>(19,191)</u></u>	<u><u>62,563</u></u>

CASH FLOW STATEMENTS

	For the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 RMB'000	For the nine months ended 30 September, 2010 RMB'000
Cash flows from operating activities		
Loss before taxation	(25)	(19,166)
Adjustments for:		
Interest income	–	(59)
Depreciation of property, plant and equipment	–	26
Amortisation of land use rights	–	43
	<u>–</u>	<u>43</u>
Operating loss before working capital changes	(25)	(19,156)
Other receivable	–	(22)
	<u>–</u>	<u>(22)</u>
Net cash used in operating activities	(25)	(19,178)
	-----	-----
Cash flows from investing activities		
Purchases of property, plant and equipment	–	(219)
Purchases of land use rights	–	(54,075)
Long-term prepayments and receivables	–	(2,678)
Interest received	–	59
	<u>–</u>	<u>59</u>
Net cash used in investing activities	–	(56,913)
	-----	-----
Cash flows from financing activities		
Proceeds from capital contribution by owner	20,955	60,799
	<u>20,955</u>	<u>60,799</u>
Net cash generated from financing activities	20,955	60,799
	-----	-----
Net increase/(decrease) in cash and cash equivalents	20,930	(15,292)
Cash and cash equivalents at beginning of the period	–	20,930
	<u>–</u>	<u>20,930</u>
Cash and cash equivalents at end of the period	20,930	5,638
	<u><u>20,930</u></u>	<u><u>5,638</u></u>

II. NOTES TO THE FINANCIAL INFORMATION**1 General information**

宜興嘉利商務大廈開發有限公司 (Yixing Karrie Commercial Building Development Co., Ltd.) (“Target Company”) is a limited liability company incorporated in the People’s Republic of China (“PRC”). The address of its registered office is located at 江蘇宜興經濟開發區長樂路 (Chang Le Road, Yixing Economic Development Zone, Jiangsu, the PRC).

The principal activities of Target Company are property development and management in PRC.

The financial information (“Financial Information”) is presented in Renminbi (“RMB”), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. For the purpose of this report, these policies are materially consistent with those of Karrie International Holdings Limited and have been consistently applied for the Relevant Periods.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Target Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by Target Company are as follows:

HKFRS 9	Financial Instruments (effective from 1 January, 2013)
HKAS 24 (Amendment)	Related Party Disclosures (effective from 1 January, 2011)
HKAS 32 (Amendment)	Classification of Rights Issues (effective from 1 February, 2010)
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement (effective on or after 1 January, 2011)
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July, 2010)

In addition, the Hong Kong Institute of Certified Public Accountants also has published a number of amendments to existing standards under its annual improvement project.

Target Company has not early adopted these new standards, amendments and interpretations to existing standards in the Financial Information for the period from 3 December, 2009 (date of incorporation) to 30 September, 2010. The adoption of the above new standards, amendments and interpretations to existing standards in future periods is not expected to result in substantial changes to Target Company’s accounting policies.

Target Company will adopt the above new standards, amendments and interpretations when they become effective.

2.2 Foreign currency translation*(a) Functional and presentation currency*

Items included in the Financial Information of the Target Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Financial Information is presented in RMB, which is the Target’s Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property, plant and equipment

The property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Target Company and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates used for this purpose are:

Motor vehicles	20%
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The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 2.5).

2.4 Land use right

Land use right is stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the right to use the land on which various commercial buildings are situated for a period of 40 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life or not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.8 Share capital

Ordinary shares are classified as equity.

2.9 Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10 Government grants

Government grants relating to land use right are included in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

3 Financial risk management

3.1 Financial risk factors

The Target Company's activities expose it to credit risk. The risk is managed by the Target Company's financial management policies and practices as described below to minimize potential adverse effects on the Target Company's financial performance.

Risk management is carried out by management under policies approved by the board of directors. Management identifies and evaluates financial risks in close co-operation with Target Company.

Credit risk primarily arises from deposits with banks. The credit risk on deposits with banks is limited because the counterparties are banks with sound credit ratings assigned by international credit-rating agencies.

3.2 Capital risk management

Target Company's objectives when managing capital are to safeguard Target Company's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Target Company does not subject to externally imposed capital requirement.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Target Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The directors, however, are of opinion that there are no estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of Target Company.

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

5 Segment information

No segment analysis is presented as all the operations and assets of Target Company are solely relating to property development in the PRC.

6 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this accountant's report, is not considered meaningful as the Target Company has registered capital only.

7 Land use rights

Target Company's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	<i>RMB'000</i>
Period ended 30 September 2010	
Net book amount at beginning of the period	–
Addition in current period	54,075
Amortisation for the current period	(225)
	<u>53,850</u>
Net book amount at end of the period	<u><u>53,850</u></u>
At 30 September 2010	
Cost	54,075
Accumulated amortisation	(225)
	<u>53,850</u>
Net book amount at end of the period	<u><u>53,850</u></u>
Leases of 10 to 50 years in mainland China	<u><u>53,850</u></u>

The leasehold land located in mainland China is held under land use rights of 40 years expiring in August 2050.

8 Property, plant and equipment

	Motor vehicles <i>RMB'000</i>
Period ended 30 September 2010	
Opening net book amount	–
Additions	219
Depreciation	(26)
	<u>193</u>
Closing net book amount	<u><u>193</u></u>
At 30 September 2010	
Cost	219
Accumulated depreciation	(26)
	<u>193</u>
Net book amount	<u><u>193</u></u>

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

9 Prepayments and other receivables

	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Prepayments	–	2,678
Other receivable (<i>Note a</i>)	–	43,522
	<hr/>	<hr/>
	–	46,200
Less: Other non-current assets (<i>Note b</i>)	–	(11,378)
	<hr/>	<hr/>
	–	34,822
	<hr/> <hr/>	<hr/> <hr/>

(a) *Other receivables*

Included in other receivable, amount of RMB43,500,000 represent subsidies receivable from government.

(b) *Other non-current assets*

Other non-current assets mainly represent deposits paid for property under development and long-term portion of subsidies receivable from government.

Aging analysis of other receivable is as follow:

	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 1 year	–	34,822
Within 1 – 2 year	–	8,700
	<hr/>	<hr/>
	–	43,522
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of prepayments and other receivables approximate their fair values and are denominated in RMB.

The maximum exposure to credit risk at the reporting date is the carrying value of other receivables stated above. Target Company did not hold any collateral as security.

10 Bank balances and cash

	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cash at bank and on hand, denominated in RMB	20,930	5,638
	<hr/> <hr/>	<hr/> <hr/>
Maximum exposure to credit risk	20,930	5,638
	<hr/> <hr/>	<hr/> <hr/>

11 Share capital

	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Proceeds from capital contribution by owner	20,955	81,754
	<hr/> <hr/>	<hr/> <hr/>

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

12 Deferred income

Deferred income represents subsidies receivable from government agency of Yixing District, Jiangsu, PRC of approximately RMB43,500,000 as at 30 September, 2010 in relation to the acquisition of land use rights in Yixing District, Jiangsu, PRC.

13 Expenses by nature

	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Consulting service fee	–	18,953
Others	25	272
	<u>25</u>	<u>272</u>
Total general and administrative expenses	<u>25</u>	<u>19,225</u>

14 Capital commitments

Target Company had the following authorised and contracted capital commitments:

	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Construction of commercial building in mainland China	–	5,270
	<u>–</u>	<u>5,270</u>

15 Related party transactions

Target Company is controlled by Castfast Properties Development Co., Limited (incorporated in Hong Kong), which owns 100% of Target Company's shares. The directors regard Honford Investments Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

(a) Transactions with related parties

	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Consulting service fees charged by holding company	–	18,953
	<u>–</u>	<u>18,953</u>

(b) Management considers the directors of the Target Company as key management. There was no compensation paid or payable to key management during the period (2009: nil).

(c) Auditor's remuneration for the nine months ended 30 September, 2010 (2009: same) was borne by Castfast Properties Development Co., Limited, its immediate holding company.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Target Company in respect of any period subsequent to 30 September, 2010. No dividend or distribution has been declared, made or paid by Target Company in respect of any period subsequent to 30 September, 2010 and up to the date of this report.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(B) MANAGEMENT DISCUSSION AND ANALYSIS OF YIXING KARRIE**Market review**

In the first quarter of year 2010, the uprising trend of real estate market of the PRC continued. The macro-economy of the PRC swiftly recovered and rebounded at a fast pace. The property sector surged and risk of overheating economy increased. Housing prices recorded growth significantly and drew the central government's focus. From April, 2010, the central government of the PRC has issued a series of regulatory measures to curb the housing prices.

Project

As a second-tier city, the housing prices are rising in a moderate trend in Yixing, the PRC. To avoid the regulatory measures on residential properties, the Group's strategy is to acquire lands to develop commercial-entertainment buildings.

Yixing Karrie was established in December 2009 to principally aim for the development of commercial-entertainment buildings.

After several months of research and preparation, Yixing Karrie successfully acquired the Land in July 2010. The Land was approved to be used to develop a 21-floor commercial building with an estimated gross floor area of approximately 34,733 sq.m.

Future operations

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.

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

Financial analysis

The following is the financial information of Yixing Karrie as at 31 December, 2009 and 30 September, 2010 and for the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 and the nine months ended 30 September, 2010:

Balance sheets

	As at 31 December, 2009 RMB'000	As at 30 September, 2010 RMB'000
ASSETS		
Non-current assets		
Land use rights	–	53,850
Property, plant and equipment	–	193
Long-term prepayments and receivables	–	11,378
	<u>–</u>	<u>11,378</u>
	–	65,421
	-----	-----
Current assets		
Other receivables	–	34,822
Cash and bank balances	20,930	5,638
	<u>20,930</u>	<u>5,638</u>
	20,930	40,460
	-----	-----
Total assets	<u>20,930</u>	<u>105,881</u>
	-----	-----
EQUITY		
Capital and reserves		
Share capital	20,955	81,754
Accumulated losses	(25)	(19,191)
	<u>20,930</u>	<u>62,563</u>
Total equity	20,930	62,563
	-----	-----
LIABILITIES		
Non-current liabilities		
Deferred income	–	43,318
	<u>–</u>	<u>43,318</u>
	20,930	105,881
	<u>20,930</u>	<u>105,881</u>
	-----	-----

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

Statements of comprehensive income

	For the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 RMB'000	For the nine months ended 30 September, 2010 RMB'000
Revenue	–	–
General and administrative expenses	(25)	(19,225)
Operating loss	(25)	(19,225)
Finance income	–	59
Loss before taxation	(25)	(19,166)
Taxation	–	–
Loss for the period	(25)	(19,166)
Other comprehensive income, net of tax	–	–
Total comprehensive loss for the period	<u>(25)</u>	<u>(19,166)</u>

APPENDIX II FINANCIAL INFORMATION OF YIXING KARRIE

Statements of changes in equity

	Share capital <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 3 December, 2009 (date of incorporation)	–	–	–
Comprehensive income			
Loss for the period	–	(25)	(25)
Transaction with owners			
Proceeds from capital contribution by owner	<u>20,955</u>	<u>–</u>	<u>20,955</u>
At 31 December, 2009	20,955	(25)	20,930
Comprehensive income			
Loss for the period	–	(19,166)	(19,166)
Transaction with owners			
Proceeds from capital contribution by owner	<u>60,799</u>	<u>–</u>	<u>60,799</u>
At 30 September, 2010	<u><u>81,754</u></u>	<u><u>(19,191)</u></u>	<u><u>62,563</u></u>

Cash flow statements

	For the period from 3 December, 2009 (date of incorporation) to 31 December, 2009 RMB'000	For the nine months ended 30 September, 2010 RMB'000
Cash flows from operating activities		
Loss before taxation	(25)	(19,166)
Adjustments for:		
Interest income	–	(59)
Depreciation of property, plant and equipment	–	26
Amortisation of land use rights	–	43
	<u>–</u>	<u>43</u>
Operating loss before working capital changes	(25)	(19,156)
Other receivable	–	(22)
	<u>–</u>	<u>(22)</u>
Net cash used in operating activities	(25)	(19,178)
	-----	-----
Cash flows from investing activities		
Purchases of property, plant and equipment	–	(219)
Purchases of land use rights	–	(54,075)
Long-term prepayments and receivables	–	(2,678)
Interest received	–	59
	<u>–</u>	<u>59</u>
Net cash used in investing activities	–	(56,913)
	-----	-----
Cash flows from financing activities		
Proceeds from capital contribution by owner	20,955	60,799
	<u>20,955</u>	<u>60,799</u>
Net cash generated from financing activities	20,955	60,799
	-----	-----
Net increase/(decrease) in cash and cash equivalents	20,930	(15,292)
Cash and cash equivalents at beginning of the period	–	20,930
	<u>–</u>	<u>20,930</u>
Cash and cash equivalents at end of the period	<u>20,930</u>	<u>5,638</u>

Revenue

From the date of establishment up to 30 September, 2010, no revenue was generated.

Fair value gain/loss in landbank

Upon the completion of acquisition of the Land, gained on land revaluation amounted to approximately RMB12.00 million.

General land administrative expenses

During the period from the date of establishment up to 30 September, 2010, Yixing Karrie entered into an agreement with the Vendor for the provisions of research and development and business management services. The consideration amounted to approximately RMB18.95 million.

Profit attributable to shareholders

No profit is attributable to shareholders for the above periods.

Financial positions

As at 30 September, 2010, the audited total assets of Yixing Karrie were approximately RMB105.88 million, of which non-current assets were approximately RMB65.42 million and current assets approximately RMB40.46 million. The total liabilities were approximately RMB43.32 million and the total equity attributable to the company's shareholders amounted to approximately RMB62.56 million.

Financial resource and liquidity

As at 30 September, 2010, Yixing Karrie had an aggregate cash and bank balance of approximately RMB5.6 million and no borrowing. Yixing Karrie had no banking facility or pledged of asset.

The current financial resource of Yixing Karrie is insufficient for the development. Based on the existing plan of development, the Directors estimated that the total development cost (including land cost) of the project located on the Land 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.

Contingent liabilities or financial guarantee

There were no any contingent liability or financial guarantees provided.

(C) RECONCILIATION STATEMENT OF THE VALUE OF THE LAND

To comply with the Listing Rules, the Company has engaged Ample Appraisal Limited to value the property interest held by the Target Group. Details of the Valuation Report are set out in Appendix IV to this circular. Disclosure of the reconciliation of the net book value and the valuation as required under Rule 5.07 of the HK Listing Rules is set out below:

	<i>RMB'000</i>
Valuation of the property interest as at 20 October, 2010 as set out in the Valuation Report included in Appendix IV to this circular	64,500
Net book value of the property interest as at 30 September, 2010	<u>53,850</u>
Net revaluation surplus	<u><u>10,650</u></u>

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP

Set out below are the statement of unaudited pro forma consolidated assets and liabilities and the statement of unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group (collectively, the “Unaudited Pro Forma Financial Information”). They have been prepared for the purpose of illustrating the effects of the Acquisition as if it had taken place on 31 March 2010. The Unaudited Pro Forma Financial Information has been prepared based on the audited financial statements of the Group for the year ended 31 March 2010, after making certain pro forma adjustments as set out below.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 March 2010 or any future date.

(I) STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED ASSETS AND
LIABILITIES OF THE ENLARGED GROUP

	Audited consolidated assets and liabilities of the Group as at 31 March 2010 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments				Unaudited pro forma consolidated assets and liabilities of the Enlarged Group <i>HK\$'000</i>
		<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i> <i>(Note 4)</i>		
ASSETS						
Non-current assets						
Leasehold land and land use rights	64,835	63,353	12,529	(13,420)	127,297	
Property, plant and equipment	471,378	227			471,605	
Investment in associated companies	28,299	–			28,299	
Other non-current assets	12,803	13,386			26,189	
Deferred tax assets	1,692	–			1,692	
	<u>579,007</u>	<u>76,966</u>			<u>655,082</u>	
	-----	-----			-----	

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Audited consolidated assets and liabilities of the Group as at 31 March 2010	Pro forma adjustments			Unaudited pro forma consolidated assets and liabilities of the Enlarged Group
		HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	
Current assets					
Inventories	269,636	–			269,636
Trade receivables	416,150	–			416,150
Amount due from an associated company	10,226	–			10,226
Prepayments, deposits and other receivables	43,119	40,967			84,086
Tax prepaid	2,331	–			2,331
Time deposit	91,312	–			91,312
Cash and bank balances	328,003	6,633			334,636
	<u>1,160,777</u>	<u>47,600</u>			<u>1,208,377</u>
Total assets	<u>1,739,784</u>	<u>124,566</u>			<u>1,863,459</u>
LIABILITIES					
Non-current liabilities					
Long-term bank borrowings	76,300	–			76,300
Deferred tax liabilities	4,742	–			4,742
Deferred income	–	50,963		(50,963)	–
Provision for long service payments	8,264	–			8,264
	<u>89,306</u>	<u>50,963</u>			<u>89,306</u>
Current liabilities					
Trade payables	405,143	–			405,143
Accruals and other payables	187,140	–			187,140
Receipts in advance	4,884	–			4,884
Amount due to an associated company	305	–			305
Short-term bank borrowings	311,530	–			311,530
	<u>909,002</u>	<u>–</u>			<u>909,002</u>
Total liabilities	<u>998,308</u>	<u>50,963</u>			<u>998,308</u>
NET ASSETS	<u>741,476</u>	<u>73,603</u>			<u>865,151</u>

Notes to the statement of unaudited pro forma consolidated assets and liabilities of the Enlarged Group:

- The balances are extracted from the audited consolidated balance sheet of the Group as at 31 March 2010.
- The adjustment represents the inclusion of the assets and liabilities of Yixing Karrie as at 30 September 2010 as extracted from the accountant's report of Yixing Karrie as set out in Appendix I of this circular.

Translation of assets and liabilities of Yixing Karrie as at 30 September 2010 from RMB into HK\$ is made using an exchange rate of HK\$1 = RMB0.85 for the purpose of this Unaudited Pro forma Financial Information.

- The adjustment represents fair value adjustments of the assets and liabilities of Yixing Karrie as at 30 September 2010.
- The adjustment represents the allocation of the differences between the fair value of the Consideration Shares and the fair value of the assets and liabilities of Yixing Karrie as at 30 September 2010, calculated as follows:

	<i>HK\$'000</i>
Carrying value of net assets of Yixing Karrie	73,603
Fair value adjustments of assets and liabilities (<i>note 3</i>)	12,529
Reversal of deferred income of Yixing Karrie at consolidation level (<i>note i</i>)	<u>50,963</u>
Fair value of assets and liabilities of Yixing Karrie	137,095
Fair value of 291,000,000 Consideration Shares issued at the Issue Price of HK\$0.425 per Share	<u>123,675</u>
Difference (<i>note ii</i>)	<u><u>13,420</u></u>

Note i: The deferred income relates to a government grant in which Yixing Karrie has no performance obligation. Accordingly, for the purpose of the presentation of the pro-forma statement of consolidated assets and liabilities, the deferred income is reversed.

Note ii: As the fair value of the consideration transferred of HK\$123,675,000 is less than the fair value of the pool of assets acquired and liabilities assumed of HK\$137,095,000, the difference amounting to HK\$13,420,000 is adjusted against the non-financial assets, primarily the land use rights of Yixing Karrie.

Since the fair value of the Consideration Shares and the fair values of the assets and liabilities of Yixing Karrie as of the completion date of the Acquisition may be substantially different from their respective fair values used in this Unaudited Pro Forma Financial Information, the final amount of difference to be allocated may be different from the amount presented above. The actual allocation will be made in the Group accounts based on the quoted market price of the Shares on completion date, and the fair value of the assets and liabilities of Yixing Karrie as of the completion date of the Acquisition.

- No adjustment has been made to reflect any trading results of other transactions of the Group entered into subsequent to 31 March 2010 and of Yixing Karrie entered into subsequent to 30 September 2010.

(II) STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED NET
TANGIBLE ASSETS OF THE GROUP

	Audited consolidated net tangible assets of the Group attributable to our equity holders as at 31 March 2010 HK\$'000 (Note 1)	Pro forma adjustment HK\$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to our equity holders HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets per Share HK\$'000 (Note 3)
Based on 291,000,000 new Shares to be issued by the Company to the Vendor for settlement of the Consideration	741,476	123,675	865,151	1.00

Notes to the statement of unaudited pro forma consolidated net tangible assets of the Group:

1. The audited consolidated net tangible assets of the Group attributable to our equity holders as at 31 March 2010 is extracted from the published annual report of the Company for the year ended 31 March 2010.
2. The adjustment represents the balances of the assets and liabilities of Yixing Karrie adjusted by the pro forma adjustments listed in Section (I) above.
3. The unaudited pro forma consolidated net tangible assets per Share is calculated based on the unaudited pro forma consolidated net tangible assets attributable to our equity holders of approximately HK\$865,151,000 and 868,097,600 Shares in issue (on the basis that there were 577,097,600 Shares in issue as at 31 March 2010 and 291,000,000 new Shares were issued for settlement of the Consideration) as if the Acquisition had been completed on 31 March 2010.
4. No adjustment has been made to reflect any trading results of other transactions of the Group entered into subsequent to 31 March 2010 and of Yixing Karrie entered into subsequent to 30 September 2010.

REPORT FROM THE REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong KongACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION TO THE DIRECTORS OF KARRIE INTERNATIONAL HOLDINGS
LIMITED

We report on the unaudited pro forma financial information set out on pages 57 to 60 under the headings of “Statement of Unaudited Pro Forma Consolidated Assets and Liabilities of the Enlarged Group” and “Statement of Unaudited Pro Forma Consolidated Net Tangible Assets of the Group” (the “Unaudited Pro Forma Financial Information”) in Appendix III of the circular dated 12 November 2010 (the “Circular”) of Karrie International Holdings Limited (the “Company”), in connection with the proposed acquisition of 宜興嘉利商務大廈開發有限公司 (Yixing Karrie Commercial Building Development Co., Ltd.) by the Company (the “Acquisition”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 57 to 60 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no

independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated assets and liabilities of the Group as at 31 March 2010 as set out in the section headed “Statement of Unaudited Pro Forma Consolidated Assets and Liabilities of the Enlarged Group” of the Circular, and the audited consolidated net tangible assets of the Group attributable to our equity holders as at 31 March 2010 as set out in the section headed “Statement of Unaudited Pro Forma Consolidated Net Tangible Assets of the Group” of the Circular to the audited consolidated financial statements of the Company for the year ended 31 March 2010, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 March 2010 or any future date, or
- adjusted consolidated net tangible assets of the Group as at 31 March 2010 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 12 November 2010

AmCapAmple Appraisal Limited

豐盛評估有限公司

Ample Appraisal Limited

豐盛評估有限公司

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12th November 2010

The Directors
Karrie International Holdings Limited
10/F., Southeast Industrial Building,
611-619 Castle Peak Road,
Tsuen Wan, New Territories,
Hong Kong

Dear Sirs/Madam,

Re: Valuation of property located in Yixing, Wuxi,
(Lot No.320282-024-194-0003001), Jiangsu Province,
the People's Republic of China

1. INSTRUCTIONS

In accordance with the instruction from Karrie International Holdings Limited (the "Company") for us to value the property interest located in Yixing, (Lot No.320282-024-194-0003001), Wuxi, Jiangsu Province, the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and investigations, and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 20th October 2010 (the "valuation date").

2. BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

3. VALUATION METHODOLOGY

In valuing the property interests of similar nature, in particular located in the PRC, we have normally adopted a market approach in assessing the land portion of the property, and the cost approach in valuing buildings and structures (if any) in the process of construction on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole.

In the valuation of the land portion, reference has been made to the sales evidence as available to us in the neighbourhood, and the standard land price in similar locations of Yixing, Wuxi.

From our recent site inspection, we found the land was still in early planning and formation stage without any material building works, thus the value of the property in our valuation would mostly take into account the land portion.

4. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property in the open market in its existing state without the benefit of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property. In addition, we do not take into account any option, or right of pre-emption concerning or affecting the sale of the property and the possibility of forced sale situation in our valuation.

In valuing the property, we have assumed that the owner has free and uninterrupted right to use, occupy or assign the property interest for the whole of the unexpired term of the land use rights. Furthermore, we have also assumed that all consents, approvals and licences from the relevant PRC government authorities for development of the property interests were granted without onerous conditions or delay.

5. VALUATION CONSIDERATIONS

In the course of our valuation, we have not caused title searches to be made for the property interests at the relevant government bureau in the PRC. However, we have been provided with extracts of title documents relating to the property interests. We have not, however, searched the original documents to verify the ownership, encumbrances or existence of any subsequent amendments which do not appear on the copies handed to us. All documents have been used for reference only. All dimension, measurements, and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and therefore are only approximations.

We have relied to a very considerable extent on the information provided by the instructing party and have accepted advice given to us on such matters as planning approval, statutory notice, easement, tenure, particulars of occupation, site and floor areas, and all other relevant matters which can affect the value of the property.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

6. LIMITING CONDITIONS

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reasons to suspect that any material information has been withheld.

We have relied on a copy of Land Use Certificate and copies of related documents in respect of the property interests. However, no investigations have been made to verify or to ascertain the existence of any amendments, or departures which may not appear on the copies handed to us. Meanwhile, we have been provided with a copy of Legal Opinion dated 15th October 2010 prepared by 方達律師事務所 regarding the ownership status of the property. In the absence of further information, we assume there are no material encumbrances affecting the value and the legal title of the property.

7. REMARKS

No allowance has been made in our valuation for any charges, mortgages or amount owing neither on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Unless otherwise states, all monetary figures stated in this report are in Renminbi (RMB).

8. CONCLUSION

In this valuation, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the rules governing the listing of securities issued by the Stock Exchange of Hong Kong Limited, and the HKIS Valuation Standards on the Properties (1st Edition) published by the Hong Kong Institute of Surveyors and effective from 1st January 2005.

Our valuation certificate is hereby enclosed.

Yours faithfully,
For and on behalf of
Ample Appraisal Limited
Andy Wu
FRICS FHKIS RPS
Chartered Surveyor

Note: Mr. Andy Wu is a chartered valuation surveyor, and a registered professional surveyor and has over 20 years of experience in the valuation of properties located in Hong Kong, and the People's Republic of China.

Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 20th October 2010
A development land located in Yixing, (Lot No. 320282-024-194-0003001), Wuxi, Jiangsu Province, The People's Republic of China	<p>The property has a site area of 20,012 square metres, or 215,414 square feet approximately.</p> <p>From our recent site inspection, the site was still in early development stage with no material building works.</p> <p>The property is designated for commercial purposes for a term of 40 years from November 2010.</p>	<p>The site was being formed for development. Our valuation is on the basis of vacant possession.</p>	<p>RMB64,500,000.00 (RENMINBI SIXTY FOUR MILLION AND FIVE HUNDRED THOUSAND ONLY)</p>

Notes:

1. According to a copy of land Use Certificate provided by the instructing party, the particulars are as below:
 - (a) Location
Yixing, Wuxi, Jiangsu Province, the People's Republic of China
 - (b) Interest holder
宜興嘉利商務大廈開發有限公司, held under the Land Use Right Certificate No. 24600167 (2010). The Land Transfer Contract was signed on 19th May 2010. According to the legal opinion of the PRC legal adviser to the Company, the interest holder has been vested the legal title of the land.
 - (c) Use
Commercial
 - (d) Land Area
20,012 square metres
 - (e) Plot Ratio
Not exceeding 1.7
 - (f) Site coverage
Not exceeding 35%
2. The property was acquired by tender at RMB52,500,000.00 in July 2010.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in the Listing Rules and which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, were as follows:

Interests in the Company

Name of Director/chief executive	Long position			Options	Total interests and % of issued share capital
	Beneficial owner	Interest of spouse	Interest of controlled corporation		
Ho Cheuk Fai	12,492,000	55,100,000 <i>(note 1)</i>	534,804,000 <i>(note 2)</i>	900,000 <i>(note 3)</i>	603,296,000 (69.50%)
Ho Cheuk Ming	12,104,000	–	534,804,000 <i>(note 2)</i>	1,500,000	548,408,000 (63.17%)
Kwok Wing Kin, Francis	980,000	–	–	3,000,000	3,980,000 (0.46%)
Lee Shu Ki	1,400,000	–	–	2,100,000	3,500,000 (0.40%)
Fong Hoi Shing	2,000	–	–	–	2,000 (0.0002%)
Ho Po Chu	55,100,000	12,492,000 <i>(note 4)</i>	534,804,000 <i>(note 2)</i>	900,000	603,296,000 (69.50%)
Chan Ming Mui, Silvia	–	–	–	1,200,000	1,200,000 (0.14%)

Notes:

1. These Shares were beneficially held by his spouse, Ho Po Chu.
2. The 534,804,000 Shares comprised (i) 243,804,000 Shares were held by New Sense, the entire issued share capital of which is owned by Equity Trust (BVI) Limited as trustee for a discretionary trust, The Ho Family Trust; and (ii) 291,000,000 Consideration Shares which are to be issued upon completion of the Sale and Purchase Agreement. Children of Ho Cheuk Fai under 18 are interested in these 534,804,000 Shares. The settler of The Ho Family Trust is Ho Cheuk Fai.
3. These options were held by Ho Po Chu, the spouse of Ho Cheuk Fai.
4. These Shares were beneficially held by her spouse, Ho Cheuk Fai.

Interests and short positions in associated companies***Karrie Industrial Company Limited (“KICL”)***

Name of Director	Number of non-voting deferred shares of HK\$100 each			Total interest and % of issued share capital	Short position	Total interest and % of issued share capital
	Long position					
	Beneficial interests	Family interests	Corporate/ other interests			
Ho Cheuk Fai	43,000	43,000 <i>(note 1)</i>	43,000 <i>(note 1)</i>	43,000 <i>(86.00%)</i> <i>(note 2)</i>	43,000 <i>(note 1)</i>	86.00% <i>(note 2)</i>
Ho Po Chu	7,000	7,000 <i>(note 1)</i>	7,000 <i>(note 1)</i>	7,000 <i>(14.00%)</i> <i>(note 2)</i>	7,000 <i>(note 1)</i>	14.00% <i>(note 1)</i>

Karpo Technologies Limited (“KTL”)

Name of Director	Number of non-voting deferred shares of HK\$100 each			Total interest and % of issued share capital	Short position	Total interest and % of issued share capital
	Long position					
	Beneficial interests	Family interests	Corporate/ other interests			
Ho Cheuk Fai	10,000	10,000 <i>(note 1)</i>	10,000 <i>(note 1)</i>	10,000 <i>(100%)</i> <i>(note 3)</i>	10,000 <i>(note 1)</i>	100% <i>(note 3)</i>

Karrie Investment Holdings Limited (“KIHL”)

Name of Director	Number of non-voting deferred shares of HK\$1 each			Total interest and % of issued share capital	Short position	Total interest and % of issued share capital
	Beneficial interests	Family interests	Corporate/ other interests			
Ho Cheuk Fai	1	1 <i>(note 1)</i>	1 <i>(note 1)</i>	1 <i>(50%)</i> <i>(note 4)</i>	1 <i>(note 1)</i>	50% <i>(note 4)</i>
Ho Po Chu	1	1 <i>(note 1)</i>	1 <i>(note 1)</i>	1 <i>(50%)</i> <i>(note 4)</i>	1 <i>(note 1)</i>	50% <i>(note 1)</i>

Notes:

1. Karrie International (B.V.I.) Limited (“Karrie BVI”), a direct wholly-owned subsidiary of the Company, has been granted options to acquire from Ho Cheuk Fai and Ho Po Chu their non-voting deferred shares in each of KICL, KTL and KIHL. Accordingly, Karrie BVI is taken to be interested in these non-voting deferred shares in respect of which Ho Cheuk Fai and Ho Po Chu have each created short positions. In addition, by virtue of (i) their interests in the Company; and (ii) the interests of their children under 18 in the Company as referred to in the paragraph headed “Interests in the Company” in this Appendix, Ho Cheuk Fai and Ho Po Chu are each deemed to be interested in the long positions that Karrie BVI has in these non-voting deferred shares.
2. The entire issued share capital of KICL comprises 50,000 non-voting deferred shares of HK\$100 each and 10 ordinary shares of HK\$100 each.
3. The entire issued share capital of KTL comprises 10,000 non-voting deferred shares of HK\$100 each and 10 ordinary shares of HK\$100 each.
4. The entire issued share capital of KIHL comprises 2 non-voting deferred shares of HK\$1.00 each and 10 ordinary shares of HK\$1 each.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the following, other than a Director and chief executive of the Company, are details of the person who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Number of Shares held	Approximate % of shareholding
New Sense	Beneficiary	243,804,000 <i>(note 1)</i>	28.08
the Vendor	Beneficiary	291,000,000 <i>(note 2)</i>	33.52
Honford Investments	Interest of a controlled corporation	291,100,000 <i>(note 2)</i>	33.52
Equity Trust (BVI) Limited	Trustee	534,804,000 <i>(note 3)</i>	61.61

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.
2. 87% of the issued share capital of the Vendor is beneficially owned by Honford Investments. The entire issued share capital of Honford Investments was owned by Equity Trust (BVI) Limited as trustee for a discretionary trust, The Ho Family Trust. The interests of Honford Investments duplicate with those of the Vendor.
3. Equity Trust (BVI) Limited is deemed to be interested in these Shares held by New Sense, the Vendor and Honford Investments by virtue of acting as the trustee for The Ho Family Trust.

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Group which is not determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, in addition to being the ultimately controlling shareholder of Yixing Karrie, Ho Cheuk Fai and Ho Po Chu were interested in other companies established in the PRC (the “**Competing Companies**”) which are or are likely to, directly or indirectly, compete with the business of the Enlarged Group. Ho Cheuk Fai and Ho Po Chu are also the directors of these Competing Companies. Details of the interests of Ho Cheuk Fai and Ho Po Chu in the Competing Companies are as follows:

Name of Competing Company	Date and place of incorporation	Principal business	Shareholding
東莞嘉輝門窗製品有限公司 (Dongguan Castfast Door and Window Products Co., Ltd.) (“ Dongguan Castfast ”)	2 August, 2001, the PRC	Property investment and provision of property management and consultancy services in the PRC	the Vendor: 95%
宜興永泰企業管理服務有限公司 (Yixing Yongtai Enterprise Management Services Co. Ltd.) (“ Yixing Management ”)	25 March, 2008, the PRC	Property development in the PRC	the Vendor: 55% Dongguan Karrie Resort Limited (東莞嘉利渡假休閒有限公司): 25%

As at the Latest Practicable Date, Dongguan Castfast had developed a residential and commercial property project Castfast Villas (嘉輝豪庭) located at Dongguan, the PRC with a site area of approximately 48,600 sq.m. and a total gross floor area of approximately 233,700 sq.m.. This project was completed and all of the residential units had been sold. Dongguan Castfast has retained the shopping mall of Castfast Villas as long-term investment properties.

As the Latest Practicable Date, Yixing Management had developed a commercial property project located in Yixing, Jiangsu, the PRC. This project occupied a site area of approximately 107,340 sq.m. and comprising of offices, staff quarters, canteens and service apartments. Construction of the project was completed and is pending the issue of the relevant property ownership certificates.

As stated in the paragraph headed “Reasons for and benefit of the Acquisition” in the section headed “Letter from the Board” of this circular, the Group may also consider to include wedding theme city business in the project located on the Land. As at the Latest Practicable Date, Ho Cheuk Fai and Ho Po Chu were also interested in other companies established in the PRC which are engaged in the operation of a wedding city. Details of these companies are as follows:

東莞鳳崗嘉輝婚紗城 有限公司 Dongguan Fenggang Castfast Wedding City Co. Ltd. (“ Dongguan Wedding ”)	12 November, 2009, the PRC	Wedding services, related exhibitions and services	HK Wedding: 100%
婚紗城有限公司 The Wedding City Co. Ltd. (“ HK Wedding ”)	8 May, 2009, Hong Kong	Investment holding	Ho Cheuk Fai: 90% Ho Po Chu: 10%

Dongguan Wedding and HK Wedding is principally engaged in packaging Fenggang Qu (鳳崗區) of Dongguan, the PRC as a theme city for wedding providing one-stop wedding services from professional photographing and recording to provision of a fantastic resort area for photographing, and through this theme and image as a wedding city, it will enhance the local economic development and demand for high quality hotel and property projects. As at the Latest Practicable Date, Dongguan Wedding leased from Dongguan Castfast certain part of the shopping plaza of Castfast Villas to provide wedding services.

Since the property development projects of Dongguan Castfast and Yixing Management were nearly completed at the Latest Practicable Date, the Directors are of the view that the potential interests and benefits in terms of revenue attributable by these completed projects to the Group will not be as significant as a new project. As a result, the Directors considered the Group acquiring Yixing Karrie will be more beneficial to the Company and its Shareholders as a whole than acquiring the Competing Companies. In addition, with the Group expanding into a new segment of business, the engagement in the development of a new project, instead of leveraging on a completed projects, will provide the Group with more flexibility in the planning and resources allocation, and this will equip the Group with more hands-on, in-depth and concrete experiences which in turn will benefit the Group’s future expansion into this segment of business.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interests in any assets which have since 31 March, 2010 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to the Group, or are proposed to be acquired or disposed of by or leased to the Group;
- (b) none of the Directors was materially interested in any contracts or arrangements entered into by the Group subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

6. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by members of the Group within two years preceding the date of this circular and are or may be material:

- (a) the Sale and Purchase Agreement;
- (b) the subscription and shareholders' agreement dated 15 July, 2009 and entered into between TECO Image Systems Co., Ltd and Karrie Technologies Company Limited, a wholly-owned subsidiary of the Company, in respect of the formation of a joint venture company;
- (c) the disposal agreement dated 30 November, 2009 and entered into between Titanium Century Technology Limited ("**Titanium**") and Grandway Investment (Group) Limited ("**Grandway**"), a wholly-owned subsidiary of the Company, in respect of the disposal of the land use rights of a site area of approximately 120 Chinese acres (80,000 sq.m.) situated at the Yixing Economic Development Zone, Jiangsu Province, the PRC to Titanium; and
- (d) the amendment agreement dated 30 November, 2009 and entered into between Jiangsu Yixing Economic Development Zone Investment and Development Limited ("**Jiangsu Yixing**") and Grandway in respect of amending certain terms of the agreement between Jiangsu Yixing and Grandway dated 31 January, 2008 for the grant of land use right of a site area situated at the Yixing Economic Development Zone, Jiangsu Province, the PRC.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries or Yixing Karrie is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries or Yixing Karrie.

8. NO MATERIAL ADVERSE CHANGE

So far as the Directors are aware, there has been no material adverse change in the financial or trading position of the Group since 31 March, 2010, being the date to which the latest published audited financial statements of the Group had been made up.

9. EXPERTS AND CONSENTS

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which are contained in this circular:

Name	Qualification
Menlo Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants
Ample Appraisal Limited	Qualified property valuer

Each of Menlo Capital Limited, PricewaterhouseCoopers and Ample Appraisal Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion therein of its letter and/or references to its name in the form and context in which they appear.

At the Latest Practicable Date, none of Menlo Capital Limited, PricewaterhouseCoopers and Ample Appraisal Limit had any shareholding, directly or indirectly, in the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group.

At the Latest Practicable Date, none of Menlo Capital Limited, PricewaterhouseCoopers and Ample Appraisal Limit had any direct or indirect interests in any assets which had been since 31 March, 2010, the date of which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, the Group.

10. GENERAL

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is situated at 10th Floor, Southeast Industrial Building, 611-619 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

- (d) The company secretary of the Company is Tang Wing Fai (*ACIS, ACS, MBA*).
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection at the principal office of the Company in Hong Kong at 10th Floor, Southeast Industrial Building, 611-619 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong for a period of 14 days from the date of this circular:

- (a) the Sale and Purchase Agreement;
- (b) the letter confirmed from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (c) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 16 to 31 of this circular;
- (d) the written consent from the Independent Financial Adviser as referred to in paragraph 8 of this Appendix;
- (e) the memorandum of association and bye-laws of the Company;
- (f) the annual reports of the Company for the two financial years ended 31 March, 2010;
- (g) the accountants' report on Yixing Karrie, the text of which is set out in Appendix II to this circular;
- (h) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (i) the valuation report, the text of which is set out in Appendix IV to this circular;
- (j) the material contracts referred to in paragraph 6 of this Appendix; and
- (k) a copy of this circular.

NOTICE OF SGM



Karrie International Holdings Limited

嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of Karrie International Holdings Limited (the “**Company**”) will be held at Function Room 1, 11/F., L’hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong on Monday, 6 December 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following ordinary resolutions:

AS ORDINARY RESOLUTIONS

1. “**THAT**

- (A) the authorised share capital of the Company be increased from HK\$80,000,000 divided into 800,000,000 shares of HK\$0.10 each (the “**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; and
- (B) the directors of the Company (the “**Directors**”) be and are hereby authorised to do all such acts and things and shall execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the increase in the authorised share capital of the Company.”

2. “**THAT**, subject to the passing of resolution no. 1 above,

- (A) the sale and purchase agreement dated 22 October 2010 (the “**Sale and Purchase Agreement**”) (a copy of which is produced to the SGM marked “A” and initialed by the chairman of the SGM for the purpose of identification) entered into between Castfast Properties Development Co., Limited (the “**Vendor**”), Kar Sharp Development Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, and Mr. Ho Cheuk Fai, in relation to an acquisition by the Purchaser of 100% equity interest in 宜興嘉利商務大廈開發有限公司 (Yixing Karrie Commercial Building Development Co., Ltd.) at a consideration of approximately RMB105.12 million (equivalent to

* for identification purpose only

NOTICE OF SGM

approximately HK\$123.68 million) which will be satisfied by the allotment and issue of 291,000,000 new Shares in the Company (the “**Consideration Shares**”) to the Vendor at an issue price of HK\$0.425 per Consideration Share, and the transaction contemplated thereunder, be and are hereby approved, confirmed and ratified;

- (B) subject to completion of the Sale and Purchase Agreement and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and the permission to deal in, the Consideration Shares, the Directors be and are hereby specifically authorised to allot and issue the Consideration Shares, credited as fully paid, to the Vendor in accordance with the terms and conditions of the Sale and Purchase Agreement; and
- (C) any one of the Directors be and is hereby authorised to execute all such other documents, instruments under hand (and, where required, under the common seal of the Company) and to do such acts and things or take such steps as he/she may consider necessary, appropriate, desirable or expedient to implement or give effect to the Sale and Purchase Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith.”

By order of the board of directors of
Karrie International Holdings Limited
Tang Wing Fai
Company Secretary

Notes:

1. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
2. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy needs not be a member of the Company.
3. In order to be valid, the form of proxy must be lodged at the Company’s share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any shares in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.