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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2007

HIGHLIGHTS

RIDING THE WAVES, EXCELLING AMID CHALLENGES, POOLING ELITE, FOCUS ON MAINLAND

	2007 *HK$'000*	2006 *HK$'000*	Changes in %
Turnover	**3,320,030**	3,592,741	-8%
Profit attributable to equity holders	**124,928**	186,379	-33%
Basic earnings per share	**HK30.3 cents**	HK45.5 cents	-33%
Final dividend per share	**HK3.0 cents**	HK13.0 cents	-77%
Return on Equity Ratio	**22%**	35%	-37%

The board (the "Board") of directors (the "Directors") of Karrie International Holdings Limited ("we" or the "Company") and its subsidiaries (collectively, "we" or the "Group") announce the consolidated results of the Group for the year ended 31 March 2007 together with the comparative figures for 2006 as follows:

CONSOLIDATED INCOME STATEMENT – expense by function
FOR THE YEAR ENDED 31 MARCH 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Revenue	*3*	**3,328,097**	3,597,242
Cost of sales	*4*	**(3,024,002)**	(3,211,354)
Gross profit		**304,095**	385,888
Distribution and selling expenses	*4*	**(40,343)**	(31,153)
General and administrative expenses	*4*	**(113,358)**	(136,195)
Operating profit		**150,394**	218,540
Finance income	*5*	**11,104**	10,127
Finance costs	*5*	**(23,764)**	(24,531)
Profit before taxation		**137,734**	204,136
Taxation	*6*	**(12,806)**	(17,757)
Profit attributable to equity holders of the Company		**124,928**	186,379
Earnings per share (expressed in HK cents per share)			
– Basic	*7*	**30.3**	45.5
– Diluted	*7*	**30.2**	45.1
Dividends	*8*	**47,413**	102,596

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**47,927**	48,560
Property, plant and equipment		**269,150**	232,038
Interest in associated companies		**–**	–
Deferred tax assets		**1,042**	847
		318,119	281,445
Current assets			
Trade receivables	*9*	**610,850**	605,098
Inventories		**374,974**	339,828
Prepayments, deposits and other receivables		**35,015**	22,721
Amount due from associated companies		**8,770**	–
Pledged bank deposits		**6,359**	–
Cash and bank balances		**267,280**	323,466
		1,303,248	1,291,113
Total assets		**1,621,367**	1,572,558
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**41,228**	41,051
Other reserves		**107,505**	101,922
Retained earnings			
– Proposed final dividend		**12,369**	65,682
– Others		**395,096**	317,543
		556,198	526,198
Minority interest		**424**	424
Total equity		**556,622**	526,622

	Note		
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings, secured		**90,875**	148,625
Deferred tax liabilities		**7,536**	9,876
Provision for long service payments		**6,053**	5,977
		104,464	164,478
Current liabilities			
Taxation payable		**2,959**	1,589
Trade and bills payables	*10*	**451,605**	429,996
Accruals and other payables		**183,086**	153,276
Receipts in advance		**4,929**	10,180
Short-term bank borrowings, secured		**317,702**	286,417
		960,281	881,458
Total liabilities		**1,064,745**	1,045,936
Total equity and liabilities		**1,621,367**	1,572,558
Net current assets		**342,967**	409,655
Total assets less current liabilities		**661,086**	691,100

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**137,734**	204,136
Adjustments for non-cash items/interest/tax	**31,376**	2,102
Changes in working capital	**(14,446)**	80,998
Net cash generated from operating activities	**154,664**	287,236
Net cash used in investing activities	**(86,129)**	(81,759)
Net cash used in financing activities	**(124,764)**	(234,104)
Net decrease in cash and cash equivalents	**(56,229)**	(28,627)
Cash and cash equivalents at 1 April	**323,374**	352,001
Cash and cash equivalents at 31 March	**267,145**	323,374
Analysis of cash and cash equivalents:		
Cash and bank deposits	**267,280**	323,466
Bank overdrafts	**(135)**	(92)
	267,145	323,374

NOTES

1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements 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 the Group's accounting policies.

Standards, amendments and interpretations effective in current year but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 April 2006 but are not relevant to or have no significant impact on the Group's operations:

– HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;

– HKAS 21 (Amendment), Net Investment in a Foreign Operation;

– HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

– HKAS 39 (Amendment), The Fair Value Option;

– HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts;

– HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

– HK(IFRIC) – Int 4, Determining whether an Arrangement contains a Lease;

– HK(IFRIC) – Int 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;

– HK(IFRIC) – Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment; and

– HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies.

Standards, amendments and interpretations that are not yet effective in current year and have not been early adopted by the Group

The following standards, amendments and interpretations have been published but are not effective and have not been early adopted by the Group:

– HK(IFRIC) – Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) – Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) – Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

– HK(IFRIC) – Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 Jun 2006). HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) – Int 9 is not relevant to the Group's operations;

– HK(IFRIC) – Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) – Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) – Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's financial statements; and

– HKFRS 7, Financial instruments: Disclosures, effective for annual periods beginning on or after 1 January 2007. HKAS 1, Amendments to capital disclosures, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning from 1 January 2007.

2 Segment information

(a) Primary reporting format – business segments

At 31 March 2007, the Group is principally engaged in the manufacture and sale of computer casings, office automation products, moulds, plastic and metal parts (together referred to as "Metal and Plastic Business") and provision of electronic manufacturing services ("EMS Business").

In accordance with the Group's internal financial reporting, the Group has determined that major product segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

The segment results for the year ended 31 March 2007 are as follows:

	2007			
	Metal and plastic business *HK$'000*	**Electronic manufacturing services business** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenues				
Total segment revenue	**1,605,146**	**1,839,112**	**8,067**	**3,452,325**
Inter-segment revenue	**(124,228)**	**–**	**–**	**(124,228)**
Revenue	**1,480,918**	**1,839,112**	**8,067**	**3,328,097**
Segment results	**132,270**	**10,057**	**8,067**	**150,394**
Finance income				**11,104**
Finance costs				**(23,764)**
Profit before taxation				**137,734**
Taxation				**(12,806)**
Profit attributable to equity holders of the Company				**124,928**

	2006			
	Metal and plastic business	Electronic manufacturing services business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues				
Total segment revenue	1,541,151	2,161,313	4,501	3,706,965
Inter-segment revenue	(109,723)	–	–	(109,723)
Revenue	1,431,428	2,161,313	4,501	3,597,242
Segment results	161,917	52,122	4,501	218,540
Finance income				10,127
Finance costs				(24,531)
Profit before taxation				204,136
Taxation				(17,757)
Profit attributable to equity holders of the Company				186,379

Other segment items included in the consolidated income statement are as follows:

	2007		
	Metal and plastic business	**Electronic manufacturing services business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Depreciation	**36,865**	**16,113**	**52,978**
Amortisation	**515**	**535**	**1,050**
Provision for/(write-back of provision for) impairment of trade receivables	**548**	**(22)**	**526**
(Write-back of provision for)/provision for inventory obsolescence	**(15)**	**15**	**–**

	2006		
	Metal and plastic business	Electronic manufacturing services business	Total
	HK$'000	*HK$'000*	*HK$'000*
Depreciation	34,934	14,480	49,414
Amortisation	292	322	614
Write-back of provision for impairment of trade receivables	(3,512)	–	(3,512)
Write-back of provision for inventory obsolescence	(18,144)	(13)	(18,157)

The segment assets and liabilities at 31 March 2007 and capital expenditure for the year ended are as follows:

	2007		
	Metal and plastic business	**Electronic manufacturing services business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment assets	**810,922**	**693,229**	**1,504,151**
Unallocated assets			**117,216**
Total assets			**1,621,367**
Segment liabilities	**343,308**	**408,351**	**751,659**
Unallocated liabilities			**313,086**
Total liabilities			**1,064,745**
Capital expenditures	**53,173**	**38,452**	**91,625**

	2006		
	Metal and plastic business	Electronic manufacturing services business	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	753,964	661,034	1,414,998
Unallocated assets			157,560
Total assets			1,572,558
Segment liabilities	327,932	425,467	753,399
Unallocated liabilities			292,537
Total liabilities			1,045,936
Capital expenditures	46,296	45,763	92,059

(b) *Secondary reporting segments – geographical segments*

The Group's revenues are mainly derived from customers located in Japan, Asia (excluding Japan), North America and Western Europe.

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Japan	**557,358**	243,253
Asia (excluding Japan)	**1,122,495**	1,498,504
North America	**477,525**	600,095
Western Europe	**1,170,719**	1,255,390
Total	**3,328,097**	3,597,242

Revenue is allocated based on the country in which final destination of shipment is located.

	2007	2006
	HK$'000	*HK$'000*
Segment assets		
Japan	**–**	–
Asia (excluding Japan)	**1,547,598**	1,524,224
North America	**25,799**	22,965
Western Europe	**47,970**	25,369
Total	**1,621,367**	1,572,558

Segment assets are allocated based on where the assets are located.

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure		
Japan	**–**	–
Asia (excluding Japan)	**91,596**	92,038
North America	**3**	21
Western Europe	**26**	–
Total	**91,625**	92,059

Capital expenditure is allocated based on where the assets are located.

3 Revenue

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sales of merchandise from		
– Metal and plastic business	**1,480,918**	1,431,428
– Electronic manufacturing services business	**1,839,112**	2,161,313
	3,320,030	3,592,741
Other gains		
Rental income	**3,176**	4,501
Management service fee income	**4,891**	–
	8,067	4,501
Total revenue	**3,328,097**	3,597,242

4 Expenses by nature

	2007	2006
	HK$'000	*HK$'000*
Changes in inventories of finished goods and work-in-progress	**(5,614)**	64,670
Raw materials used	**2,695,270**	2,886,392
Depreciation of property, plant and equipment	**52,978**	49,414
Amortisation of leasehold land and land use rights	**1,050**	614
Employee benefit expenses (including Directors' emoluments)	**215,375**	190,270
Operating lease rental of premises	**20,666**	18,338
Net exchange (gain)/loss	**(2,296)**	449
Auditors' remuneration	**1,598**	1,340
Fees for non-audit services	**217**	121
Provision for/(write-back of provision for) impairment of trade receivables	**526**	(3,512)
Write-back of provision for amount due from associated companies	**(1,874)**	–
Write-back of provision for obsolete and slow-moving inventories	**–**	(18,157)
Net loss/(gain) on disposal of property, plant and equipment	**367**	(171)
Other expenses	**199,440**	188,934
	3,177,703	3,378,702
Representing:		
Cost of sales	**3,024,002**	3,211,354
Distribution and selling expenses	**40,343**	31,153
General and administrative expenses	**113,358**	136,195
	3,177,703	3,378,702

5 Finance income and costs

	2007	2006
	HK$'000	*HK$'000*
Interest expense on:		
– bank borrowings wholly repayable within five years	**23,670**	24,441
– finance leases	**–**	10
– others	**94**	80
Finance costs	**23,764**	24,531
Finance income – Interest income	**(11,104)**	(10,127)
Net finance costs	**12,660**	14,404

6 Income tax expense

The Company is exempted from Bermuda taxation until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current taxation: Hong Kong profits tax		
– current year	**14,586**	14,196
– under-provision in prior years	**755**	545
Deferred taxation	**(2,535)**	3,016
Taxation charge	**12,806**	17,757

7 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to equity holders of the Company (in HK$'000)	**124,928**	186,379
Weighted average number of ordinary shares in issue (in thousand shares)	**412,019**	409,579
Basic earnings per share (HK cents per share)	**30.3**	45.5

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

The Company has outstanding share options, which have a dilutive effect on the ordinary shares. A calculation has been performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007	2006
Profit attributable to equity holders of the Company (in HK$'000)	**124,928**	186,379
Weighted average number of ordinary share in issue (in thousand shares)	**412,019**	409,579
Adjustment for share options (in thousand shares)	**2,040**	3,790
Weighted average number of ordinary shares for diluted earnings per share (in thousand shares)	**414,059**	413,369
Diluted earnings per share (HK cents per share)	**30.2**	45.1

8 Dividends

	2007	2006
	HK$'000	*HK$'000*
Interim dividend paid of HK8.5 cents (2006: HK9.0 cents) per ordinary share	**35,044**	36,914
Final dividend, proposed, of HK3.0 cents (2006: HK13.0 cents) per ordinary share	**12,369**	53,367
Special dividend, proposed, nil (2006: HK3.0 cents) per ordinary share	**–**	12,315
	47,413	102,596

A final dividend in respect of 2006/07 of HK3.0 cents per ordinary share amounting to a total dividend of approximately HK$12,369,000 is to be proposed at Annual General Meeting on 17 August 2007. These financial statements do not reflect this as dividend payable.

9 Trade receivables

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**619,352**	613,109
Less: Provision for impairment of receivables	**(8,502)**	(8,011)
	610,850	605,098

The Group generally grants credit periods ranging from 30 to 120 days. Aging analysis of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**544,029**	557,023
91 to 180 days	**20,699**	42,726
181 to 360 days	**51,388**	12,477
Over 360 days	**3,236**	883
	619,352	613,109

10 Trade and bills payables

Aging analysis of trade and bills payables is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**416,870**	408,745
91 to 180 days	**20,046**	16,836
181 to 360 days	**10,914**	2,871
Over 360 days	**3,775**	1,544
	451,605	429,996

Principal Activities and Results

The Group is engaged in

- Metal and Plastic Business: manufacturing and sale of metal and plastic products including computer casings, office automation products, moulds, plastic and metal parts; and
- Electronic Manufacturing Services ("EMS") Business: manufacturing and sale of laser printers, magnetic tape drives and other computer peripherals.

Boosting Fundamentals for Braving New Heights

As compared with last year, turnover for the year decreased by 8% to HK$3,320,030,000 (2005/06: HK$3,592,741,000) and profit attributable to equity holders decreased by 33% to HK$124,928,000 (2005/06: HK$186,379,000). The main reasons for the drop included:

- The substantial growth in turnover for 2005/06 was exceptional and unexpected, and had enlarged the base for comparison for results of the year under review.

(12 months ended)	**Metal and Plastic Business**		**Electronic Manufacturing Services Business**		**Total**		**Total annual percentage change**
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*(%)*
2005/03/31	1,172,806	46	1,390,384	54	2,563,190	100	NA
2006/03/31	1,431,428	40	2,161,313	60	3,592,741	100	40
2007/03/31	1,480,918	45	1,839,112	55	3,320,030	100	-8

- The unexpected lack lustre performance of the Group's major customer (its share of the Group's turnover decreased from 38% to 28%) going through business consolidation also affected the Group's turnover.
- Although turnover from other customers saw mild increases which had helped to partially counter the impact of decrease in business with the major customer, without operation leverage, the rise in production cost in the Pearl River Delta posed pressure on the Group's profit. Furthermore, the Group was unable to immediately pass on to the customers part of the rise in cost as a result of the appreciation of the RMB with customers, which resulted in a more drastic drop in profit than that in turnover.
- While Yu Quan Plant has already commenced its operation, human resources and operational arrangement need to be adjusted from time to time. The additional wages, electricity consumption, transport and logistics, accommodation and local institutions' management fee would immediately give rise to an increase in the operation cost.

However, we were not discouraged, and carried out various cost control measures during the year to maintain the Group's competitiveness. These included:

- Integration of the operation and management systems of offices in Hong Kong and Mainland China to reduce the internal communication cost.
- Increasing the consumption of local power supply to lower the power operation cost.
- Fully operational, the new Yu Quan plant gave us the platform to improve production and increase automation, and in turn boost efficiency and save manpower.
- During the year, we explored new procurement sources and secured agreement with suppliers to lower prices which had enabled trimming of material costs.

Your Unswerving Support is our Motivation

Thanks for the support of all parties in the previous year, we achieved outstanding results. It is such support and trust in Karrie that had seen us through testing times in the past year. Our gratitude goes to:

- Our customers, suppliers and banks whose support had given us the drive and confidence in facing challenges.
- Our staff for their hard work and dedication amid concern in the market about the drop in turnover of the Group. They were not discouraged but continued to improve their work performance so as to strengthen the Group's overall efficiency and lay a strong foundation for development for the Group. We are confident that with such a dedicated workforce the Group will advance in strides and continue to claim leadership in the industry.

I cordially salute and thank again to those who have been supporting us.

THE THREE EQUILIBRIUMS

In the past two years, we have focused on maintaining "the three equilibriums", which allowed us to achieve rapid growth while facing different problems and challenges. Achieving the "equilibriums" in conflicting circumstances is a daunting task, but it is also a key to successful corporate management.

The First Equilibrium: "Risk of Investing" vs "Risk of Not Investing"

However, our management team understands that manufacturing is a business that transcends time requiring long term efforts to sustain. Thus, instead of pursuing short term share price surges, we have focused on bringing long-term benefits to our shareholders and stakeholders (including customers, suppliers, bankers and employees etc.).

As the market becomes more sophisticated, customers also require higher craftsmanship and better presentation for their products. This means that we need to constantly upgrade our equipment if we are to meet their requirements. The management understands that the Group needs to be well-equipped and keep enhancing its production capacity if it is to achieve its long-term objectives.

Despite the conflicting circumstances, our professional management team worked hard during the year to strike a balance in investment, for instance:

– Capital expenditure for the year, including the construction of Phase I and II of the Yu Quan Plant, was HK$91,625,000. The bulk of the amount was spent on extension work in Phase I of the plant and procurement of new metal stamping, plastic injection and other machines for supporting long-term development needs.

– Although we have secured long-term borrowings from banks, we continued to re-invest profit made during the year, honoring with prudence the principle of not relying on borrowings to fund capital investment.

Yu Quan Plant

New Yu Quan Plant commenced production

Located in Fenggang, Dongguan, Guangdong Province, China, with a site area of approximately 240,000 sq.m. Yu Quan Plant was acquired by the Group in August 2004. Phase I of the new plant comprises five buildings, i.e. a plastic injection moulding workshop, an electronic assembly lines workshop, a dormitory, a warehouse and a power plant, taking up a gross floor area of about 34,300 sq.m. The plant commenced operation in October 2006.

Since Yu Quan Plant commenced production, our overall production capacity has increased by 17%. When investment in 2007/08 completes, the Group's initial production capacity will increase by another 15%.

Now that Phase I of Yu Quan Plant is in operation, we are planning construction of Phase II of the plant which has been started in the fourth quarter of 2006. With the total construction area of 95,000 sq.m., groundwork for 13,000 sq.m. had been completed and work on another 40,000 sq.m. is in progress. Groundwork for the entire Phase II of the plant will be completed by the end of 2008.

The Second Equilibrium: Dividend vs Capex and Working Capital Requirements

We are pleased to share the fruits of our hard work with shareholders in the form of dividend distribution. In fact, the Group has paid in aggregate over HK$552,108,000 in cash dividend since 2000/01, amounting to 99.3% of shareholders' fund.

We revised our dividend policy to align with new Capex investment cycle. With the current economic environment ridden with uncertainty, the Board believes that the Group cannot rely solely on bank borrowings to fund its financial needs but has to maintain greater financial flexibility to prepare for the next stage of fast growth.

	Turnover	**Capex**	**Net Gearing Ratio as at 31 March**
	HK$	*HK$*	
2001/02	1,156,262,000	15,000,000	-18%
2002/03	1,737,979,000	24,000,000	-9%
2003/04	1,692,960,000	59,000,000	1%
2004/05	2,563,190,000	62,000,000	56%
2005/06	3,592,741,000	92,000,000	21%
2006/07	3,320,030,000	92,000,000	25%
2007/08	NA	150,000,000*	70%*

* *initial estimation*

As at 31 May 2007, the unaudited net gearing ratio was approximately 10%.

Dividend For 2006/07

The Directors recommended to pay a final dividend of HK3.0 cents per share to shareholders whose names appear on the Register of members of the Company on 17 August 2007. Together with the interim dividend of HK8.5 cents per share already paid, total dividend paid for this year amounted to HK11.5 cents (2005/06: HK25.0 cents) per share.

The Third Equilibrium: How to balance the customers' requirement for additional inventory vs The risk profile of the Group

It is certainly essential for us to keep inventory at minimum level. However, to cope with the growth in metal and plastics business, we need to stock up on raw materials. Our customers also request that we increase inventory for just-in-time ("JIT") delivery to ensure their production will not be interrupted.

As the sole supplier of specific projects of customers, we have to oblige to their requests to increase inventory. However, this would mean that we will have to shoulder greater risk (asset risk, as different from liabilities, on the balance sheet). However, under our effective inventory management, the value of our inventory is about HK$374,974,000 as at 31 March 2007 (that is increased by HK$35,146,000 or 10% as compared to that of 31 March 2006).

BUSINESS REVIEW

Metal and Plastic Business

As the demand for server casings rose continuously and partially offset the decline in EMS business, turnover of the segment increased by around 3% to HK$1,480,918,000 (2005/06: HK$1,431,428,000). With more orders secured from the customers during the year, the segment contributed a larger proportion, at 45%, to the Group's total turnover (2005/06: 40%). Boasting a relatively higher gross profit margin, metal and plastic business continued to be the principal source of profit for the Group.

EMS Business

As a result of a major customer restructuring its business and strategic repositioning, shipment of laser printers by the segment declined and accordingly its turnover dropped by around 15% to HK$1,839,112,000 (2005/06: HK$2,161,313,000). Fortunately, orders from other customers had moderate growth and partially offset the effect of the shrunk laser printer shipment. As EMS business has a relatively narrow gross margin, though it accounted for 55% of the group total turnover (2005/06: 60%), it brought only a small profit contribution of about 7% (2005/06: 24%).

Geographical Distribution

The Group does not rely on one single market but ships to diverse markets. During the year, Asia (except Japan) contributed HK$1,114,428,000 in turnover (2005/06: HK$1,494,003,000). Turnover from Western Europe amounted to HK$1,170,719,000 (2005/06: HK$1,255,390,000) and turnover from direct shipment to North America was only HK$477,525,000 (2005/06: HK$600,095,000).

PROSPECTS

Although the challenges we met during the year led to a slight setback in our results, the overall turnover and gross profit margin were still maintained at reasonable levels. We expect the problem and challenges that we encountered during the year to continue in 2007/08. Accordingly, we made the following forecast:

1. With the uncertainties in economy, the Group holds a conservative view on its outlook. It believes that its 2007/08 turnover would be at the same level as this year's and growth, if achieved, would only be in mid single digit;

2. We expect the ratio of turnover contribution from the Metal and Plastic Business and EMS business to maintain at about 40:60;

3. With Phase 1 of the new Yu Quan Plant in operation, we can use the advanced machinery to enhance the Group's capability in producing sophisticated metal or plastic component products which will benefit the Group in developing high value added products in the long run. The Board is still optimistic about the long term prospect of the Group.

4. The Group has planned to set up a component manufacturing facility in the eastern China to serve the needs of customers based in the region. However, as new terms have been added to the cooperative plan, production may not be able to commence before the end of 2007. The goal of setting up a plant in the eastern China as soon as possible remains our first priority;

5. The unaudited turnover of the Group for the two months ended 31 May 2007 was HK$463,000,000 (2006/07: HK$455,600,000). As the unaudited turnover for those two months may not represent the performance of the Group for year ended 31 March 2008, investors and shareholders are advised to exercise extreme caution in dealing in the shares of the Company.

FINANCIAL RESOURCES

Robust Cash Generating Ability

With the start of the new Capex cycle, we have taken a group-wide effort to improve the cash cycle. The result is maintaining a net cash inflow from operating activities of HK$154,664,000 as compared to last year's net cash inflow of HK$287,236,000 despite a 8% decrease in turnover. Net Gearing Ratio and Net Bank Borrowings slightly increase to 25% and HK$141,297,000 respectively (31 March 2006: 21% and HK$111,576,000).

Additional Bank Borrowings

The Group has adequate financial flexibility backed by long term banking facilities secured. Our bankers have been very supportive. Hang Seng Bank, HSBC and Standard Chartered Bank have each provided the Group with a five-year HK$50,000,000 installment loan facility, amounting to a total of HK$150,000,000. The Group had not drawn on these installment loan facilities as at 30 June 2007.

NON-CURRENT ASSETS TO SHAREHOLDERS' FUND RATIO STAYING BELOW 1

The Non-current assets to Shareholders' Fund Ratio stayed at a healthy 57% (2005/06: 53%). This means that the Group is using long term shareholders fund to finance non-current assets like plants and machinery. The sole purpose of the existing bank borrowings is the financing of working capital (or more specifically, the accounts receivables).

The Group's business suffered a minor setback this year. In theory, the decrease in working capital requirements would reduce the bank borrowings requirements, assuming no deterioration in current assets quality. The inherent beauty of this self-adjusting mechanism of our business model is one of the key pillars of our confidence in the future of the Group.

Financing for Growth

For 2007/08, the financing task will be much more difficult than the last financial year because

– The Capex expenditure is higher than that of the last financial year (HK$150,000,000 budgeted for 2007/08 vs actual HK$91,625,000 for 2006/07);

– The projected mid single digit growth in turnover, if achieved, as compared with that of 8% decrease in the last financial year means that working capital requirement increases again.

As such, we expect the net gearing ratio will stay at a level about 70%. We are also following our house rule of using our profit after tax to finance "capital items" like:

– Dividend

– Capex

As a prudent manufacturer, we never entertain the idea of borrowing money to finance Capex, as this would expose the Group to danger should the economy take a sudden turn.

However, from the experience of previous years, even with a higher turnover growth rate, a vigorous working capital management program would alleviate the burden on cash flow resulted from financing receivables and inventories.

Exchange Rate Exposure

All of the Group's assets, liabilities and transactions are denominated in Hong Kong dollar, US dollar or RMB. As the exchange rates of these three currencies were relatively stable during the year, the Group was not exposed to material exchange risk. The Group maintains a surplus of assets over liabilities in RMB.

Contingent Liabilities

As at 31 March 2007, the Group had no significant contingent liabilities.

10th Listing Anniversary

We celebrated the Company's 25th anniversary last year and this year 2006/07 is the 10th anniversary of the Group's listing on the Hong Kong Stock Exchange. We had had many ups and downs in the past decade, with the Asian Financial Crisis hitting the year after we became listed. We were not discouraged, but worked much harder instead. Our turnover for the year was HK$3,320,030,000 against HK$618,614,000 in 1997/98.

In the past ten years, the Group has strived to improve operational transparency through measures such as voluntary announcement of quarterly results and leading the peck in hosting “Tea-break with Individual Investors”. We understand that we have much to do yet to become perfect, but we have taken an important step in the right direction.

Winner of 2006 “Grand Prix for Best Overall Investor Relations in Hong Kong”

Although the investment community generally held a relatively negative impression of small industrial companies and the Group’s performance declined during the year, the Group was voted by institutional investors and analysts as winner of the “Grand Prix for the Best Overall Investor Relations in Hong Kong – Small/Mid Cap” organized by “IR Magazine”. The Group was the first runner up in 2005 in the same award.

2006 HKMA Best Annual Report

In addition to the various awards including those from Asiamoney magazine and IR Magazine won by the Group in the past few years (Please refer to pages 26 and 27 of 2005/06 annual report), the Group’s 2005/06 annual report received “Honorable Mentions” in 2006 Best Annual Report Award organized by Hong Kong Management Association. Karrie was the smallest company in term of market capitalization among the winners of Award that most of which were major blue chip companies. The Group considers this to be a true honor.

The Directors believe that the Group’s annual reports and other corporate literatures and the Company’s website are vital platforms for information exchange between the Group and its shareholders and stakeholders. Thus, we use graphs, simple language and photos to aid communication. We are delighted that these efforts earned external recognition.

Tea-break with Individual Investors

The Group is pioneer in the industry in organizing “tea-break” with individual investors and so far ten such “tea-break” have taken place. When we first began to meet quarterly with individual investors, our aim was to give investors a new and unique channel to directly communicate with the Group. Since then different organisations have started to hold free seminars for investors, but our investors are still willing to pay HK$50 for admission to attend our “tea-break” with the Group’s management. However, as investors become more familiar with the Group’s business and general investor interest in small industrial stocks declines, attendance of the “tea-break” has been dropping. After careful discussion,

– we decided that the platform is still of value in facilitating communication and exchange of information between the Group and investors and shareholders, and hence should be kept;

– however, “tea-break” will only be arranged following interim results and final results announcements and quarterly “tea-break” has been cancelled.

The 11th “tea-break” will be held on 20 July 2007 from 7 to 9pm at Crystal Room IV, 3/F, Panda Hotel, 3 Tsuen Wah Street, Tsuen Wan, New Territories. As part of the Group’s social responsibility effort, participants will be asked to donate HK$50 to charity to be matched in donation by the Group (total not exceeding HK$10,000). For those who donate HK$100 or more, we will request the relevant charity to issue a receipt to the donor for tax deduction purpose.

Investors interested in knowing more about the function can visit our website www.karrie.com.hk for more information. The application form for attending the function can be downloaded from our website or obtained by calling 2411-1142 during office hour. Prior registration is necessary for admission to the function.

Riding the waves, Excelling amid challenges, Pooling elite, Focus on mainland

As the global economy continues to improve and corporate users are ready to invest with ample capital in replacing out-dated information technology systems and equipment, the Group is looking at abundant business opportunities and bright prospects. However, from the production perspective, without adequate time to achieve the production capacity needed, it would be very difficult for the Group to increase its turnover substantially.

Therefore, we decide to fortify both our "Hardware" and "Software" by continuing capital investment and investment in human resources with the Group's long term development needs in mind. Although problems such as rise in raw material costs, appreciation of the RMB, rise in interest rate and insufficient middle management personnel still burden us, we will not be frightened but will remain determined in marching towards our goals.

In addition, as our business is led by our production operations in Mainland China and with Mainland China's position as the "World's Factory" further strengthened, we will focus on our plants in the Mainland China which will become our dominant and core operations. We are now gradually strengthening and integrating the production techniques, operations and management culture between the plant in the Mainland China and Hong Kong office. We will also accelerate localization of the workforce. We believe that these moves will allow the Group to achieve a better yet operational efficiency and in turn bring the most lucrative returns to the Group in the long run.

As the old Chinese saying goes "A journey of a thousand miles starts with the first step" (main theme of the 2004/05 Annual Report), it is the firm belief of the management that with "Heartfelt dedication in all details" (main theme of 2005/06 Annual Report), the Group will be able to accumulate and learn from experience and forge a strong foundation. Working in unity is the winning formula for achieving the best long term benefit of the Group. Although we may encounter setbacks from time to time like we had before (decrease in annual profit in 1997/98 and 2003/04), our confidence and fervour will not be swayed.

The main theme for this annual report is "**Riding the waves**". The Group has gone through testing times in the past 26 years presented with challenges and hurdles. However, with a solid foundation, a united staff and focused efforts, we have been able to overcome different adversities. The Group is ready to march on and pave the way for a more prosperous future. The Group and all it staff holdfast to the principle "Nothing is impossible" and are confident of riding the waves to reach new heights.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 13 August 2007 to Friday, 17 August 2007 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Room 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 10 August 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance. Throughout the year ended 31 March 2007, the Company had applied the principles and complied with the requirements set out in the Code on Corporate Govenance Practices ("CG Code") in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited, except the following:

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not separate the roles of its Chairman and Chief Executive Officer and Mr. Ho Cheuk Fai ("Mr. Ho") currently holds both positions.

Being the founder of the Group, Mr. Ho has substantial experience in the manufacturing industry. At the same time, Mr. Ho has the appropriate skills and business acumen that are the pre-requisites for assuming the role of Chief Executive Officer. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person would provide the Group with strong and consistent leadership and allow the Group to be more effective and efficient in developing long-term business strategies and execution of business plans. The Board considers that there is no need to segregate the roles of the Chairman and the Chief Executive Officer, which should continue to be performed by Mr. Ho.

Code Provision A.4.2 of the CG Code stipulated that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's bye-laws, at each annual general meeting, one-third of the Directors for the time being or, if their number is not 3 or a multiple of 3, the number nearest to one-third but not greater than one-third shall retire from office provided that notwithstanding anything in the Company's bye-laws, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. With the introduction of the CG Code and to comply with Code Provision A.4.2 of the CG Code, the Chairman and/or the Managing Director of the Group will voluntarily retire at annual general meetings at least once every three years.

Under Code Provision E.1.2 of the CG Code, the Chairman of the Board should attend the Company's annual general meeting. Owing to another business engagement, the Chairman of the Board did not attend the annual general meeting of the Company held on 4 August 2006 (the "Meeting"). Other members of the Board and the Chairman of the Audit and Remuneration Committees, Mr. So Wai Chun, attended the Meeting in which Mr. Lee Shu Ki, an Executive Director, took the chair of the Meeting. The Board considers that the members of the Board and the Chairman of the Audit and Remuneration Committees attending the Meeting were already of sufficient calibre and number for answering questions from shareholders at the Meeting.

AUDIT COMMITTEE

The Audit Committee of the Company had reviewed the consolidated results of the Group for the year ended 31 March 2007.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2007 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

APPRECIATION

I would like to thank our customers, suppliers, bankers, shareholders and others who have extended their invaluable support to the Group, and my fellow Directors, managers and all staff for their considerable contributions to the Group.

I would also like to specially thank executive director and deputy chairman and chief operational officer Mr. Ho Cheuk Ming for his tremendous contribution to the Group throughout the years, who took up the position as a non-executive director starting 1 June 2007 because of health reasons. Mr. Ho Cheuk Ming was also appointed as a member of the Audit Committee. I also wish to thank Mr. Alfred Chow Kwok Hung, who has resigned from the position of Chief Financial Officer with effect from 26 June 2007. His contribution to the Group's outstanding financial management and strategy, corporate governance and investor relations in the past 9 years has made remarkable and fruitful accreditations.

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

Ho Cheuk Fai
Chairman

Hong Kong, 9 July 2007

* *For identification purpose only*