Karrie International Holdings Limited

嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Highlights

– Turnover decreased by 11% to HK$1,454,988,000
– Profit attributable to equity holders of the Company dropped 79% to HK$14,357,000
– Basic earnings per share slid 79% to HK3.34 cents
– Dividends per share at HK0.75 cents (2006/07 Interim: HK8.5 cents)

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Karrie International Holdings Limited (the "Company") announced the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2007 as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2007

	Note	30 September 2007 (Unaudited) HK$'000	31 March 2007 (Audited) HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**47,401**	47,927
Property, plant and equipment		**287,878**	269,150
Interest in associated companies		**–**	–
Deferred tax assets		**1,042**	1,042
		336,321	318,119
Current assets			
Trade receivables	*4*	**506,656**	610,850
Inventories		**309,101**	374,974
Prepayments, deposits and other receivables		**42,974**	35,015
Amount due from associated companies		**4,893**	8,770
Pledged bank deposits		**–**	6,359
Cash and bank balances		**380,698**	267,280
		1,244,322	1,303,248
Total assets		**1,580,643**	1,621,367
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**41,228**	41,228
Other reserves		**108,279**	107,505
Retained earnings		**409,453**	407,465
		558,960	556,198
Minority interest		**424**	424
Total equity		**559,384**	556,622
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings, secured		**180,700**	90,875
Deferred tax liabilities		**7,536**	7,536
Provision for long service payments		**6,053**	6,053
		194,289	104,464
Current liabilities			
Taxation payable		**992**	2,959
Trade and bills payables	*5*	**391,932**	451,605
Accruals and other payables		**202,089**	183,086
Receipts in advance		**3,069**	4,929
Short-term bank borrowings, secured		**228,888**	317,702
		826,970	960,281
Total liabilities		**1,021,259**	1,064,745
Total equity and liabilities		**1,580,643**	1,621,367
Net current assets		**417,352**	342,967
Total assets less current liabilities		**753,673**	661,086

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT – expense by function
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		For the six months ended 30 September	
		2007	2006
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Revenue	*6*	**1,455,987**	1,639,527
Cost of sales		**(1,353,778)**	(1,473,386)
Gross profit		**102,209**	166,141
Distribution and selling expenses		**(17,119)**	(17,669)
General and administrative expenses		**(65,710)**	(69,081)
Operating profit	*7*	**19,380**	79,391
Finance income	*8*	**7,166**	6,404
Finance costs	*8*	**(10,811)**	(11,342)
Profit before taxation		**15,735**	74,453
Taxation	*9*	**(1,378)**	(6,515)
Profit attributable to equity holders of the Company		**14,357**	67,938
Earnings per share (expressed in HK cents)			
– Basic	*10*	**3.34**	15.80
– Diluted	*10*	**3.33**	15.66
Dividends	*11*	**4,329**	35,044

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit before taxation	**15,735**	74,453
Adjustments for non-cash items/interest/tax [1]	**17,223**	15,469
Changes in working capital	**123,455**	(76,293)
Net cash generated from operating activities	**156,413**	13,629
Net cash used in investing activities	**(31,637)**	(22,014)
Net cash used in financing activities	**(11,532)**	(39,153)
Net increase/(decrease) in cash and cash equivalents	**113,244**	(47,538)
Cash and cash equivalents at 1 April	**267,145**	323,374
Cash and cash equivalents at 30 September	**380,389**	275,836

Analysis of cash and cash equivalents:

	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash and bank balances	**380,698**	276,818
Bank overdrafts	**(309)**	(982)
	380,389	275,836

[1] Analysis of adjustments for non-cash items/interest/tax:

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**26,164**	24,313
Amortisation of leasehold land and land use rights	**526**	521
Share-based compensation expense	**774**	1,777
Loss/(Gain) on disposal of property, plant and equipment	**270**	(655)
Interest income	**(7,166)**	(6,404)
Hong Kong profits tax paid	**(3,345)**	(4,083)
	17,223	15,469

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information has not been audited, but has been reviewed by the Group's audit committee.

This condensed consolidated interim financial information should be read in conjunction with the annual financial statement of the Group for the year ended 31 March 2007.

2. Accounting policies

The accounting policies adopted and method of computation used are consistent with those of the annual financial statements for the year ended 31 March 2007, as described in the annual financial statements for the year ended 31 March 2007.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 March 2008.

- 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 equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group has adopted HK(IFRIC) – Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's financial statements;

- 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 recognized 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 has adopted HK(IFRIC) – Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's financial statements;

- 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 has adopted HKFRS 7 and the amendment to HKAS 1 from 1 April 2007;

- HK(IFRIC) – Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 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 derivatives when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is 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 is 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; and

- HK(IFRIC) – Int 11, HKFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Group will apply this interpretation from annual period beginning 1 April 2007, but it is not expected to have any significant impact on the Group's financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, Operating Segments (effective for accounting periods commencing on or after 1 January 2009);

- HK(IFRIC) – Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- HK(IFRIC) – Int 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008); and
- HK(IFRIC) – Int 14, HKAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

3. Segment information

(a) Primary reporting format – business segments
An analysis of the Group's segment revenues and results for the period by business segment is as follows:

	For the six months ended 30 September 2007 (Unaudited)			
	Metal and plastic business	**Electronic manufacturing services business**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenues				
Total segment revenue	**692,115**	**815,722**	**999**	**1,508,836**
Inter-segment revenue	**(52,849)**	**–**	**–**	**(52,849)**
Revenue	**639,266**	**815,722**	**999**	**1,455,987**
Segment results	**15,302**	**3,079**	**999**	**19,380**
Finance income				**7,166**
Finance costs				**(10,811)**
Profit before taxation				**15,735**
Taxation				**(1,378)**
Profit attributable to equity holders of the Company				**14,357**

	For the six months ended 30 September 2006 (Unaudited)			
	Metal and plastic business	Electronic manufacturing services business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues				
Total segment revenue	787,403	903,921	6,333	1,697,657
Inter-segment revenue	(58,130)	–	–	(58,130)
Revenue	729,273	903,921	6,333	1,639,527
Segment results	62,719	10,339	6,333	79,391
Finance income				6,404
Finance costs				(11,342)
Profit before taxation				74,453
Taxation				(6,515)
Profit attributable to equity holders of the Company				67,938

(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.

	For the six months ended 30 September (Unaudited)	
	2007	2006
	HK$'000	*HK$'000*
Revenue		
Japan	**113,441**	131,096
Asia (excluding Japan)	**709,730**	717,263
North America	**163,734**	265,923
Western Europe	**469,082**	525,245
Total	**1,455,987**	1,639,527

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

4. Trade receivables

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

	30 September 2007 (Unaudited)	31 March 2007 (Audited)
	HK$'000	*HK$'000*
0 to 90 days	**494,675**	544,029
91 to 180 days	**13,048**	20,699
181 to 360 days	**5,960**	51,388
Over 360 days	**1,475**	3,236
	515,158	619,352
Less: Provision for impairment of trade receivables	**(8,502)**	(8,502)
	506,656	610,850

5. Trade and bills payables

Aging analysis of trade and bills payable is as follows:

	30 September 2007 (Unaudited)	31 March 2007 (Audited)
	HK$'000	*HK$'000*
0 to 90 days	**366,011**	416,870
91 to 180 days	**11,461**	20,046
181 to 360 days	**6,315**	10,914
Over 360 days	**8,145**	3,775
	391,932	451,605

6. Revenue

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Turnover		
Sales of merchandise from		
– Metal and plastic business	**639,266**	729,273
– Electronic manufacturing services business	**815,722**	903,921
	1,454,988	1,633,194
Other gains		
Management fee income from associated companies	**–**	4,891
Rental income	**999**	1,442
	999	6,333
Total revenue	**1,455,987**	1,639,527

7. Operating profit

The following items have been charged to the operating profit during the interim period.

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**26,164**	24,313
Amortisation of leasehold land and land use rights	**526**	521
Employee benefit expenses (including directors' emoluments)	**111,872**	103,499

8. Finance income and costs

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on		
– bank borrowings wholly repayable within five years	**10,794**	11,325
– others	**17**	17
Finance costs	**10,811**	11,342
Finance income – interest income	**(7,166)**	(6,404)
Net finance costs	**3,645**	4,938

9. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. The amount of taxation charged to the condensed consolidated interim income statement represents:

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current Hong Kong profits tax	**1,378**	6,515

10. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2007 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$14,357,000 (2006: HK$67,938,000) and on the weighted average number of approximately 430,466,000 (2006: 429,914,000 shares). The weighted average number of shares for both period ended 2006 and 2007 have been adjusted for the effects of the rights issue; which took place subsequent to balance sheet date.

The calculation of diluted earnings per share for the six months ended 30 September 2007 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$14,357,000 (2006: HK$67,938,000) and on the weighted average number of approximately 430,859,000 (2006: 433,825,000 shares), after adjusting for the potential dilutive effect in respect of the outstanding share options and the effects of the rights issue; which took place subsequent to the balance sheet date.

11. Dividends

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend: HK0.75 cents (2006: HK8.5 cents) per share	**4,329**	35,044

12. Capital commitments

Group had the following authorised and contracted capital commitments:

	30 September 2007	31 March 2007
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Investment in a subsidiary	**19,000**	19,000
Construction of factory premises in Mainland China	**38,180**	23,845
Purchase of other property, plant and equipment	**22,016**	6,030
	79,196	48,875

13. Banking facilities/pledge of assets

As at 30 September 2007, the Group's banking facilities were secured by:

(i) mortgages over certain of the Group's land and buildings in Mainland China with a net book value of approximately HK$3,041,000 (31 March 2007: HK$4,429,000); and

(ii) corporate guarantees provided by the Company and certain of its subsidiaries.

14. Event after the balance sheet date

On 11 October 2007, the Company announced a proposed rights issue of ordinary shares. Under the rights issue, qualifying shareholders are being offered the right to apply for the rights shares on the basis of four rights share for every ten existing shares of the Company (the "Right Shares") held on the record date at the price of HK$0.75 per Rights Share. As at 6 November 2007, the record date for the rights issue, the Company had 412,284,000 shares in issue. The number of rights shares to be issued were 164,913,600 shares. In this connection, the Company received gross proceeds of approximately HK$123,690,000, before the estimated expenses of HK$2,000,000.

15. Comparative figures

Certain 2006 comparative figures have been reclassified to conform to the current period's presentation

DIVIDEND

The Board declared an interim dividend of HK0.75 cents (2006/07 Interim: HK8.5 cents) per share for the six months ended 30 September 2007 (the "Relevant Period") to eligible shareholders whose names appear on the register of members of the Company on 18 January 2008. The interim dividend will be payable in cash on or about 31 January 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 January 2008 to Friday, 18 January 2008 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim 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 4:30 p.m. on Tuesday, 15 January 2008.

Review of Operation

As projected in the 2007/08 first quarter results announcement, annual sales would drop by 10% when compared with the same period last year. The turnover for the Relevant Period declined by 11% to HK$1,454,988,000 (2006/07 interim: HK$1,633,194,000) and profit attributable to equity holders of the Company decreased by 79% to about HK$14,357,000 (2006/07 interim: HK$67,938,000).

The decrease in turnover and profit was mainly attributable to a decline in overall sales and an increase in costs in China. The drop in turnover was mainly attributable to the negative impact after a major customer's corporate restructuring in early 2006. Furthermore, the Group was pressed by another major customer to reduce price and its profit was therefore reduced.

At the same time, the Group had faced increasing operating cost in China and was affected by appreciation of the Renminbi ("RMB"). The overall labour cost of its staff in Mainland China went up for more than 20% after the minimum wage regulation became effective in late 2006, and the value of the RMB had appreciated by around 6%. All these factors add pressure to the production cost of the Group.

With Yu Quan plant commencing operation, the Group recorded a rise in its operating cost due to the increase in wages, the expenses for electricity, transportation/delivery, staff accommodation and catering as well as management fees payable to local authorities.

During the Relevant Period, the Group strived to control its costs by various measures as stated in the table below. However, these measures were not sufficient to off-set the appreciation of the RMB, the increase in the cost of raw materials and the substantial decrease in turnover.

			Increase/(decrease)
			HK$'000
(A) Iron:	Price increased by around 3%		2,500
(B) Wages:	(a) Labour force reduced by 7%		(4,000)
	(b) Minimum wage level increased by around 20%		14,000
	(c) RMB appreciated by around 6%		4,000
		Total	14,000
(C) Electricity:	(a) City power supply used instead of internal generators' electricity supply and lower power consumption by 5%		(2,600)
	(b) RMB appreciated by around 6%		1,200
		Total	(1,400)
(D) Net financing costs dropped			(1,300)

Metal and Plastic Business ("Metal and Plastic Business")

The turnover of the Metal and Plastic Business for the Relevant Period was HK$639,266,000 (2006/07 interim: HK$729,273,000), 12% lower than that for the same period last year. The decline was due to the slow shipment of servers, which was mainly attributable to the price pressure from a major customer and the delay in launching certain new projects. However, because of its relatively higher gross profit margin, Metal and Plastic Business continued to be the principal source of the Group's profit.

Electronic Manufacturing Services ("EMS Business")

The turnover of the EMS Business for the Relevant Period dropped by 10% to HK$815,722,000 (2006/07 interim: HK$ 903,921,000) as a result of a drop of 40% in the sales of laser printers to a major customer when compared with that for the same period last year. The sales to this major customer had not been recovered after it had restructured its business whilst orders from the other customers were insufficient to mitigate the decrease in the size of shipment of laser printers.

Geographical Distribution

The Group is not affected by the conditions of any single market due to its diversified shipment pattern. During the Relevant Period, the Group's largest market, Asia (excluding Japan), accounted for 49% of the total turnover then followed by Western Europe's 32% whilst direct shipments to the North America accounted for 11%.

Yu Quan Plant

Yu Quan Plant, located in the town of Fenggang, Dongguan, Guangdong Province with a site area of around 240,000 sq.m., commenced production in October 2006. Phase 1 of Yu Quan Plant, with a site area of around 34,300 sq.m. has five buildings, namely, a plastic injection workshop, an electronic assembly lines workshop, a dormitory, a warehouse and a power generation station.

Vertical integration construction was adopted for each individual building of Yu Quan Plant designed to satisfy various customers' requirements. The operations can be run under e.g. contract processing or WOFE business model to enhance flexibility and ensures smoothness in business operation for each client.

With Yu Quan Plant in operation, the Group's overall production capacity has increased by 10-15%. When the investment project in Phase 2 of Yu Quan Plant is completed by the year ended 31 December 2008, the overall production capacity of the Group is expected to increase by another 20%.

Yu Quan Plant marked a major step forward of the Group's plan of production automation. The plastic injection operation in Yu Quan Plant is now fully automatic and the Group's next step is to standardize moulds for metal stamping production. Apart from lowering manpower required to operate the machinery and equipment, automation commands the use of moulds of high precision, thereby reducing the workload for post-production processing and ensuring consistent product quality.

The Group plans to relocate all the related production lines to the same premises of Yu Quan Plant. In order to reduce the costs of logistic management, all production facilities in Yan Tien will be relocated to Yu Quan Plant by the end of the third quarter of 2008.

Grow with customers

The Group is committed to providing products and services of the best quality to customers. To serve the growing number of customers who develop business in Eastern China, the Group leased a plant of approximately 8,000 sq.m. in Suzhou, the Jiangsu Province in October 2007. This involved an investment of about HK$20,000,000 to HK$30,000,000. The Group is now in discussion with the local organizations with the view to fine tune certain terms of the lease. Currently, the plant is under renovation and new equipment will be installed for trial production that will commence in the first quarter of 2008. Production is expected to start by the second quarter 2008. The Group chose to invest in another plant in Jiangsu since it wishes to prosper together with its growing number of customers in Eastern China and offer value-added services to them. The Group hopes to explore more business opportunities in the region.

Prospects

1. The Group's business continued to face two major problems: economic uncertainty and rising cost in the Pearl River Delta region. Taking heed of these uncertainties, the Group holds a cautious view regarding its prospects and expects its turnover to drop by approximately 20% for the financial year ended 31 March 2008 when compared with that in the previous financial year. The Group may incur operating loss in the second half of the financial year ended 31 March 2008. The Group also expects the turnover for financial year 2008/09 will be similar to that of financial year 2007/08.

2. As captured in the theme "Prepare for the worst and plan ahead for the best", the Group has never given in to challenges. The Group will, on the one hand, actively look for business opportunities to increase its turnover and, on the other hand, strive to reduce its cost in order to increase its profit margin by streamlining its operation and realizing its production automation plan. Moreover, the Group will examine its operational costs carefully to reduce wastage and improve efficiency.

3. The advanced machineries in Yu Quan Plant will enhance the Group's production capacity in producing sophisticated metal or plastic products. This enables the Group to develop more value-added products to meet its customers' needs. Its capital expenditure ("capex") budget for 2007/08 is HK$150,000,000 and the Group had spent HK$45,338,000 as at 30 September 2007 (as at 30 November 2007 the capex was HK$84,000,000). The Group will continue to invest in the construction of Phase 2 of Yu Quan Plant to enhance its production capacity. It will also purchase new equipment for the new plant in Jiangsu Province in order to meet the demands of customers in Eastern China and to implement the Group's strategy for its long term growth. The Group hopes to grow and prosper together with its customers by providing them with more value-added products and services.

4. Having taken into consideration the investment environment, shortage in labour supply, the strict regime of the labour law in China and, the adjustment of the minimum wages and electricity expenses in Southern China, the management does not expect the Group to be able to sustain rapid growth. Thus, while the Group will strive to consolidate its existing businesses and further develop its industrial techniques in order to increase its competitiveness, the management has also considered with factories as the focal point to diversify into other integrated businesses such as hotel, travel and property businesses. Such moves will help boost the Group's future growth.

   – After the mould manufacturing facilities in Yan Tien are moved to Yu Quan Plant, the Group will have vacated site area of approximately 24,000 sq.m.. Furthermore, the Group plans to centralize its plastic manufacturing operations by relocating its plastic manufacturing facilities currently in the production plant in Fenggang to Yu Quan Plant so that the production flows can be more balanced and the logistic management costs can be reduced. The Group will explore ways to generate the best returns for shareholders.

   – However, the Group has no concrete plan currently as to its diversification into other businesses.

5. The Board adopted a set of "New Dividend Policy" in the financial year ended 31 March 2007, which outlined the factors for consideration when calculating the dividend for distribution, such as profit attributable to equity holders of the Company, cash flow and capex. In view of the substantial setback in its results for the Relevant Period, the Company adjusted its dividend distribution to its equity holders accordingly.

6. The unaudited turnover of the Group for the two months ended 30 November 2007 dropped to approximately HK$409,939,000 (For the two months ended 30 November 2006: HK$551,649,000 in total) i.e. decreased about 26%. As at 30 November 2007, the net bank balance was approximately HK$95,000,000 (The net bank borrowing was HK$246,227,000 as at 30 November 2006). **As the unaudited turnover for those two months may not represent the performance of the Group for the year ended 31 March 2008, investors and shareholders are advised to exercise extreme caution in dealing in the shares of the Company.**

2007 IR Magazine Award

The Group's annual reports have won various awards from including Asiamoney, IR Magazine and the Hong Kong Management Association in the past few years (2005/06 annual report P. 26 to P. 27 and 2006/07 annual report P. 39). Continuing this excellent track record, the Group's 2006/07 annual report received the "Best Annual Report and other Corporate Literature" from IR Magazine. Besides, despite the Group's performance declined during the year, the Group received the "Honorable Mention" in the "Grand Prix for the Best Overall Investors Relations in Hong Kong – Small/Mid Cap" by institutional investors and analysts by IR Magazine.

2007 HKMA Best Annual Reports Award

The Group also received "Honourable Mentions" and "Citation for Achievement in Corporate Governance Disclosure" in the 2007 Hong Kong Management Association Best Annual Reports Award.

The Board believes the Group's annual reports and other corporate literatures and website are important platforms for communication with shareholders and all stakeholders. The Group thus devotes "Heartfelt Dedication in All Details" (theme of the 2005/06 annual report) and resorts to using graphs, simple and clear language, and photos to communicate with investors, shareholders and other stakeholders. We are delighted that our efforts are recognized and we will continue to seek rooms for improvement.

Tea-break with individual investors

Pioneered by the Group, this year's "tea-break with individual investors" marks the 11th of such event. The event aims at providing individual investors with a unique and direct avenue for exchange of views with the Group. Seeing that the avenue has served its purpose effectively, the Group will continue to hold tea-breaks with its investors, but only after announcement of interim results and annual results instead of quarterly as when we first held them.

The 12th tea-break is scheduled on 18 January 2008 at Function Room 2, 11/F, L'hotel Nina et Convention Centre, Hong Kong, 8 Yeung Uk Road, Tsuen Wan, the New Territories from 7:00 p.m. to 9:00 p.m. As part of the Group's social responsibility effort, participants will be asked to donate at least HK$50 to charity and the Group will match the donation up to a maximum of HK$10,000. For those who donate HK$100 or more, the Group will request the relevant charity to issue a receipt to the donor for tax deduction purpose.

Interested investors are invited to visit the Group's website at www.karrie.com.hk for more details. The application form can be downloaded from the website or obtained by calling 2411-1142 during office hours. Since seats are limited, only investors whose applications are confirmed can join the function. Should the application forms are more than the seats available, the Group reserves the right to allocate the admission tickets by lottery.

Liquidity resources and financing policies

Owing to the change in the Group's business operation model and the decrease in the levels of inventories and trade receivables, the Group's net bank borrowings had gradually decreased from 25% as at 31 March 2007 to 5% as at 30 September 2007. The non-current asset to shareholders' fund ratio remained at a healthy level of 60%.

As stated in the 2006/07 annual report (Please refer to P. 33 of the 2006/07 annual report), the Group utilized the 5-year long-term bank loan amounted to HK$150,000,000 as at 30 September 2007 to ensure its financial flexibility.

The Group is confident that with the cash holdings of HK$380,698,000 and banking facilities of approximately HK$1,662,000,000 as at 30 September 2007, it is able to meet all current operational and capital expenditure requirements.

Rights Issue

On 11 October 2007, the Group proposed to raise fund by way of rights issue (the "Rights Issue") at the subscription price of HK$0.75 per rights share (the "Rights Share"). The Rights Issue received overwhelming responses. In aggregate, a total of 727 valid applications for 377,357,570 Rights Shares were received, representing approximately 228.82% of the total number of 164,913,600 Rights Shares offered under the Rights Issue. The net proceeds is approximately HK$121,690,000 was raised from the Rights Issue. The Group is of the view that the Rights Issue will enable it to raise funds to support its business development and general working capital needs. With a strengthened financial position as a result of the Rights Issue, the Group will be able to make strategic investments promptly when opportunities arise. The shareholders of the Company can maintain their respective shareholding interests in the Company through applying for the Rights Shares, while the Company can enlarge both its capital and shareholders base. Therefore, given the current market conditions, the Group considers that it is in the best interests of the shareholders and the Group to raise capital of the Company by way of the Rights Issue.

The Group intends to apply the net proceeds from the Rights Issue in the following manner:

– as to approximately 30% for funding the construction Phase 2 of the Yu Quan Plant located in Fenggang, Dongguan, Guangdong Province, China, which is expected to be principally engaging in the manufacturing of moulds and plastic components and the assembly and manufacturing of electronic manufacturing services products;

– as to approximately 30% for the acquisitions of large scale machineries for metal and plastic products, moulds and prototypes manufacturing;

– as to approximately 20% for the establishment of a component manufacturing facility in the eastern China; and

– as to approximately 20% for the general working capital of the Group.

Exchange Rate Exposure

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, US dollar or RMB. As the exchange rates of the RMB against Hong Kong dollar and the US dollar rose continuously during the Relevant Period, the Group was exposed to exchange rate fluctuation risks and pressure on its production cost. The Group will actively communicate with its customers regarding raising its products' selling prices to mitigate the impact of the appreciation of the RMB on its business.

Contingent Liability

As at 30 September 2007, the Group had no significant contingent liabilities.

Employee and Remuneration Policies

During the Relevant Period, the Group had employed on average approximately 7,000 employees. With a strong reputation in the local community, the Group had not experienced any serious labour shortage problem.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experiences. Discretionary bonus will be awarded to employees with outstanding performance having regard to the Group's overall audited results. Employees of the Group are also entitled to other staff benefits including medical insurance, a housing subsidy scheme and mandatory provident fund.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the Relevant Period.

AUDIT COMMITTEE

In accordance with the requirements of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group established an Audit Committee in January 1999 which now comprises one Non-executive Director and three Independent Non-executive Directors of the Company. They are responsible for dealing with matters relating to audit area, which include reviewing and supervising the financial reporting process and internal control, in order to protect the interests of the shareholders of the Company. The unaudited interim results for the Relevant Period of the Company now reported on have been reviewed by the Audit Committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the Relevant Period 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 segregate 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 the Chief Executive Officer. The Board believes that vesting the roles of both the Chairman and the 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 and both roles should continue to be performed by Mr. Ho.

- According to Code Provision A.4.1, Non-executive Director should be appointed for a specific term, subject to re-election. Mr. Ho Cheuk Ming was re-designated as Non-executive Director on 1 June 2007 without a specific term. Moreover, Code Provision A.4.2 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 Directors 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. Furthermore, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and would then be eligible for re-election. 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 the annual general meeting at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure good corporate governance of the Company.

- Under Code Provision E.1.2, the Chairman of the Audit Committee and Remuneration Committee or their delegates should be arranged to attend the Company's annual general meeting. The Chairman of the Audit and Remuneration Committees, Mr. So Wai Chun, had not attended the annual general meeting of the Company held on 17 August 2007 (the "Meeting") as he had another business engagement and no delegate had been arranged to attend the Meeting. The Chairman of the Board, Mr. Ho Cheuk Fai, together with other members of the Board had attended the Meeting in which Mr. Lee Shu Ki, the Executive Director of the Company, took the chair of the Meeting. The Board considers that the Chairman of the Board and the members of the Board who attended the Meeting were already of sufficient calibre and number for answering questions from shareholders at the Meeting.

The Company will continue to review its practices from time to time to achieve high standard of corporate governance.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted stringent procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that, they have complied with the required standards set out in the Model Code throughout the Relevant Period.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 46(1) to 46(9) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

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

By Order of the Board
HO CHEUK FAI
Chairman

Hong Kong, 28 December 2007

* *For identification purpose only*