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 2008

Highlights

– Revenue decreased by 11% to HK$1,301,878,000
– Profit attributable to equity holders of the Company dropped 45% to HK$7,962,000
– Basic earnings per share slid 59% to HK1.38 cents
– Dividend per share nil (2007/08 Interim: HK0.75 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 2008 as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2008

	Note	**30 September 2008 (Unaudited) *HK$'000***	31 March 2008 (Audited) *HK$'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**72,747**	46,873
Deposits for acquisition of land use rights		**–**	26,400
Property, plant and equipment		**413,077**	378,328
Interest in associated companies		**400**	400
Deferred tax assets		**387**	387
		486,611	452,388
Current assets			
Inventories		**286,752**	264,352
Trade receivables	*4*	**467,595**	430,742
Prepayments, deposits and other receivables	*4*	**82,114**	151,412
Tax prepaid		**7,185**	4,783
Cash and bank balances		**455,677**	353,140
		1,299,323	1,204,429
Total assets		**1,785,934**	1,656,817
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**57,720**	57,720
Other reserves		**199,363**	212,326
Retained earnings		**426,633**	405,371
		683,716	675,417
Minority interest		**424**	424
Total equity		**684,140**	675,841

	Note	30 September 2008 (Unaudited) HK$'000	31 March 2008 (Audited) HK$'000
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings, secured		**151,700**	188,700
Deferred tax liabilities		**8,753**	8,753
Provision for long service payments		**11,665**	9,793
		172,118	207,246
Current liabilities			
Trade and bills payables	*5*	**402,757**	351,379
Accruals and other payables		**189,392**	202,365
Receipts in advance		**9,401**	2,614
Amount due to associated companies		**1,216**	811
Short-term bank borrowings, secured		**326,910**	216,561
		929,676	773,730
Total liabilities		**1,101,794**	980,976
Total equity and liabilities		**1,785,934**	1,656,817
Net current assets		**369,647**	430,699
Total assets less current liabilities		**856,258**	883,087

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT – EXPENSE BY FUNCTION
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

		For the six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Revenue	*6*	**1,301,878**	1,455,987
Cost of sales		**(1,224,447)**	(1,353,778)
Gross profit		**77,431**	102,209
Distribution and selling expenses		**(15,739)**	(17,119)
General and administrative expenses		**(51,206)**	(65,710)
Operating profit	*7*	**10,486**	19,380
Finance income	*8*	**4,366**	7,166
Finance costs	*8*	**(6,174)**	(10,811)
Profit before taxation		**8,678**	15,735
Taxation	*9*	**(716)**	(1,378)
Profit attributable to equity holders of the Company		**7,962**	14,357
Earnings per share (expressed in HK cents)			
– Basic	*10*	**1.38**	3.34
– Diluted	*10*	**1.38**	3.33
Dividends	*11*	**–**	4,329

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Profit before taxation	**8,678**	15,735
Adjustments for non-cash items/interest/tax[1]	**21,904**	17,223
Changes in working capital	**55,642**	123,455
Net cash generated from operating activities	**86,224**	156,413
Net cash used in investing activities	**(57,036)**	(31,637)
Net cash generated from/(used in) financing activities	**73,499**	(11,532)
Net increase in cash and cash equivalents	**102,687**	113,244
Cash and cash equivalents at 1 April	**352,957**	267,145
Cash and cash equivalents at 30 September	**455,644**	380,389

Analysis of cash and cash equivalents:

	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Cash and bank balances	**455,677**	380,698
Bank overdrafts	**(33)**	(309)
	455,644	380,389

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

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Depreciation of property, plant and equipment	**25,883**	26,164
Amortisation of leasehold land and land use rights	**526**	526
Share-based compensation expense	**337**	774
Provision for long service payments	**1,872**	–
Loss on disposal of property, plant and equipment	**770**	270
Interest income	**(4,366)**	(7,166)
Hong Kong profits tax paid	**(3,214)**	(3,345)
Hong Kong profits tax refunded	**96**	–
	21,904	17,223

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 2008.

2. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those annual financial statements.

The following new interpretations are mandatory for the first time for the financial year beginning 1 April 2008 but are not currently relevant to the Group:

- HK(IFRIC) – Int 12, 'Service concession arrangements', and

- HK(IFRIC) – Int 14, 'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2008 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail by management.

- HKAS 23 (revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment has no impact on the Group as there are no qualifying assets.

- HKFRS 2 (amendment), 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of the amendments on the Group's share schemes.

- HKFRS 3 (revised), 'Business combinations', effective for annual periods beginning on or after 1 July 2009. The Group will apply HKFRS 3 (revised) from 1 April 2010.

- HKAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 1 (revised) from 1 April 2009.

- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 32 and HKAS 1 amendments from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any customer loyalty programmes.

- HKAS 27 (revised), 'Consolidated and separate financial statements', effective from annual period beginning on or after 1 July 2009. The Group will apply HKAS 27 (revised) from 1 April 2010.

- HK(IFRIC) – Int 15, 'Agreement for the construction of real estate', effective for annual periods beginning on or after 1 January 2009. It is not relevant to the Group.

- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation', effective for annual periods beginning on or after 1 October 2008. It is not relevant to the Group.

- Improvements to HKFRS which include amendments to a number of standards, effective for accounting periods beginning on or after 1 January 2009. Management is assessing the effect of all the amendments on the Group's financial statements.

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 2008 (Unaudited)			
	Metal and plastic business *HK$'000*	**Electronic manufacturing services business** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenues				
Total segment revenue	**719,118**	**628,556**	**1,888**	**1,349,562**
Inter-segment revenue	**(47,684)**	**–**	**–**	**(47,684)**
Revenue	**671,434**	**628,556**	**1,888**	**1,301,878**
Segment results	**25,441**	**(16,843)**	**1,888**	**10,486**
Finance income				**4,366**
Finance costs				**(6,174)**
Profit before taxation				**8,678**
Taxation				**(716)**
Profit attributable to equity holders of the Company				**7,962**

	For the six months ended 30 September 2007 (Unaudited)			
	Metal and plastic business *HK$'000*	Electronic manufacturing services business *HK$'000*	Others *HK$'000*	Total *HK$'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

(b) *Secondary reporting segments – geographical segments*

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

An analysis of the revenue by location of customers is as follows:

	For the six months ended 30 September (Unaudited)	
	2008	2007
	HK$'000	*HK$'000*
Revenue		
Japan	**89,699**	113,441
Hong Kong	**274,778**	220,310
Mainland China	**348,819**	354,747
Asia (excluding Japan, Hong Kong and Mainland China)	**130,997**	134,673
North America	**144,791**	163,734
Western Europe	**312,794**	469,082
Total	**1,301,878**	1,455,987

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

4. Trade receivables, prepayments, deposits and other receivables

	30 September 2008 (Unaudited)	31 March 2008 (Audited)
	HK$'000	*HK$'000*
Trade receivables	**478,692**	441,839
Other receivables	**53,020**	122,796
	531,712	564,635
Less: Provision for impairment of trade and other receivables	**(11,097)**	(11,097)
	520,615	553,538
Prepayments	**6,711**	4,598
Deposits	**22,383**	24,018
	29,094	28,616
	549,709	582,154

The fair values of trade and other receivables are as follows:

	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
Trade receivables	**467,595**	430,742
Other receivables	**53,020**	122,796
Prepayments	**6,711**	4,598
Deposits	**22,383**	24,018
	82,114	151,412
	549,709	582,154

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

	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
0 to 90 days	**502,016**	547,193
91 to 180 days	**23,925**	11,236
181 to 360 days	**4,531**	3,479
Over 360 days	**1,240**	2,727
	531,712	564,635
Less: Provision for impairment of trade and other receivables	**(11,097)**	(11,097)
	520,615	553,538

5. Trade and bills payables

Aging analysis of trade and bills payable is as follows:

	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
0 to 90 days	**382,536**	323,818
91 to 180 days	**14,482**	20,993
181 to 360 days	**3,322**	4,150
Over 360 days	**2,417**	2,418
	402,757	351,379

6. Revenue

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Turnover		
Sales of merchandise from		
– Metal and plastic business	**671,434**	639,266
– Electronic manufacturing services business	**628,556**	815,722
	1,299,990	1,454,988
Other gains		
Rental income	**1,888**	999
Total revenue	**1,301,878**	1,455,987

7. Expenses by nature

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**25,883**	26,164
Amortisation of leasehold land and land use rights	**526**	526
Employee benefit expenses (including directors' emoluments)	**131,845**	111,872

8. Finance income and costs

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expense on		
– bank borrowings wholly repayable within five years	**6,163**	10,794
– others	**11**	17
Finance costs	**6,174**	10,811
Finance income – bank interest income	**(4,366)**	(7,166)
Net finance costs	**1,808**	3,645

9. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current Hong Kong profits tax	**716**	1,378

10. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2008 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$7,962,000 (2007: HK$14,357,000) and on the weighted average number of approximately 577,198,000 (2007: 430,466,000 shares) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2008 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$7,962,000 (2007: HK$14,357,000) and on the weighted average number of approximately 577,198,000 (2007: 430,859,000 shares, after adjusting for the potential dilutive effect in respect of outstanding share options) shares in issue.

11. Dividends

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend: nil (2007: HK0.75 cents) per share	**–**	4,329

12. Capital commitments

The Group had the following authorised and contracted capital commitments:

	As at 30 September 2008	As at 31 March 2008
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Construction of factory premises in Mainland China	**4,265**	28,930
Purchase of other property, plant and equipment	**13,310**	20,128
	17,575	49,058

13. Banking facilities

As at 30 September 2008, the Group's banking facilities were secured by corporate guarantees provided by the Company and certain of its subsidiaries.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2008 (the "Relevant Period") (2007/08 Interim: HK0.75 cents) in order to reserve funds for future development of the Group.

Review of Operation

This was a troublesome year. There have been snowstorm in early spring, the massive earthquake in Sichuan, Melamine milk saga and the all-about financial crisis arising from the sub-prime mortgage crisis in the US, which added more the uncertainties to the business environment. Nevertheless, there were some positive events as encouragement, such as the successful completion of the Beijing Olympic Game and the launch of the "Shenzhou No. 7" spacecraft. During the Relevant Period, although the Group continued to encounter many unfavourable factors, such as Renminbi ("RMB") appreciation, rise of steel price, oil price and labour cost and keen competition, the Group had used its best endeavours in reducing its labour force, achieving a more efficient use of raw materials, minimising scrap rate and exploring our market so as to achieve our objective of "broaden revenue base, control cost and improve efficiency". Despite this, the Group was unable to neutralize all the negative effects arising from the rising costs. As a result, the interim results of the Group showed little improvement.

As compared to the corresponding period last year, during the Relevant Period the Group was still facing rising operating costs, including:

(i) RMB appreciated by approximately 10%

(ii) Labour cost rose by approximately 15%

(iii) Oil price rose by approximately 35%

(iv) Steel price rose by approximately 10%

As compared to the corresponding period last year, the turnover of the Group for the six months ended 30 September 2008 declined by 11% to approximately HK$1,299,990,000 (2007/08 interim: HK$1,454,988,000) and the profit attributable to equity holders of the Company for the six months ended 30 September 2008 decreased by 45% to approximately HK$7,962,000 (2007/08 interim: HK$14,357,000).

Electronic Manufacturing Services Business ("EMS Business")

As anticipated in the first quarter results announcement, the sales of laser printers of one of our major customers had not been recovered. Meanwhile, as the other EMS customers were at the end of the product cycle, the turnover of the EMS Business during the Relevant Period declined by 23% to HK$628,556,000 as compared to HK$815,722,000 in the corresponding period last year. It is expected that the turnover of the EMS Business will gradually increase after the commencement of shipments of new models to replace old models in the third quarter and the establishment of the joint venture with Sagem Communications SAS ("Sagem").

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

During the Relevant Period, the turnover of the Metal and Plastic Business rose by 5% to HK$671,434,000 as compared to HK$639,266,000 in the corresponding period last year, while the operating profit of the Metal and Plastic Business rose by 66% to HK$25,441,000 as compared to HK$15,302,000 in the corresponding period last year. Despite this, the Metal and Plastic Business remains the main source of profits of the Group.

Geographical Distribution

The Group does not rely on a single market but ships to diverse markets. During the Relevant Period, Asia (except Japan, Hong Kong and the People's Republic of China ("PRC")) recorded a turnover of HK$130,997,000. Turnover from Japan amounted to HK$89,699,000, that from Hong Kong amounted to HK$274,778,000 and that from the PRC amounted to HK$348,819,000. Turnover from Western Europe amounted to HK$312,794,000 and turnover from North America amounted to HK$144,791,000.

In view of the severe financial crisis, the Group adopted an attitude of "Preparing for the worst and making the best preparation" and the "To act and not to act" principles. The Group advocated a policy of "Three Demands" – "Pursuing revenue exploration and cost saving, enhancing team spirit and improving the management system" which had been implemented by the following measures:

Revenue Exploration:	Although today's business environment is full of competition and challenges, we are still actively seeking business opportunities to increase turnover and profit margin. The establishment of joint venture with Sagem is one of the Group's development strategies to establish a closer working relationship with our major customers so as to create business opportunities for the Group, to enhance the status of the Group as a leading manufacturer, to strengthen the Group's competitiveness and technology and to enhance customers' trusts and confidence towards the Group. In doing so, the Group can therefore enhance the relationship with its customers for the long-term business development of the Group.
Cost Saving:	The Group streamlines its operational structure and accelerates the production automation to minimize raw materials wastage and hence reduce costs.
Customers:	The Group proactively communicates with its customers and devotes to understand and to meet their needs, with the view to persuade the customers to bear part of our costs. Meanwhile, the Group also further strengthens working relations with its major customers to achieve a sustainable and long-term growth.
Personnel:	The Group speeds up production automation and streamlines the operating structure to reduce labour costs. Beyond doubt, human resources are valuable assets of the Group which will enable the Group to cope with any new challenges. The Group commits to broadening the knowledge base of its employees and has taken initiative to provide different kinds of in-house and external trainings and to introduce the management by objective programmes. In addition, the Group also strengthens human resources management, rewards and appraises employees with good performance under performance link incentive scheme and actively communicates with our employees. As a result, the staff can achieve the targets in a more efficient way.

Control:	Internal control forms an integral part of risk management. The Group has currently established an efficient internal control system to monitor the risks to which the Group is exposed. Our internal audit department will assess the effectiveness of, and make amendments to, our internal control system from time to time so as to address any deficiencies in our business operations. Owing to the global financial turmoil, many unpredictable events may happen and as a result many suppliers (some of which are appointed by our customers) may be affected. This would in turn greatly affect the effectiveness of our supply chain management which would further delay the Group's production and shipment. In this regard, the Group will monitor the situation closely so as to respond swiftly.
Accountability:	The Group commits to a sustainable and long-term development and believes that corporate social responsibility bears a close relationship to the Group's business. In this regard, the Group implements industrial safety and environmental protection and contributes by way of community services, donations for disaster and supporting educational activities.
Focus:	The Group has been focusing on its own core business. Except for making some short-term adjustments to the purchase volume of steels, fuel and machinery for production purposes, the Group has never invested in any high risk leveraged financial products. The Group takes a prudent approach in handling investments, and any such investments are made for the purpose of enhancing production capacity and operational efficiency and, above all, for the best interests of the shareholders of the Company as a whole.

Plant Construction

Facilities in Phase II of Yu Quan Plant will be gradually completed, which may increase the Group's overall production capacity by approximately 35%. The completion of Phase II of Yu Quan can accelerate automation so as to enhance efficiency and flexibility in production as well as saving labour cost. Moreover, the Yu Quan Plant can centralize our production process, thereby saving our costs in logistics management. In view of the financial turmoil, the construction of Phase II of the administration building and the warehouse will be delayed but such delay will definitely not affect the current business operation as a whole.

The construction of Phase I of Yixing Plant is almost completed and is at the stage of installing machinery and equipment at this moment. Trial production is scheduled by the end of this year.

Capital expenditure ("Capex")

After several years' capital expenditure since 2003/04, the Group's production capacity expansion plan has largely been completed, as a result of which the production capacity will be increased remarkably to meet future business development of the Group and accordingly the Capex cycle approaches to the end. It is expected that Capex for this year will be approximately HK$100,000,000, while Capex as at 31 October 2008 was approximately HK$64,000,000.

Prospects

As anticipated in the 2007/08 annual report, the sub-prime mortgage crisis remains unsolved but has continuously proliferated to different aspects and finally led to a global financial turmoil. It is expected that the Gross Domestic Product of the US for the final quarter will further contract. The contraction in economy for two consecutive quarters means a recession. Even worse, the financial turmoil further aggravates the credit crunch and tightens money supply at the same time. The global economy has slowed down sharply under the domino effect and the market is full of pessimism.

The global financial turmoil will undoubtedly affect the economic development of the PRC. The total amount of the contracts entered into by Dongguan City's enterprises declined by more than 40% and hundreds of plants were either closed down or relocated. The new Labour Contract Law recently implemented in the PRC is very stringent and has a far-reaching effect. The industry (particularly the labour-intensive manufacturing industry) has been hit hard. It seems that the implementation of the new Labour Contract Law is not consistent with the country's policy of creating a harmonious society and the problems arising from this will not end even after the global financial crisis. This will be a great concern to industry. The suddenly worsen business environment surely brings adverse impact to our Group. The Group needs to tackle the problems of rising cost structure and in the meantime maintain its source of income and expand its revenue base. In view of these uncertainties, it is expected that the Group's annual sales will decline by approximately 10% as compared to the sales of last year.

The financial turmoil has caused to the neighborhood countries of the PRC in Asia substantial economic trauma which is much more serious than that of the Asia's Financial Crisis in 1997, but the situation in the PRC is relatively stable with some advantages. In addition, in order to avoid hard landing of its economy, the PRC Government announced a 4 trillion RMB economic stimulus plan. The Pearl Delta Region has also started implementing certain relief policies, including tax concession, loosening credits from banks and deferring the adjustment of the minimum wages standard. Furthermore, the recent decline of oil price, the stability of the exchange rate of RMB and a relatively vast supply of labour force certainly can alleviate the pressure faced by manufacturers.

We anticipate that the turnover of EMS Business will remain steady, though the revenue contributed from the Metal and Plastic Business may decrease. The turnover of the Metal and Plastic Business and the EMS Business will maintain a ratio of roughly 45: 55.

On 10 July 2008 (Hong Kong time), the Group entered into the Shareholders' Agreement with Sagem for the establishment of the Joint Venture ("JV") pursuant to which the Group and Sagem will have a 60% interest and a 40% interest, respectively, in the JV. After the emergence of the global financial turmoil in October 2008, the Group has been re-negotiating with Sagem on certain terms of the Shareholders' Agreement and it is expected that the negotiation will be completed by this year. The establishment of the JV can further strengthen the business relationship between Sagem and the Group. It can therefore provide the Group with stable turnover and business growth.

The unaudited turnover of the Group for October 2008 was approximately HK$205,000,000 (October 2007: HK$206,886,000). As the unaudited turnover for this month may not represent the final result for the year ended 31 March 2009, investors and shareholders are advised to exercise extreme caution when dealing in the shares of the Company.

The Group never engages any high risk leveraged financial products and also adopts a pragmatic and prudent approach in financial management. Therefore, although the financial turmoil gives a clout on the Group, the impacts are still under our control. We believe that with its robust operations, the Group will be able to pass through the financial turmoil.

The Group is dedicated to its principal activities and is always seeking rooms for improvement. Our hard work is akin to a small stream of water which, however small it seems, can penetrate hard rocks with passage of time. The Group will eventually overcome any difficulties and strive for the best interests of the shareholders of the Company. The Group will "prepare for the worst and make the best preparation" and "To act and not to act"; manage its principal business in a prudent manner; control risk and strengthen corporate governance in order to survive under the upcoming tough economic climate in the manufacturing sector.

The Group had maintained a long-term relationship as a partner with different stakeholders for many years. With the constant and consistent support and encouragement (like a small stream of water) from our shareholders, clients, business partners, suppliers, banks and employees, the Group will work together with different stakeholders to seize opportunities and go through tough times. Notwithstanding any difficulties that we may face, we are no fear of challenges and can "Ride the waves" and "Join Forces to Excel" to overcome all the difficulties. I strongly believe "Together, We Can!!"

In addition, over the past couple of months, governments from different nations over the world have been unprecedentedly working together on a global scale to consolidate economic structures and to restore financial systems, as a result of which enterprises can have opportunities to linger on. Despite this, enterprises (including the Group) shall take necessary efforts to clear up their accounts and to build a solid foundation for recovery. "Rome cannot be built in one day". The way of recovery is long and lasting. However, once the world's economy and the financial system have been restored, business activities will be subject to more stringent control. It can be envisaged that the improved system will bring a brighter and better realms for the world.

2008 HKMA Best Annual Reports Award

The Group is delighted to receive "Citation for Achievement in Corporate Governance Disclosure" in the 2008 Hong Kong Management Association Best Annual Reports Award.

The Board believes that the Group's annual reports and other corporate literatures and the Company's website are important platforms for communication between the Company and its shareholders and stakeholders. The Group thus devotes to "Heartfelt Dedication in All Details" (theme of the 2005/06 annual report) and uses graphs, simple language, and photos to aid communication. We are delighted that our efforts are recognized.

Tea-break with individual investors

We are glad that the "tea-break with individual investors" has been successfully held for 13th times. Owing to the sluggish market sentiment, particularly the lack of interests among investors in the shares of small industrial enterprises, the attendance rate was gradually decreased over years. However, the Group adheres to the principles of "openness, fairness and equality" and believes that all investors (large or small) should have the same right to get access to the Company's information. With this in mind and considering that the tea-break remains to be an effective and efficient way for the Company to communicate with its investors, the Group will continue to organise tea-breaks with individual investors but will reduce the number of tea-breaks to once annually (provisionally to be held in July each year). In the event that the investment environment improves and investors become enthusiastic in participating in the tea-break again, we will consider gradually increasing the number of tea-breaks per year.

Liquidity resources and financing policies

The Group anticipated the emergence of the sub-prime mortgage crisis last year. Therefore, the Group carried out a rights issue in October 2007 and raised a net proceeds of approximately HK$121,690,000 to further strengthen its financial position. As at date of this report, the Group has not carried out any mergers and acquisitions activities save for the establishment of the JV with Sagem in July 2008. Furthermore, in view of the ease of obtaining bank loans in the PRC recently, the Group is exploring with the banks in the PRC on the feasibility of obtaining banking facilities by mortgaging the land use rights certificates and the real estate certificates of the Group's properties in the PRC if necessary. The proposal will enhance the financial resources of the Group and provide the Group with greater flexibility.

The Group's net bank borrowings had further decreased from 8% as at 31 March 2008 to 3% as at 30 September 2008. The non-current asset to shareholders' fund ratio remained at the level of 70%, reflecting a healthy and liquid financial position.

As at 30 September 2008, the Group is confident that with cash holdings of HK$455,677,000 and banking facilities of approximately HK$1,626,000,000, it is able to meet all current operational and capital expenditure requirements.

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 2008, 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

The Company has not redeemed any of its share during the Relevant Period. Neither the Company nor any of its subsidiaries has purchased or sold 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 but Mr. Ho Cheuk Ming is subject to retirement by rotation according to the Bye-laws of the Company. 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.

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, 4 December 2008

* *For identification purpose only*