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Karrie International Holdings Limited

嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2010

HIGHLIGHTS			
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	Changes in %
Revenue	2,245,172	2,463,926	-9%
Profit for the year	9,110	20,433	-55%
Basic earnings per share	HK2.2 cents	HK3.8 cents	-42%
Final dividend per share	HK1 cent	HK1.5 cents	-33%
Return on Equity Ratio	1%	3%	-67%

The board (the “Board”) of directors (the “Directors”) of Karrie International Holdings Limited (the “Company”) and its subsidiaries (“collectively”, “we” or the “Group”) announce the consolidated results of the Group for the year ended 31 March 2010 together with the comparative figures for 2009 as follows:

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2010

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	3	64,835	72,096
Property, plant and equipment	3	471,378	435,732
Investment in associated companies		28,299	601
Other non-current assets	4	12,803	—
Deferred tax assets		1,692	349
		579,007	508,778
Current assets			
Inventories		269,636	227,062
Trade receivables	4	416,150	419,064
Amount due from an associated company		10,226	—
Prepayments, deposits and other receivables	4	43,119	69,486
Tax prepaid		2,331	4,017
Time deposit		91,312	—
Cash and bank balances		328,003	641,440
		1,160,777	1,361,069
Total assets		1,739,784	1,869,847

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 MARCH 2010

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		57,710	57,710
Other reserves		199,812	199,748
Retained earnings			
– Proposed final dividend		5,771	8,657
– Others		438,780	432,054
		702,073	698,169
Minority interest		39,403	43,026
Total equity		741,476	741,195
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings		76,300	118,700
Deferred tax liabilities		4,742	6,880
Provision for long service payments		8,264	12,929
		89,306	138,509
Current liabilities			
Trade payables	5	405,143	298,596
Accruals and other payables		187,140	200,465
Receipts in advance		4,884	3,636
Amount due to an associated company		305	211
Short-term bank borrowings		311,530	487,235
		909,002	990,143
Total liabilities		998,308	1,128,652
Total equity and liabilities		1,739,784	1,869,847
Net current assets		251,775	370,926
Total assets less current liabilities		830,782	879,704

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
Revenue	6	2,245,172	2,463,926
Cost of sales	7	(2,093,154)	(2,286,474)
Gross profit		152,018	177,452
Distribution and selling expenses	7	(27,276)	(30,709)
General and administrative expenses	7	(112,703)	(120,387)
Operating profit		12,039	26,356
Finance income	8	3,312	10,071
Finance costs	8	(5,392)	(12,888)
Share of (loss)/profit of associated companies		(2,682)	201
Profit before taxation		7,277	23,740
Income tax credit/(expense)	9	1,833	(3,307)
Profit for the year		9,110	20,433
Attributable to:			
Equity holders of the Company		12,497	22,081
Minority interest		(3,387)	(1,648)
		9,110	20,433
Earnings per share of profit attributable to the equity holders of the Company			
– Basic and diluted	10	2.2 cents	3.8 cents
Dividends	11	5,771	8,657

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010

	2010 HK\$'000	2009 HK\$'000
Profit for the year	9,110	20,433
Other comprehensive (expense)/income:		
Currency translation differences	<u>(591)</u>	<u>625</u>
Other comprehensive (expense)/income for the year	<u>(591)</u>	<u>625</u>
Total comprehensive income for the year	<u>8,519</u>	<u>21,058</u>
Attributable to:		
Equity holders of the Company	12,142	22,456
Minority interest	<u>(3,623)</u>	<u>(1,398)</u>
Total comprehensive income for the year	<u>8,519</u>	<u>21,058</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010

	2010 HK\$'000	2009 HK\$'000
Profit before taxation	7,277	23,740
Adjustments for non-cash items/interests/tax	45,594	46,052
Changes in working capital	54,575	77,649
Net cash generated from operating activities	107,446	147,441
Net cash used in investing activities	(193,530)	(104,399)
Net cash (used in)/generated from financing activities	(226,762)	244,816
Net (decrease)/increase in cash and cash equivalents	(312,846)	287,858
Cash and cash equivalents at 1 April	641,440	352,957
Effect of foreign exchange rate changes	(591)	625
Cash and cash equivalents at 31 March	328,003	641,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

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

The preparation of financial 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.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 April 2009:

HKFRS 7, ‘Financial Instruments – Disclosures’ (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

HKAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKFRS 2 (amendment), ‘Share-based payment’ deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and the Company has adopted HKFRS 2 (amendment) from 1 April 2009. The amendment does not have a material impact on the Group’s or the Company’s financial statements.

HKAS 23 (Revised), ‘Borrowing Costs’. The standard has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As the Group’s current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard did not have any impact on the financial position or performance of the Group.

HKFRS 8, ‘Operating segments’. HKFRS 8 replaces HKAS 14, ‘Segment reporting’, and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(b) Amendments and interpretations to existing standards that are effective but not currently relevant to the Group

The following amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 April 2009, but are not currently relevant to the Group.

HKFRS 1 (Amendment)	First-time Adoption of HKFRS
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

HKFRS 3 (revised)	Business combinations (effective from 1 July 2009)
HKFRS 9	Financial Instruments (effective from 1 January 2013)
HKAS 24 (Amendment)	Related Party Disclosures (effective from 1 January 2011)
HKAS 27 (revised)	Consolidated and separate financial statements (effective from 1 July 2009)
HKAS 32 (Amendment)	Classification of Rights Issues (effective from 1 February 2010)
HKAS 39 and HK(IFRIC) – Int 9 (Amendments)	Embedded Derivatives (effective from 30 June 2009)
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement (effective on or after 1 January 2011)
HK(IFRIC) 17	Distribution of non-cash assets to owners (effective on or after 1 July 2009)
HK(IFRIC) – Int 18	Transfers of Assets from Customers (effective from 1 July 2009)
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)

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

The Group has not early adopted these new standards, amendments and interpretations to existing standards in the financial statements for the year ended 31 March 2010. The adoption of the above new standards, amendments and interpretations to existing standards in future periods is not expected to result in substantial changes to the Group's accounting policies.

The Group will adopt the above new standards, amendments and interpretations when they become effective.

(d) In May 2009, Hong Kong Institute of Certified Public Accountants issued modifications to the following existing accounting standard which is not yet effective but had been early adopted by the Group

HKFRS 8 (Amendment)	Operating Segments (effective from 1 January 2010)
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2 Segment information

The Group's chief operating decision-maker reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group is organized on a worldwide basis into two main operating segments. They are (i) metal and plastic business; and (ii) electronic manufacturing services business.

Others mainly comprise rental and management fee income.

Management considers the business from both a geographic and products and services perspective. From a products and services perspective, management assesses the performance of metal and plastic business, and electronic manufacturing services business. And there is further evaluation on a geographic basis (Japan, Hong Kong, Mainland China, Asia (excluding Japan, Hong Kong and Mainland China), North America and Western Europe). Management assesses the performance of the operating segments based on operating profit. Segment information provided to management for decision making is measured in a manner consistent with that in the financial statements.

The segment results for the year ended 31 March 2009 and 2010 are as follows:

	2010			
	Metal and plastic business HK\$'000	Electronic manufacturing services business HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenues				
Total segment revenue	958,741	1,403,883	4,408	2,367,032
Inter-segment revenue	(121,860)	–	–	(121,860)
Revenue from external customers	<u>836,881</u>	<u>1,403,883</u>	<u>4,408</u>	<u>2,245,172</u>
Gross profit	103,284	44,326	4,408	152,018
Distribution and selling expenses and general and administrative expenses	<u>(69,301)</u>	<u>(70,678)</u>	<u>–</u>	<u>(139,979)</u>
Operating profit/(loss)	<u>33,983</u>	<u>(26,352)</u>	<u>4,408</u>	<u>12,039</u>
Operating profit/(loss) includes:				
Depreciation	23,935	23,085	–	47,020
Amortisation	652	596	–	1,248
Provision/(write-back of provision) for obsolete and slow-moving inventories	5,318	(1,651)	–	3,667
	2009			
	Metal and plastic business HK\$'000	Electronic manufacturing services business HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenues				
Total segment revenue	1,354,059	1,203,650	3,348	2,561,057
Inter-segment revenue	(97,131)	–	–	(97,131)
Revenue from external customers	<u>1,256,928</u>	<u>1,203,650</u>	<u>3,348</u>	<u>2,463,926</u>
Gross profit	146,353	27,751	3,348	177,452
Distribution and selling expenses and general and administrative expenses	<u>(84,633)</u>	<u>(66,463)</u>	<u>–</u>	<u>(151,096)</u>
Operating profit/(loss)	<u>61,720</u>	<u>(38,712)</u>	<u>3,348</u>	<u>26,356</u>
Operating profit/(loss) includes:				
Depreciation	36,287	20,007	–	56,294
Amortisation	791	386	–	1,177
Provision for impairment of trade and other receivables	728	–	–	728
(Write-back of provision)/provision for obsolete and slow-moving inventories	(4,246)	2,441	–	(1,805)

A reconciliation of operating profit to profit before taxation is provided as follows:

	2010 HK\$'000	2009 HK\$'000
Operating profit	12,039	26,356
Finance income	3,312	10,071
Finance costs	(5,392)	(12,888)
Share of (loss)/profit of associated companies	(2,682)	201
Profit before taxation	<u>7,277</u>	<u>23,740</u>

The segment revenue by geographical information as follows:

	2010 HK\$'000	2009 HK\$'000
Japan	172,198	178,956
Hong Kong	434,752	483,769
Mainland China	619,036	612,010
Asia (excluding Japan, Hong Kong and Mainland China)	258,257	332,569
North America	251,695	264,275
Western Europe	509,234	592,347
Total revenue	<u>2,245,172</u>	<u>2,463,926</u>

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

The Group's sales are made primarily to a few key customers. For the year ended 31 March 2010, the revenue derived from five largest customers accounted for approximately 87% (2009: 84%) of the Group's total revenue.

3 Property, plant and equipment and leasehold land and land use rights

	Property, plant and equipment (Unaudited) HK\$'000	Leasehold land and land use rights (Unaudited) HK\$'000
Year ended 31 March 2009		
Opening net book amount	378,328	46,873
Additions	114,641	26,400
Disposals	(943)	–
Depreciation (Note 7)	(56,294)	–
Amortisation (Note 7)	–	(1,177)
Closing net book amount	<u>435,732</u>	<u>72,096</u>
Year ended 31 March 2010		
Opening net book amount	435,732	72,096
Additions	82,893	–
Disposals	(227)	(6,013)
Depreciation (Note 7)	(47,020)	–
Amortisation (Note 7)	–	(1,248)
Closing net book amount	<u>471,378</u>	<u>64,835</u>

During the year, management carried an extensive review of the useful lives of the Group's major machinery. The Group has appointed an independent valuer to re-estimate the useful lives of certain machinery and extended the useful lives ranging from 6 – 10 years to 10 – 15 years. Such change in accounting estimate has been accounted for prospectively, resulting in net profit for the year ended 31 March 2010 being increased by approximately HK\$10,864,000.

4 Trade receivables, prepayments, deposits and other receivables

	2010 HK\$'000	2009 HK\$'000
Trade receivables	427,247	430,161
Other receivables	28,997	52,365
	<u>456,244</u>	<u>482,526</u>
Less: Provision for impairment of trade and other receivables	(11,825)	(11,825)
	<u>444,419</u>	<u>470,701</u>
Prepayments	4,210	3,453
Deposits	23,443	14,396
	<u>27,653</u>	<u>17,849</u>
Less: Non-current portion (<i>Note</i>)	(12,803)	—
	<u>14,850</u>	<u>17,849</u>
	<u>459,269</u>	<u>488,550</u>
Representing:		
Trade receivables, net of provision	416,150	419,064
Prepayments, deposits and other receivables, net of provision	43,119	69,486
	<u>459,269</u>	<u>488,550</u>

Note: Non-current portion represent deposits paid for purchase of property, plant and equipment.

5 Trade payables

	2010 HK\$'000	2009 HK\$'000
Trade payables		
0 to 90 days	371,913	283,603
91 to 180 days	26,523	12,903
181 to 360 days	2,213	376
Over 360 days	4,494	1,714
	<u>405,143</u>	<u>298,596</u>

6 Revenue

	2010 HK\$'000	2009 HK\$'000
Turnover		
Sales of merchandise from		
– Metal and plastic business	836,881	1,256,928
– Electronic manufacturing services business	1,403,883	1,203,650
	<u>2,240,764</u>	<u>2,460,578</u>
Other gains		
Rental income	3,220	3,348
Management fee income	1,188	–
	<u>4,408</u>	<u>3,348</u>
Total revenue	<u><u>2,245,172</u></u>	<u><u>2,463,926</u></u>

7 Expenses by nature

	2010 HK\$'000	2009 HK\$'000
Cost of inventories	1,724,786	1,912,962
Depreciation of property, plant and equipment	47,020	56,294
Amortisation of leasehold land and land use rights	1,248	1,177
Employee benefit expenses (including directors' emoluments)	252,276	255,097
Operating lease rental of premises	13,082	15,760
Net exchange loss/(gain)	877	(650)
Auditor's remuneration	1,580	1,700
Provision for impairment of trade and other receivables	–	728
Provision/(write-back of provision) for obsolete and slow-moving inventories	3,667	(1,805)
Net (gain)/loss on disposal of property, plant and equipment	(658)	772
Gain on disposal of leasehold land and land use rights	(845)	–
Other expenses	190,100	195,535
	<u>2,233,133</u>	<u>2,437,570</u>
Representing:		
Cost of sales	2,093,154	2,286,474
Distribution and selling expenses	27,276	30,709
General and administrative expenses	112,703	120,387
	<u>2,233,133</u>	<u>2,437,570</u>

8 Finance income and costs

	2010 HK\$'000	2009 HK\$'000
Finance costs – Interest expenses on bank borrowings wholly repayable within five years	5,392	12,888
Finance income – Interest income from bank deposits	(3,312)	(10,071)
Net finance costs	<u>2,080</u>	<u>2,817</u>

9 Income tax (credit)/expense

The Company is a company incorporated in Bermuda but exempted from Bermuda taxation until 2016. Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year for all group companies incorporated in Hong Kong.

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2010 HK\$'000	2009 HK\$'000
Current taxation: Hong Kong profits tax		
– current year	2,960	4,999
– (over)/under-provision in prior years	(1,312)	143
Deferred taxation	(3,481)	(1,835)
Income tax (credit)/expense	<u>(1,833)</u>	<u>3,307</u>

10 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.

	2010	2009
Profit attributable to equity holders of the Company (<i>in HK\$'000</i>)	<u>12,497</u>	<u>22,081</u>
Weighted average number of ordinary shares in issue (<i>in thousand shares</i>)	<u>577,098</u>	<u>577,150</u>
Basic earnings per share (<i>HK cents per share</i>)	<u>2.2</u>	<u>3.8</u>

There was no dilutive effect of the outstanding share options on earnings per share for both the years ended 31 March 2009 and 2010 since all outstanding share options were anti-dilutive.

11 Dividends

A final dividend of HK 1 cent per ordinary share in respect of the year ended 31 March 2010, amounting to a total final dividend of approximately HK\$5,771,000 was proposed. Such final dividend is to be approved by the shareholders at the upcoming annual general meeting. These financial statements do not reflect this dividend payable.

	2010 HK\$'000	2009 HK\$'000
Interim dividend, declared, of Nil (2009: Nil) per ordinary share	–	–
Final dividend, proposed, of HK1 cent (2009: HK1.5 cents) per ordinary share	<u>5,771</u>	<u>8,657</u>
	<u>5,771</u>	<u>8,657</u>

PRINCIPAL ACTIVITIES AND RESULTS

The Group is principally engaged in

- Metal and Plastic (“M&P”) Business: manufacturing and sale of metal and plastic products including computer casings, office automation products, video tape cassettes, moulds, plastic and metal parts; and
- Electronic Manufacturing Services (“EMS”) Business: manufacturing and sale of magnetic tape drives, laser printers, multi-function facsimile machines, “point-of-sale” system and other computer peripherals.

(I) Business Review

Although the future is full of uncertainties and obstacles, the global economy appears to be recovering and the market consensus is that the global economy can get back to the right track as the business environment is becoming more stable. As a result, the turnover during the second half year is better than we expected and the financial results of the second half year had turned from deficits to profits.

Turnover for the year ended 31 March 2010 declined by 9% or HK\$219,814,000 to HK\$2,240,764,000 (for the year ended 31 March 2009: HK\$2,460,578,000) and the profit attributable to equity holders of the Company decreased by 43% or HK\$9,584,000 to HK\$12,497,000 (for the year ended 31 March 2009: HK\$22,081,000).

- The turnover of the M&P Business for year ended 31 March 2010 was HK\$836,881,000 (for the year ended 31 March 2009: HK\$1,256,928,000), which is 33% lower than that for the corresponding period last year. The turnover of the M&P Business represents 37% of the total turnover. The decrease in the turnover was due to the large decline in the shipment of server casings by one of our major customers by approximately 45%.
- Following the trend of the FY09/10 interim results, the shipment of new models of laser printers of one of the major clients for our laser printers continued to increase. Therefore, the turnover of the EMS Business for the year ended 31 March 2010 rose by 17% to HK\$1,403,883,000 (for the year ended 31 March 2009: HK\$1,203,650,000).

Despite the recent financial turmoil, overall operational costs were lowered by approximately HK\$25,000,000 and a slight profit for the whole year was recorded because of the stability of RMB and the Group’s effective cost control measures, the decrease in oil price and the reduction of manpower and salaries.

The Capex for the year ended 31 March 2010 was approximately HK\$82,893,000, which is more than the budget of HK\$70,000,000 originally planned. This is due to the expectation of continuous improvement of economy and the increase of various cooperation projects, including the formation of TIS Karrie Technologies (Hong Kong) Limited (“TIS Karrie”), a joint venture with TECO. The Group thinks that it is necessary to increase the investment on certain infrastructure, e.g. constructing an integrated administration building, in order to enhance our competitive edge as well as to attract talents and retain work force.

	Turnover HK\$	Capex HK\$	Net Gearing Ratio as at 31 March
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	2,799,967,000	199,000,000	8%
2008/09	2,460,578,000	115,000,000	-5%
2009/10	2,240,764,000	82,893,000	-4%
2010/11	N/A	65,000,000	35%*

* Initial estimation

- **Challenge**

The global economy started recovering in the beginning of the third quarter. Since the customers remain cautious, the number of shipments has increased but quantity for each shipment is relatively small. Furthermore, the forth quarter is a traditionally slack period. Therefore, the financial results of the entire financial year record a slight profit.

This coming year is still full of difficulties and we face the following major challenges:

- (a) The first challenge is the fluctuation of the price of raw materials (like the electronic parts) due to the shortage of supply when the market recovered during the second half of FY09/10. Rising raw materials price will lead to an increase in production cost.
- (b) The second challenge is the rising salary level in the PRC due to the rapid development of the Chinese economy and the encouragement of domestic consumption in China that create more job opportunities locally for workers. The trend is obviously that the improved wage level means some workers choose to seek employment in their home provinces instead of seeking jobs elsewhere. In addition, with workers giving more weight to their living standard and the raise of minimum wages in May of this year, the rise of labour cost is unavoidable.

Furthermore, the implemented “Labour Contract Law” undoubtedly leads to more disputes between employees and employers and it is no exception for the Group. However, the Group always respects the spirit of law by actively taking appropriate measures. In light of the increasing production cost due to the rise of the statutory minimum wages, the Group will undoubtedly have to adjust the price of its products and reduce the size of its workforce via expansion of the scale of automated manufacturing capacity to enhance operational efficiency and to reduce production cost. We would like to emphasis that the prime aim of such price adjustment is not to raise our profit but to ensure the “cost push” impact be borne by the customers. We believe, as a long-term business partner, the customers should share certain responsibilities in this aspect.

The Group faced the shortage of labour in the PRC at the end of 2009 so we quickly responded by taking certain measures in relation to remuneration, fringe benefits and bonus. For example, a lucky draw was and will be held quarterly. The prizes include car and cash etc and the free group wedding ceremony and local tours are arranged for workers. In addition, the workers' meal and working environment are being improved. The main objective of all such measures is to retain existing workers and attract new workers or former workers coming back from their home provinces. The problem of shortage of labour was basically solved in March of this year. The Group believes that by adopting the "humane" approach, instead of the "military" approach, in managing our employees and the operations, a harmonious working atmosphere can be created and the Group will be regarded as a good employer.

(c) Instability of economic environment

Europe Debt Crisis creates uncertainties on the global economic recovery.

In order to control the costs of production under the fierce competition in the market, a company cannot only reduce the size of the workforce but also adopt the "total cost effective" measures to improve production efficiency by optimizing each procedure of our production process. During the implementation of measures to improve cost efficiency of the Company, we received support of the employees at all levels. As a result, the expenditure of the Group was reduced successfully and thus a profit is recorded for the Group this year. The management notes that the production cost (especially the labour cost) will rise and profits will be squeezed. We shall proactively communicate with our customers with a view to transfer part of the costs to them reasonably.

- **Factory**

- Production in Yixing factory had been commenced in February 2010, mainly for Automatic Teller Machine ("ATM"), manufacturing of parts & moulds and assembly of server.
- The construction of B2B in Yu Quan had been completed. This factory is being used by TIS Karrie, one of our major joint venture companies. Assembly lines and production equipments had been installed. Production already commenced in March 2010.
- In addition, the B2A integrated administration building will be constructed soon. The integrated administration building will enhance the management efficiency. All administrative matters will be processed together to reduce operational hindrance and to reduce costs.

- ***Joint Venture Companies***

The Group had established various joint venture companies with different partners. These joint ventures include. Sagem Karrie Technologies (Hong Kong) Limited (“SKT”), 60% interest of which is beneficially owned by the Group, and TIS Karrie, 49% interest of which is beneficially owned by the Group. The establishment of joint venture companies can strengthen the business relationship between business partners and the Group can create business synergy. The establishment of the joint ventures also enable the Company to get access to the demand of the global market so as to improve the Group’s profitability and turnover. In addition, the production technologies will be further enhanced.

For SKT, due to the lack of manpower and raw materials, the shipment had been delayed even though the demand is strong. Same as last year, a loss is recorded this year. At the beginning of March 2010, the situation had gradually been improved. The problems of manpower and raw materials had been gradually resolved. Timely shipments are made as the orders are placed. Backlog orders were being handled and the operation is back on the right track. With its operation getting back on track, we expect SKT will improve its profitability very soon.

TIS Karrie also commenced production in March 2010. The production and shipment of April and May are satisfactory. We are looking forward for a fruitful result by the end of FY10/11.

(II) Vision Leads New Sky

Vision is a great aspiration for an enterprise and is a macro and long-term objective. Values, Missions and Objectives are the basic elements for Vision. Values are a set of culture and norm guiding all members/staffs behaviour and direction for goals. Missions are the summary of the activities and working focus. Objectives will become practicable actions through different tasks.

Vision creates clear intention and the correct direction so that plans can be correctly formulated to focus all efforts on the appropriate objectives. As we understand, the road ahead of us will not be flat but rough at the beginning.

In order to formulate our vision, the executive committee of our company together with 28 core members of various departments held the “2010 strategic workshop” at function rooms in Hong Kong Gold Coast Hotel in February 2010 in order to set out the vision of the Group for next five years. Meaningful mission statements and clear values and objectives had been established. Through open discussion, we framed our vision as at 2015 “To be a leading Integrated Electronics Manufacturing Services Partner”. We aim to be not only the manufacturers of our customers but also the partners of our customers.

(1) Values

Values provide a broad guidance in the process of seeking our objectives. We believe that the objective we are operating towards is correct and our corporate culture is as follows:

Proactive	Heartfelt dedication in all details (main theme for annual report of 2005/06). Seeking break through and innovation.
Services	Nothing is impossible. Operate with customer-oriented attitude and remain fully devoted to provide comprehensive and excellent services for both internal and external customers.
Commitment	We vow to create a good corporate image by honoring our promises.

The Group continuously enhances its “value-adding” capability, strengthens the automation process and improves supply chain management, and thus deepening the core value of “gearing up” (the main theme of our 2009/10 interim report). As a result, we are still confident and should have sufficient capability to maintain the support and good graces from our customers despite the difficult business environment and challenging conditions.

(2) Missions

In order to reach our vision, we should have summary of activities and focuses for stepping forward. Missions are such focuses. Six points have been formulated as the summary of our activities and our missions, known as the “DIRECT” as follows:

“D”	=	<u>D</u> esign for manufacturing
“I”	=	<u>I</u> ntegrated world-class manufacturing solutions and services
“R”	=	<u>R</u> e-engineering to excellence
“E”	=	<u>E</u> nvironment & Enterprise Sustainability
“C”	=	<u>C</u> ost effective management
“T”	=	<u>T</u> otal stakeholder satisfaction

(3) Objectives

The management also understands that in order to put the summary of our activities into actions, we should divide those objectives into different tasks and give them to the department heads. Therefore, the 3rd “Brain Storm” session was held at the banquet room of Castfast Hotel in Fenggang in May 2010 so that we could put those vision into action plans through brainstorming. There were approximately 130 attendees (the highest participants in record). All participants participate in different open platforms and actively engage in discussion. 16 action plans and chief tasks were formulated at the end of the brainstorming session.

(4) Conclusion

The management recognizes that vision of the Group must undergo the process of creation, consolidation and realization that cannot be completed within a short period of time. We should elaborate the team spirits of “Together, We Can” (main theme of 2008/09 interim report) and “Joint Forces to Excel” (main theme of 2007/08 annual report) to overcome difficulties and achieve bright future. In order to keep the vision of the Group active, we should develop it persistently. Vision will only become “beautiful intention” without persistent motivation. Vision requires persistence and we should maintain our persistency as “High aspiration makes strong practitioners”. Vision is a process but not the final destination.

(III) Dividend Policy

The Board has adopted a set of “New Dividend Policy” since the first quarter of the financial year of 2006/07, which outlines the factors that should be taken into account in determining the dividend for distribution, such as profit attributable to equity holders of the Company, cash flow and Capex. After careful considerations of the aforementioned factors, the Board hopes to maintain the Company’s track record of paying dividends to shareholders for thirteen consecutive years so the Board recommends to pay a final dividend of HK1 cent per share to shareholders whose names appear on the Register of members of the Company on 3 September 2010.

(IV) Geographical Distribution

The Group has always adopted a diversified approach in transporting its goods and does not rely on one single market. Details are set out in segment information Note 2 of the Financial Statements.

(V) Prospects

With the slow recovery of the global economy, the number of shipments is gradually increasing. The Group takes an optimistic but cautious view in respect of our prospects. We hope that we will attain for a low double digit growth next year. However, certain crises lie ahead:

(1) Fluctuation of exchange rate

The yuan rate reform has been proposed by China recently and that will increase the volatility of the yuan’s exchange rate. It means that yuan will not have a one-off revaluation and the market expects that yuan will appreciate moderately. Accordingly, our operational costs will be increased. The volatility of yuan will create uncertainties to the Group.

(2) Debt crisis

Sovereign debt in certain European Countries remain at a high level, which is far out of the limits set forth by the European Union. This European credit crisis adversely affects the financial market and slows down the pace of recovery from the recession. It is still uncertain whether this debt crisis is same as the sub-prime mortgage crisis. The concern is that the spread of the debt crisis may trigger a financial turmoil for a second time and affect, to a certain extent, the orders from Europe.

(3) *Labour costs*

There have been protests organised by workers in the PRC recently. There are signs that more protests will be taking place. Workers are now demanding higher wages and better benefits. They are demanding for more rights to protect their own interests. In addition, the statutory minimum wages in the PRC had been increased in May and the labour costs will rise inevitably.

The rise of wages brings challenge to the Group but we hope to limit its impact. In fact, we had already raised the wages of our workers before the implementation of the statutory required minimum wages. We try our best to address to workers' demand and take active steps to discuss with workers on the basis of openness and mutual understanding so as to reach "All Wins" situations.

(4) *Plant's production*

Customers put more emphasis on production with low carbon emissions and "Green Production". As the cost of "Green Production" has increased, our production costs have also increased.

Dongguan possesses a sound city infrastructure and the suppliers of raw materials and electronic components are closely located. Furthermore, the board of directors of the Company believes that the rise of production costs can be tackled by adopting strict cost control measures and increasing production efficiency. Therefore, the Group has no intention to relocate our production plants in Dongguan to other relatively less economic developed outlying Provinces or nearby countries. The removal of plants in Dongguan will bring merely short term benefits. The other local governments may increase their levies and reduce their special credits several years later, thus eliminating those benefits derived from the removal of the production plants. In addition, the quality of labour and expertise is comparatively lower in such other regions or countries and it is more difficult to manage the workforce in other countries because of the cultural difference. The insufficiency of the supply chain and related supportive business is also a drawback. Accordingly, Dongguan, remains the best location for us to have our production plant.

(5) *Diversification*

The manufacturing sector faces many difficulties in many aspects in the current market environment. If The Group does not make any change to tackle the obstacles in the current market environment, it is likely our business will diminish gradually and cannot grow in the future. In order to balance our income and profit, the Group needs to seek breakthrough and innovation to diversify its business. There are two levels of diversification:

(i) *Diversification under principal business activities:*

The Group devotes to broaden our sources and bases of customers. We also explore new products like clinical equipments, motor vehicle products, visual accessories, and assembly of ATM parts. We have been seeking to understand the relevant standards, to collect information and to train necessary personnel so as to gain professional knowledge rapidly. Shipments of some of the new products had already been started in the financial year of 2010/11.

(ii) *Diversification of the non-principal business activities:*

Manufacturing production can no longer be undertaken based on the traditional production model that is not energy efficient. New production model shall be adopted to achieve the principle of energy saving, emission reduction and environmental protection so as to comply with the “Three Low and One High” and “New cages for new birds” policies in China. With the increasing production costs, the risk that the Group will become greater if the Group chooses to rely solely on its manufacturing business. Therefore, at the end of 2007 (at time of rights issue), the Chairman of the Group (the “Chairman”) had explored the possibility of engaging other businesses to broaden our source of income and maximise the shareholders’ return. As the current macro-economic environment is becoming more mature, local provisional authorities in the PRC encourage the industrial sector to change their business model to that of the service sector so as to activate local economy.

In fact, the Chairman has decided that Karrie Group should be specialized in industrial production and the Chairman personally has started developing properties, hotel, and specialising in tourism industry and other leisure vacation businesses since the Asian Financial Turmoil in 1997. The Chairman always thinks that industrial production can stimulate population flow for the purpose of establishing an independent small community and he therefore strives to implement the appropriate business model to achieve such idea. The Chairman believes that the local economy and community construction can be improved by appropriate business model in industrial production. The Chairman established Wedding City, hotels, supermarket, shopping mall, residential properties and various leisure facilities around our factories in Fenggang and Yantien to stimulate the economy of the surrounding areas. The establishment is well regarded with the support and trust from the local government. The Chairman believes he can assist the Group in developing and operating other types of business with his experience in those industries. The Group is still in the stage of exploration and does not have any concrete plan at the moment.

Conclusion

After the financial turmoil last year, the global economy has become more stable and the worse time has passed. Although the Group faced numerous risks during the global financial turmoil, we were able to minimise the impact of the risk and maintain the stability of our financial performance by enhancing our corporate governance level, strictly controlling our costs and improving our system.

Both opportunities and challenges lie ahead in the forthcoming year. We shall adopt the objective of “Vision Leads New Sky” to face the challenges. Meanwhile, we shall be devoted to grow diversely to create the new opportunities for the Group.

The Group’s unaudited turnover for the two months ended 31 May 2010 was HK\$457,324,000 (2009/10: HK\$295,406,000), as the unaudited turnover for these two months may not reflect the final results for the year ended 31 March 2011, investors and shareholders should exercise caution when dealing in the shares of the Company.

FINANCIAL RESOURCES

Robust Cash Generating Ability

With the new Capex cycle slowing down, the Group has taken a group-wide effort to improve the cash cycle. As a result, the Group maintains a net cash inflow from operating activities of HK\$107,446,000 as compared to last year's net cash inflow of HK\$147,441,000 despite a 9% decrease in turnover.

Non-current Assets to Shareholders' Fund Ratio staying below 1

The Non-current assets to Total Equity Ratio stayed at a healthy level of 78% (2008/09: 69%). This means that the Group is using long term shareholders' fund to finance non-current assets such as plants and machinery. The sole purpose of the existing bank borrowings is to finance the working capital.

Financing for Growth

As at 31 March 2010, the net bank balance was approximately HK\$31,485,000. As such, we still expect the net gearing ratio will stay at a level of below 35%. We are also following our house rule of using our profit after tax and proceeds from the Rights Issue to finance our capital expenditures:

HK\$ million	Financing Capex by Profit									
	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Profit After Tax	26	78	120	90	147	186	125	13	20	9
Depreciation and Amortisation	39	34	32	34	38	50	54	60	57	48
Proceeds of Rights Issue	—	—	—	—	—	—	—	122	—	—
	65	112	152	124	185	236	179	195	77	57
Less:										
CAPEX	65	15	24	59	62	92	92	199	115	83
Dividend/Dividends To Be Distributed	42*	113*	92*	82	86	103*	47	4	9	6
(Deficit)/Surplus	(42)	(16)	36	(17)	37	41	40	(8)	(47)	(32)
(Net Bank Borrowings)/Net Cash	(51)	64	34	(6)	(234)	(112)	(141)	(52)	36	31
(Net Gearing Ratio)/Net Cash Ratio	<u>(16%)</u>	<u>18%</u>	<u>9%</u>	<u>(1%)</u>	<u>(56%)</u>	<u>(21%)</u>	<u>(25%)</u>	<u>(8%)</u>	<u>5%</u>	<u>4%</u>

* Including special dividend

Resources Available

Total bank borrowings is about HK\$387,830,000. The Directors are confident that the cash in hand and bank balances of HK\$419,315,000 with banking facilities of HK\$1,229,790,000, the Group is able to meet its current operational and capital expenditure requirements and to make strategic investments when opportunities arise.

Exchange Rate Exposure

Most of 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 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 in order to adjust the selling prices of its products to mitigate the impact of the appreciation of the RMB on its business.

Contingent Liabilities

As at 31 March 2010, the Group had no significant contingent liabilities.

Tea-break with Individual Investors

We are glad that the "tea-break with individual investors" has been successfully held for 14th times. Owing to the sluggish market sentiment, particularly due to the lack of interests among investors in the shares of small industrial enterprises, the attendance rate 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 these principles 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-break with individual investors but will only hold the tea-break once annually (provisionally to be held in August 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-break per year. The next tea-break is scheduled on 6 August 2010 from 7 p.m. to 9 p.m. at Hover City Chiuchow Restaurant, 1/F., Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon (Lai Chi Kok MTR Station Exit). As part of the Group's social responsibility efforts, participants will be asked to donate at least HK\$100 to charity and the Group will match the donation up to a maximum of HK\$10,000. 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. Application form can be downloaded from the website or obtained by calling 2411-0913 during office hours. Since seats are limited, the Group will allocate the quota by lot if the total number of application is more than the seats available. Only investors whose applications are confirmed can join the function. Investors are advised to grasp this opportunity to communicate directly with the management of the Company.

EMPLOYEES AND REMUNERATION POLICIES

At the end of March 2010, the Group had approximately 5,650 employees (approximately 6,770 employees at the end of March 2009). With a good reputation in the local community, the Group has rarely encountered major difficulties in recruiting employees.

Employee remuneration packages are determined in accordance with prevailing market standards and the employee's performance and experience. The Group will also grant bonuses to employees with outstanding performance based on its own audited business performance and the appraisal and reward system. Other employee benefits include medical insurance, "Cooperative Home & Car Ownership Scheme" and mandatory provident fund.

Performance Based Incentives

The standard 13th month pay was abolished in 2002 and replaced by a performance based bonus system and more objective performance assessment. Employees with outstanding performance will receive bonus higher than what they would have received before the new system was implemented.

Dividend

The Board has recommended to pay a final dividend of HK1 cent (2008/09: HK1.5 cents) per share to shareholders whose names appear on the Register of members of the Company on 3 September 2010. Together with the interim dividend, total dividend paid for this year amounted to HK1 cent (2008/09: HK1.5 cents) per share. The final dividend, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 3 September 2010, will be payable to those entitled on 20 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 30 August 2010 to Friday, 3 September 2010 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2010 and for attending the Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 27 August 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year.

Neither the Company nor any of its subsidiaries has purchased or sold 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 2010, the Company had applied the principles and complied with the requirements set out in the Corporate Governance Code (the “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 separated 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 which are the prerequisites 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 allows 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 Mr. Ho shall continue in his dual capacity as the Chairman and the Chief Executive Officer.

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 AGM 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 of the Company 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.

AUDIT COMMITTEE

The Company has established an audit committee made up of one non-executive director and three independent non-executive directors whose duties include reviewing and supervising the Company’s financial reporting process and internal control systems. The audit committee and the management have reviewed the accounting principles and major policies adopted by the Group and have discussed the auditing, internal control and financial reporting with the external auditors during the year. The audit committee has reviewed the consolidated results of the Group for the year ended 31 March 2010.

APPRECIATION

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

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, 19 July 2010

* *For identification purpose only*