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 2011

HIGHLIGHTS

– Revenue decreased by 20% to HK$1,113,688,000

– Profit attributable to equity holders of the Company was HK$5,227,000

– Basic earnings per share was HK0.60 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 2011 as follows:

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2011

	Note	30 September 2011 (Unaudited) HK$'000	31 March 2011 (Audited) HK$'000
ASSETS			
Non-current assets			
Land use rights		**62,133**	62,697
Property, plant and equipment		**466,297**	486,768
Investment properties		**202,800**	108,932
Investments in associated companies		**26,272**	27,921
Other non-current assets	5	**536**	825
Deferred tax assets		**941**	941
		758,979	688,084
Current assets			
Inventories		**328,469**	317,706
Trade receivables	5	**407,725**	378,929
Amount due from an associated company		**3,141**	3,779
Prepayments, deposits and other receivables	5	**88,374**	82,892
Time deposit		**96,000**	96,000
Cash and bank balances		**150,828**	196,954
		1,074,537	1,076,260
Total assets		**1,833,516**	1,764,344
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**86,810**	86,810
Other reserves		**348,609**	351,032
Retained earnings			
– Proposed final dividend		**–**	9,549
– Others		**417,973**	412,746
		853,392	860,137
Non-controlling interests		**424**	40,513
Total equity		**853,816**	900,650

	Note	**30 September 2011 (Unaudited) *HK$'000***	31 March 2011 (Audited) *HK$'000*
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**6,724**	5,340
Provision for long service payments		**9,520**	9,520
		16,244	14,860
Current liabilities			
Trade payables	*6*	**380,403**	294,995
Accruals and other payables		**178,680**	165,404
Receipts in advance		**7,548**	1,749
Amount due to an associated company		**890**	357
Tax payable		**19,479**	21,445
Short-term bank borrowings	*7*	**376,456**	364,884
		963,456	848,834
Total liabilities		**979,700**	863,694
Total equity and liabilities		**1,833,516**	1,764,344
Net current assets		**111,081**	227,426
Total assets less current liabilities		**870,060**	915,510

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Note	For the six months ended 30 September **2011** (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000* (restated)
Revenue	*8*	**1,113,688**	1,385,997
Cost of sales		**(1,028,104)**	(1,292,390)
Gross profit		**85,584**	93,607
Distribution and selling expenses		**(18,657)**	(16,410)
General and administrative expenses		**(61,860)**	(64,712)
Increase in fair value of investment properties	*9*	**5,536**	–
Operating profit	*10*	**10,603**	12,485
Finance income		**2,027**	1,420
Finance costs		**(3,248)**	(3,188)
Finance costs, net	*11*	**(1,221)**	(1,768)
Share of (losses)/profits of associated companies		**(1,649)**	753
Profit before income tax		**7,733**	11,470
Income tax (expense)/credit	*12*	**(2,217)**	1,568
Profit for the period		**5,516**	13,038
Profit attributable to:			
Equity holders of the Company		**5,227**	11,343
Non-controlling interests		**289**	1,695
		5,516	13,038
Earnings per share attributable to equity holders of the Company (HK cents)			
– Basic and diluted	*13*	**0.60**	1.97

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**5,516**	13,038
Other comprehensive income/(expense):		
Currency translation differences	**42**	(1)
Total comprehensive income for the period	**5,558**	13,037
Total comprehensive income attributable to:		
Equity holders of the Company	**5,279**	11,342
Non-controlling interests	**279**	1,695
Total comprehensive income for the period	**5,558**	13,037

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(restated)
Profit before income tax	**7,733**	11,470
Depreciation of property, plant and equipment	**24,933**	23,075
Amortisation of land use rights	**564**	564
Share-based compensation expense	**817**	2,350
Share of losses/(profits) of associated companies	**1,649**	(753)
Losses on disposal of property, plant and equipment	**818**	9
Interest income	**(2,027)**	(1,420)
Interest paid	**3,248**	3,188
Written-off of trade and other receivables	**97**	–
Reversal of provision for impairment of other receivables	**(343)**	–
Increase in fair value of investment properties	**(5,536)**	–
Operating profit before working capital changes	**31,953**	38,483
Changes in working capital	**61,170**	(193,774)
Cash generated from/(used in) operations	**93,123**	(155,291)
Interest paid	**(3,248)**	(3,188)
Hong Kong profits tax paid	**(2,821)**	–
Net cash generated from/(used in) operating activities	**87,054**	(158,479)
Net cash used in investing activities	**(135,245)**	(20,653)
Net cash generated from financing activities	**2,023**	84,713
Net decrease in cash and cash equivalents	**(46,168)**	(94,419)
Cash and cash equivalents at 1 April	**196,954**	328,003
Effect of foreign exchange rate changes	**42**	(1)
Cash and cash equivalents at 30 September	**150,828**	233,583

Analysis of cash and cash equivalents:

	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash and bank balances	**150,828**	233,583

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 Basis of preparation

This condensed consolidated financial information for the six months ended 30 September 2011 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 ("HKICPA"). The condensed consolidated financial information has not been audited, but has been reviewed by the Group's audit committee.

This condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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 2011, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(i) Amendments to standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 April 2011.

- Amendment to HKAS 34 "Interim financial report" is effective for annual period beginning on or after 1 April 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on disclosure principals for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

- Third improvements to HKFRSs (2010) issued in May 2010 by the HKICPA are effective for the financial year beginning 1 April 2011.

  - HKFRS 3 (Revised) "Business combinations"

  - HKFRS 7 "Financial Instruments: Disclosures"

  - HKAS 1 "Presentation of financial statements"

  - HKAS 27 "Consolidated and separate financial statements"

(ii) Amendments and interpretations to existing standards effective for the financial year beginning 1 April 2011 but not relevant to the Group

- HKAS 24 (Revised) "Related party disclosures – Change of definition of related party"

- Amendments to HK(IFRIC) Int-14 "Prepayments of a minimum funding requirement"

- HK(IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments"

- Third Improvements to HKFRSs(2010) issued in May 2010 by HKICPA on HK(IFRIC)-Int 13 "Customer loyalty programmes"

(iii) The following new standards and amendments to standards have been issued but are only effective for the financial years beginning after 1 April 2011 and have not been early adopted. The Group is assessing the impact of these amendments and standards. The Group will apply these amendments and standards when respective annual periods are effective.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	"Presentation of financial statements"	1 July 2012
HKAS 12 (Amendment)	"Deferred tax: Recovery of underlying assets"	1 January 2012
HKAS 19 (Amendment)	"Employee benefits"	1 January 2013
HKFRS 7 (Amendment)	"Disclosure – Transfer of financial assets"	1 July 2011
HKFRS 9	"Financial Instruments"	1 January 2013
HKFRS 10	"Consolidated financial statements"	1 January 2013
HKFRS 11	"Joint arrangements"	1 January 2013
HKFRS 12	"Disclosure of interests in other entities"	1 January 2013
HKFRS 13	"Fair value measurements"	1 January 2013

3 Estimates

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as these that were applied to the consolidated financial statements for the year ended 31 March 2011.

4 Segment information

The Group's chief operating decision-maker ("management") 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.

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.

Revenue consists of sales from metal and plastic business, electronic manufacturing services business and other business, which are approximately HK$463,651,000, HK$646,058,000 and HK$3,979,000 respectively for the six months ended 30 September 2011 and HK$439,843,000, HK$943,057,000 and HK$3,097,000 for the six months ended 30 September 2010.

Revenues recognised during the period are as follows:

	For the six months ended 30 September 2011 (Unaudited)			
	Metal and plastic business	**Electronic manufacturing services business**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenues				
Total segment revenue	**517,968**	**646,058**	**3,979**	**1,168,005**
Inter-segment revenue	**(54,317)**	**–**	**–**	**(54,317)**
Revenue from external customers	**463,651**	**646,058**	**3,979**	**1,113,688**
Gross profit	**56,019**	**25,586**	**3,979**	**85,584**
Distribution and selling expenses and general and administrative expenses	**(43,528)**	**(36,739)**	**(250)**	**(80,517)**
Increase in fair value of investment properties	**–**	**–**	**5,536**	**5,536**
Operating profit/(loss)	**12,491**	**(11,153)**	**9,265**	**10,603**

	For the six months ended 30 September 2010 (Unaudited)			
	Metal and plastic business	Electronic manufacturing services business	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	(restated)	(restated)	(restated)
Segment revenues				
Total segment revenue	516,373	943,057	3,097	1,462,527
Inter-segment revenue	(76,530)	–	–	(76,530)
Revenue from external customers	439,843	943,057	3,097	1,385,997
Gross profit	47,371	43,139	3,097	93,607
Distribution and selling expenses and general and administrative expenses	(41,370)	(39,752)	–	(81,122)
Operating profit	6,001	3,387	3,097	12,485

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

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(restated)
Operating profit	**10,603**	12,485
Finance income	**2,027**	1,420
Finance costs	**(3,248)**	(3,188)
Share of (losses)/profits of associated companies	**(1,649)**	753
Profit before income tax	**7,733**	11,470

Geographical information

	For the six months ended 30 September	
	(Unaudited)	(Unaudited)
	2011	2010
	HK$'000	*HK$'000*
Japan	**121,106**	70,091
Hong Kong	**165,505**	165,646
Mainland China	**316,110**	355,857
Asia (excluding Japan, Hong Kong and Mainland China)	**109,255**	181,230
North America	**94,684**	115,941
Western Europe	**307,028**	497,232
Total revenue	**1,113,688**	1,385,997

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

The Group's sales were made primarily to a few key customers. For the six months ended 30 September 2011, the turnover derived from five largest customers accounted for approximately 83% (2010: 83%) of the Group's total turnover.

5 Trade receivables, prepayments, deposits and other receivables

	30 September 2011	31 March 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**414,356**	385,560
Other receivables	**65,300**	72,560
	479,656	458,120
Less: Provision for impairment of trade and other receivables	**(7,031)**	(7,374)
	472,625	450,746
Prepayments	**6,208**	5,295
Deposits	**17,802**	6,605
	24,010	11,900
Less: Other non-current assets *(Note)*	**(536)**	(825)
	23,474	11,075
	496,099	461,821
Representing:		
Trade receivables, net of provision	**407,725**	378,929
Prepayments, deposits and other receivables, net of provision	**88,374**	82,892
	496,099	461,821

Note: Other non-current assets represent deposits paid for purchase of property, plant and equipment.

The Group generally grants credit periods ranging from 30 to 90 days. Aging analysis of trade and other receivables is as follows:

	30 September 2011 (Unaudited) *HK$'000*	31 March 2011 (Audited) *HK$'000*
0 to 90 days	**469,633**	444,512
91 to 180 days	**5,337**	5,071
181 to 360 days	**1,775**	4,468
Over 360 days	**2,911**	4,069
	479,656	458,120

As at 30 September 2011, trade and other receivables of approximately HK$7,031,000 (31 March 2011: HK$7,374,000) were impaired for which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long aging balances, and the remaining balances were grouped for collective assessment according to their aging and historical default rates as these customers were of similar credit risk.

The creation and release of provision for impaired trade and other receivables have been included in general administrative expenses in the condensed consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in financial statements.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables, prepayments, deposits and other receivables above. The Group did not hold any collateral as security.

6 Trade payables

Aging analysis of trade payables is as follows:

	30 September 2011 (Unaudited) *HK$'000*	31 March 2011 (Audited) *HK$'000*
0 to 90 days	**370,711**	281,854
91 to 180 days	**3,601**	2,352
181 to 360 days	**1,340**	4,806
Over 360 days	**4,751**	5,983
	380,403	294,995

7 Borrowings

	30 September 2011 (Unaudited) *HK$'000*	31 March 2011 (Audited) *HK$'000*
Trust receipt loans	**70,156**	39,184
Portion of bank borrowings repayable within one year	**213,000**	210,000
Portion of bank borrowings due for repayment after one year which contains a repayment on demand clause	**93,300**	115,700
Total borrowings	**376,456**	364,884

All borrowings are with a contractual maturity of within one year as a result of the repayment on demand clauses.

The average effective interest rates of the Group's bank borrowings at the balance sheet date are as follows:

	30 September 2011 (Unaudited)	31 March 2011 (Audited)
Bank borrowings, at floating rate	**1.70%**	1.50%
Trusts receipt loans	**1.77%**	2.07%

8 Revenue

	For the six months ended 30 September	
	2011 (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000*
Turnover		
Sales of merchandise from		
– Metal and plastic business	**463,651**	439,843
– Electronic manufacturing services business	**646,058**	943,057
	1,109,709	1,382,900
Other gains		
Rental income	**2,791**	1,909
Management fee income	**1,188**	1,188
	3,979	3,097
Total revenue	**1,113,688**	1,385,997

9 Increase in fair value of investment properties

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Movement in fair value of investment properties credited to the condensed consolidated income statement	**5,536**	–

10 Expenses by nature

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**24,933**	23,075
Amortisation of land use rights	**564**	564
Employee benefit expenses (including directors' emoluments)	**168,049**	162,461

11 Finance costs, net

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance costs:		
– Interest expenses on bank borrowings wholly repayable within five years	**(3,248)**	(3,188)
Finance income:		
– Interest income from bank deposits	**2,027**	1,420
Net finance costs	**(1,221)**	(1,768)

12 Income tax (expense)/credit

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period. The amount of tax charged/(credited) to the condensed consolidated income statement represents:

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(restated)
Current taxation:		
– Hong Kong profits tax		
– current period	**833**	1,173
– Overseas taxation		
– current period	**–**	784
– over-provision in prior years	**–**	(3,525)
Deferred taxation	**1,384**	–
Income tax expense/(credit)	**2,217**	(1,568)

13 Earnings per share

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

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company *(in HK$'000)*	**5,227**	11,343
Weighted average number of ordinary shares in issue *(in thousands)*	**868,098**	577,098
Basic earnings per share *(HK cents)*	**0.60**	1.97

There was no dilutive effect on earnings per share for both periods ended 30 September 2010 and 2011 since all outstanding share options were anti-dilutive.

14 Dividend

The dividend for the year ended 31 March 2011 amounting to HK$9,549,000 was paid in September 2011 (2010: HK$5,771,000).

The board of directors did not recommend the payment of an interim dividend for the six months ended 30 September 2011 (30 September 2010: Nil).

15 Commitments and contingent liabilities

Capital commitments

The Group had the following authorised and contracted capital commitments:

	30 September 2011	31 March 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Construction of investment properties in Mainland China	**–**	71,850
Purchase of property, plant and equipment	**739**	2,141
	739	73,991

16 Comparative figures

Certain 2010 comparative figures have been reclassified from "general and administrative expenses" to "cost of sales", "distribution and selling expenses" and "income tax (expense)/credit" to conform to the current period's presentation. There is no impact on the profit for the period ended 30 September 2010 after reclassification.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2011 (the "Relevant Period") (For the six months ended 30 September 2010: nil) in order to reserve funds for future development of the Group.

REVIEW OF OPERATIONS

Overview

The unfortunate incident of earthquake and tsunami in Japan this March forced a number of plants in Japan to close production. As Japan took a key role in the world's production of supply chain, materials supply was tightened momentarily. Other countries were unable to fill the gap in materials supply and global production was therefore affected. The adverse impacts of the catastrophe in Japan were reflected in the results performance of the Group for the first half of the year. The production of the Group was inevitably affected by the delay in materials supply, resulting in delays in customers' orders and deliveries.

In addition, given the unsatisfactory economic recovery, sprawling European debt crisis and slow progress of the US economic performance, the risk of global economic recession increased significantly, causing exports to slow down and orders to shrink. As stated in the 2010/11 annual report (see page 24 of the 2010/11 annual report), the Group continued to face the problem of "three aspects of shortages and two aspects of high costs". Despite flexible and responsive measures taken, the results performance for the first half of the year remained adversely affected.

Turnover of the Group for the six months ended 30 September 2011 dropped by 20% to HK$1,109,709,000 (For the six months ended 30 September 2010: HK$1,382,900,000).

Electronic Manufacturing Services Business ("EMS Business")

In light of the tightening materials supply, the EMS Business was adversely affected since the shipment of our printers for two of the major customers decreased significantly by approximately 40%. Turnover for the six months ended 30 September 2011 fell by 31% to HK$646,058,000 over that in the same period last year (For the six months ended 30 September 2010: HK$943,057,000).

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

Turnover of the Metal and Plastic Business for the six months ended 30 September 2011 only increased slightly by 5% to HK$463,651,000 over that in the same period last year (For the six months ended 30 September 2010: HK$439,843,000), mainly attributable to the increase in shipment of server casings for one of the customers of approximately 18%.

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 revenue of HK$109,255,000. Revenue from Japan amounted to HK$121,106,000, that from Hong Kong amounted to HK$165,505,000 and that from the PRC amounted to HK$316,110,000. Revenue from Western Europe amounted to HK$307,028,000 and revenue from North America amounted to HK$94,684,000.

INDUSTRIAL SECTOR:

Production Consolidation

The Group actively promoted automation and implemented lean production to enhance production efficiencies and synergies. In the first half of the year, the Group purchased twenty 6-axis versatile industrial robots at approximately HK$5,000,000 to reduce costs and manpower. However, production consolidation remained at early stages of implementation during the first half of the year and no significant effects were seen. Looking into the second half of the year, the Group will have to step up its efforts to implement these measures to cope with the increasingly difficult business environment.

In order to increase the gross profit margin, the Group endeavours to provide one-stop value-added services to potential customers. The Group attaches great importance to production quality and does not use pricing as a competitive strategy to increase revenue. The Group will stop the production of some low-profit products and will continue to do so in the future. This will help increase customer concentration and better utilise the resources to serve potential customers.

Yixing Plant

After two years of production and operation, the Group considers that the fundamental facilities in the surrounding area of Yixing Plant are inadequate and suppliers are also scattered. In addition, logistics costs and operating costs are high given its location in the Yangtze River Delta Region, which is relatively far from the plants in the Pearl River Delta Region, and it is difficult to manage. Accordingly, operation was temporarily suspended in November this year and production was then concentrated in Dongguan Plant to minimise unnecessary operating expenses and further capital expenditures. Yixing Plant may be used for future expansion of production capacity depending on customers' needs or sold according to market conditions. However, no final decision has been made at present.

Acquisition

On 21 September 2011, Karrie Technologies Company Limited, an indirect wholly-owned subsidiary of the Company, and Sagemcom entered into an agreement to acquire the entire 40% interest held by Sagemcom in Sagem Karrie Technologies (Hong Kong) Company Limited ("SKT") (the "Acquisition"). The Acquisition was completed on 30 September 2011 and the relevant circular was despatched to shareholders on 13 October 2011. Upon completion of Acquisition, SKT has become an indirect wholly-owned subsidiary of the Company, and the existing joint venture shareholders' agreement and its related agreements have been terminated accordingly. The Acquisition is evident that the Group remains adhered to its principal business activities and is growing steadily.

The reason for Acquisition is that, as the Group has now ventured into a new era of development, the Directors consider that the existing joint venture arrangement with Sagemcom will no longer be in the best interest for the Group's future development. The Directors believe that the Acquisition will enhance the Group's flexibility to maximise its manufacturing operational efficiency and to explore new development opportunities. The Directors further believe that the new business model will enhance the Group's profitability through the full beneficial shareholding and control in SKT and strengthen the Group's market position and foundation for long-term development.

Joint Venture Companies

Despite that a slight loss was recorded for the first half of the financial year, TIS Karrie Technologies (H.K.) Company Limited expects to increase revenue, strictly control costs and enhance production efficiency in the future in order to achieve turnaround.

PROPERTIES DEVELOPMENT SECTOR:

Yixing Commercial Hotel Project

The external structure of the 21-storey building, Yixing Commercial Hotel Building, has been completed and is expected to seal the top early next month. It is expected that internal finishing will take around one year to complete and marketing will be kicked off in the middle of next year. It is anticipated that by the end of 2012, the building will commence operation officially and will generate stable revenue to the Group.

Capital expenditure ("Capex")

As stated on page 22 of the 2010/11 annual report, the Capex for industrial sector and properties development sector for 2011/12 is initially fixed at approximately HK$55,000,000 and approximately HK$110,000,000 respectively.

From 1 April 2011 to 31 October 2011, the Capex for industrial sector and properties development sector amounted to approximately HK$9,500,000 and approximately HK$89,500,000 respectively.

Prospects

1. In spite of the framework agreements entered into among various European countries to solve the European debt problem and the leveraging of the European financial stability facility to put off the European debt crisis, the impacts of economic downturn in Europe and the US will continue to linger. Moreover, as the problem of "three aspects of shortages and two aspects of high costs" persists, the Group must be prepared to face tough and severe conditions for the rest of the year.

2. The Group's interim results are not satisfactory and the Group is not optimistic about the economy in the second half of the year given the continuing European debt crisis, slow economic recovery in the US and recurrent social unrests in Egypt, where the supply of electronic components is further affected by the flooding in Thailand. Accordingly, it is expected that turnover for the second half of the year will experience a low double-digit decrease. The Group will use its best endeavours to enhance production efficiency and launch cost effective measures with a view to achieving turnaround in the results performance for the financial year.

3. In general, the Group will face more challenges in the future and must pursue excellence, create value and optimise production. Accordingly, the Group shall endeavour to make upgrades and transform business in an innovative way. Decisive measures taken are as follows:

a.	Lean production:	The Group has to continue to enhance production capacity and reduce production expenses. Accordingly, the Group will from time to time optimise the production flow and standardise work procedures, and encourage all staff to comply with such. The Group will conduct comprehensive quality control to eliminate idleness and wastage; reduce inventory, defective products, substandard products and waste products; and make timely delivery to improve cost effectiveness and operating efficiency and increase its ability to respond to market.
b.	Equipment automation:	Given the rising wages, the Group must target at its intensive labour operation to reduce the pressure of increasing labour costs, labour shortage and turnover. It is expected that a total of forty 6-axis versatile industrial robots will be purchased in 2011/12 (of which twenty robots are in operation). This will increase capital investment, but it is highly efficient in the long run with stable production and assuring quality.
c.	Management innovation:	In order to effectively provide one-stop production services, the Group also attempts to subcontract its production procedures. Accordingly, the Group will focus on handling customers' orders and production quality where the subcontractors will act as partners of the Group to be in charge of production and operation. The Group initially plans to improve mould design and production efficiency through subcontracting incentive scheme and venturing scheme.
d.	Upgrade and transformation:	To cope with the strategic development in China, the domestic plants have begun their upgrade and transformation from a contract processing factory to a wholly-owned foreign enterprise. The upgrade and transformation do not affect normal operation and production but build confidence of customers on our production and help explore sales opportunities in China.
e.	Diversified development:	The Group, on the one hand, specialises in its principal businesses and achieves steady growth. On the other hand, it also explores different business opportunities in both its principal business and non-principal business to maximise the shareholders' returns. Currently, diversification, whether principal activities or non-principal activities, has no immediate nor substantial effect on the results for this financial year. On the contrary, capital investment is required. Only new products, new customers, new technologies and new businesses can generate long-term benefits for the Group. It is expected that the Yixing Commercial Hotel Project will generate revenue to the Group by the end of 2012. The Group shall take into account the operating conditions of the Yixing Commercial Hotel Project and economic environment to assess the future development of diversified projects including hotels, tourism, properties, cultural industries and wedding theme cities. No final decision has been made at present.

4. The Group's unaudited turnover in October 2011 was approximately HK$188,000,000 (October 2010: HK$215,000,000). However, as such unaudited turnover amounts may not reflect the results performance for the year ended 31 March 2012, investors and shareholders should exercise caution when dealing in the shares of the Company.

Liquidity resources and financing policies

The Group has been focusing on its own core business and follows a prudent financial policy.

As at 30 September 2011, the unaudited net bank borrowing was approximately HK$129,628,000 and the net gearing ratio was approximately 15% (the net gearing ratio was approximately 22% as at 30 September 2010). It is expected that by the end of financial year 2011/12, the net gearing ratio will remain at less than 35%. As the non-current asset to shareholders' fund ratio remains at a level of 89%, the financial position is still acceptable.

The bank borrowing was HK$376,456,000. With the cash and bank deposit of HK$246,828,000 and the banking facilities of approximately HK$1,558,600,000, the Group is confident to meet its current and future operational and capital expenditure requirements.

Exchange Rate Exposure

All the Group's assets, liabilities and transactions are mainly 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 adjusting its products' selling prices to mitigate the impact of the appreciation of the RMB on its business.

Contingent Liability

As at 30 September 2011, the Group had no significant contingent liabilities.

Employee and Remuneration Policies

During the Relevant Period, the number of employees has dropped from average about 7,900 same period last year to around 6,400 as at 30 September 2011. With a strong reputation in the local community, the Group had not experienced any serious labour shortage problem.

Like many other manufacturers in the Guangdong Province, the Group had also experienced labour shortage and high turnover rate situation in recent months. We still adopt "human" approach to manage our staff so as to establish a harmonious working atmosphere. We work together for a "New Sky".

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 and he was re-designated as Non-executive Director and Deputy Chairman on 1 May 2011 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, Lee Shu Ki and Ms. Chan Ming Mui, Silvia; 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
Karrie International Holdings Limited
Ho Cheuk Fai
Chairman

Hong Kong, 29 November 2011

* *For identification purpose only*