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 2005

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HIGHLIGHTS

- Turnover rose by 53% to HK$1,764,989,000
- Profit attributable to shareholders rose by 31% to HK$81,126,000
- Basic earnings per share rose by 29% to HK19.83 cents
- Dividend per share of HK9.0 cents (2004/05 interim: HK8.5 cents)

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Karrie International Holdings Limited (the "Company") announced the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Note	For the six months ended 30 September **2005** **(Unaudited)** ***HK$'000***	2004 (Unaudited) *HK$'000* (Restated)
Turnover	*3*	**1,764,989**	1,153,438
Cost of sales		**(1,592,215)**	(1,013,068)
Gross profit		**172,774**	140,370
Other revenue	*4*	**5,312**	5,693
Distribution and selling expenses		**(13,321)**	(14,096)
General and administrative expenses		**(64,759)**	(58,746)
Operating profit	*5*	**100,006**	73,221
Share of loss of an associated company		**–**	(1,668)
Finance costs	*6*	**(11,111)**	(3,377)
Profit before taxation		**88,895**	68,176
Taxation	*7*	**(7,769)**	(6,276)
Profit for the period		**81,126**	61,900
Attributable to:			
Equity holders of the Company		**81,126**	61,900
Minority interest		**–**	–
		81,126	61,900
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic	*8*	**HK19.83 cents**	HK15.37 cents
– Diluted	*8*	**HK19.48 cents**	HK15.24 cents
Interim dividend	*9*	**36,877**	34,401

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2005

	Note	**As at 30 September 2005 (Unaudited)** *HK$'000*	As at 31 March 2005 (Audited) *HK$'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**217,485**	213,409
Leasehold land and land use rights		**11,719**	11,868
Deposit for land use rights		**16,417**	13,292
Deferred tax assets		**3,987**	3,987
		249,608	242,556
Current assets			
Inventories		**452,532**	440,013
Trade receivables	*10*	**609,761**	560,081
Prepayments, deposits and other current assets		**33,646**	22,618
Cash and bank deposits		**381,927**	352,665
		1,477,866	1,375,377
Total assets		**1,727,474**	1,617,933
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**40,975**	40,777
Reserves		**411,083**	375,154
		452,058	415,931
Minority interest		**424**	424
Total equity		**452,482**	416,355

LIABILITIES			
Non-current liabilities			
Long-term bank loans, secured		**150,499**	89,375
Provision for long service payments		**7,369**	7,369
Deferred tax liabilities		**10,000**	10,000
		167,868	106,744
Current liabilities			
Short-term bank borrowings, secured		**343,063**	495,829
Finance lease obligations, current portion		**–**	1,091
Trade and bills payables	*11*	**602,991**	446,601
Accruals and other payables		**144,279**	126,300
Receipts in advance		**2,451**	16,287
Taxation payable		**14,340**	8,726
		1,107,124	1,094,834
Total liabilities		**1,274,992**	1,201,578
Total equity and liabilities		**1,727,474**	1,617,933
Net current assets		**370,742**	280,543
Total assets less current liabilities		**620,350**	523,099

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Operating profit	**100,006**	73,221
Adjustments for non-cash items/interest/tax[1]	**5,093**	12,189
Changes in working capital	**87,306**	(60,968)
Net cash inflow from operating activities	**192,405**	24,442
Net cash outflow from investing activities	**(22,463)**	(32,455)
Net cash (outflow)/inflow from financing activities	**(140,016)**	58,063
Increase in cash and cash equivalents	**29,926**	50,050
Cash and cash equivalents, beginning of period	**352,001**	244,419
Cash and cash equivalents, end of period	**381,927**	294,469

Analysis of cash and cash equivalents:

	As at 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cash and bank deposits	**381,927**	294,482
Bank overdrafts	**–**	(13)
	381,927	294,469

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

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Depreciation of property, plant and equipment	**19,375**	16,926
Amortisation of leasehold land and land use rights	**149**	149
Employee share option benefits	**2,948**	2,359
Gain on disposal of property, plant and equipment	**(118)**	(426)
Interest income	**(3,995)**	(1,539)
Interest paid	**(11,111)**	(3,377)
Hong Kong profits tax paid	**(2,155)**	(1,903)
	5,093	12,189

NOTES TO THE INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION AND ACCOUNTING POLICES

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

This interim financial report should be read in conjunction with the latest annual financial report of the Group for the year ended 31 March 2005.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial report for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial report has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this report. The HKFRS standards and interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial report.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRSs

The applicable new HKFRSs adopted on this interim financial report are set out below and the comparatives have been restated, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS Int-15	Operating Leases - Incentives
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and accumulated impairment.

The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 April 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods (Note 2.6).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS-Int 15 - does not require the recognition of incentives for leases beginning before 1 January 2005.

The effect of changes in the above accounting policies on the Group's condensed consolidated balance sheet is as follows:

	As at 30 September 2005 (Unaudited)		
	HKAS 17	**HKFRS 2**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Decrease in property, plant and equipment	**(46,897)**	**–**	**(46,897)**
Increase in leasehold land and land use rights	**11,719**	**–**	**11,719**
Increase in deposit for land use rights	**16,417**	**–**	**16,417**
Decrease in deferred tax liabilities	**(893)**	**–**	**(893)**
Increase in employee share-based compensation reserve	**–**	**8,434**	**8,434**
Increase/(decrease) in retained profits	**3,743**	**(8,434)**	**(4,691)**
Decrease in fixed assets revaluation reserve	**(21,611)**	**–**	**(21,611)**

	As at 31 March 2005 (Unaudited)		
	HKAS 17	HKFRS 2	Total
	HK$'000	*HK$'000*	*HK$'000*
Decrease in property, plant and equipment	(44,178)	–	(44,178)
Increase in leasehold land and land use rights	11,868	–	11,868
Increase in deposit for land use rights	13,292	–	13,292
Decrease in deferred tax liabilities	(893)	–	(893)
Increase in employee share-based compensation reserve	–	5,486	5,486
Increase/(decrease) in retained profits	3,486	(5,486)	(2,000)
Decrease in fixed assets revaluation reserve	(21,611)	–	(21,611)

The effect of changes in the above accounting policies on the Group's condensed consolidated profit and loss account is as follows:

	For the six months ended 30 September 2005 (Unaudited)		
	HKAS 17	**HKFRS 2**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Increase in employee share option benefits	**–**	**(2,948)**	**(2,948)**
Decrease in amortisation of leasehold land and land use rights	**257**	**–**	**257**
Total increase/(decrease) in profit	**257**	**(2,948)**	**(2,691)**
Increase/(decrease) in basic earnings per share (HK cents)	**0.06**	**(0.72)**	**(0.66)**
Increase/(decrease) in diluted earnings per share (HK cents)	**0.06**	**(0.71)**	**(0.65)**

	For the six months ended 30 September 2004 (Unaudited)		
	HKAS 17	HKFRS 2	Total
	HK$'000	*HK$'000*	*HK$'000*
Increase in employee share option benefits	–	(2,359)	(2,359)
Decrease in amortisation of leasehold land and land use rights	257	–	257
Total increase/(decrease) in profit	257	(2,359)	(2,102)
Increase/(decrease) in basic earnings per share (HK cents)	0.06	(0.59)	(0.53)
Increase/(decrease) in diluted earnings per share (HK cents)	0.06	(0.58)	(0.52)

(b) New accounting policies

The accounting policies used for the interim financial report for the six months ended 30 September 2005 are the same as those set out in note 1 to the annual financial report for the year ended 31 March 2005 except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.2 *Property, plant and equipment*

Previously, land and building was stated at valuation. The increase in fair value was credited to revaluation reserve. Decrease in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss accounts. The adoption of cost method for the period ended 30 September 2005 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The effect of changes in this accounting policy can be summarised as below:

	As at 30 September 2005 (Unaudited) ***HK$'000***	As at 31 March 2005 (Unaudited) *HK$'000*
Decrease in property, plant and equipment	**(16,505)**	(16,721)
Decrease in deferred tax liabilities	**(799)**	(799)
Decrease in retained profits	**(6,778)**	(6,994)
Decrease in fixed assets revaluation reserve	**(8,928)**	(8,928)

	For the six months ended 30 September	
	2005 (Unaudited) ***HK$'000***	2004 (Unaudited) *HK$'000*
Decrease in depreciation	**216**	216
Increase in basic earnings per share (HK cents)	**0.05**	0.05
Increase in diluted earnings per share (HK cents)	**0.05**	0.05

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 *Impairment of assets*

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.5 *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.6 *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of estimates of the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium accounts when the options are exercised.

3. SEGMENT INFORMATION

(a) Business segments

An analysis of the Group's segment turnover and results for the period by business segments is as follows:

For the six months ended 30 September 2005 (Unaudited)

	Metal and plastic business *HK$'000*	**Electronic manufacturing services business** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
Turnover				
External	**682,002**	**1,082,987**	**–**	**1,764,989**
Internal	**44,605**	**–**	**(44,605)**	**–**
Segment results	**65,082**	**29,612**	**–**	**94,694**
Other revenue				**5,312**
Operating profit				**100,006**
Share of loss of an associated company				**–**
Finance costs				**(11,111)**
Profit before taxation				**88,895**
Taxation				**(7,769)**
Profit for the period				**81,126**

For the six months ended 30 September 2004 (Unaudited) (Restated)

	Metal and plastic business *HK$'000*	Electronic manufacturing services business *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Turnover				
External	515,032	638,406	–	1,153,438
Internal	25,065	–	(25,065)	–
Segment results	47,090	20,438	–	67,528
Other revenue				5,693
Operating profit				73,221
Share of loss of an associated company				(1,668)
Finance costs				(3,377)
Profit before taxation				68,176
Taxation				(6,276)
Profit for the period				61,900

(b) Geographical segments

An analysis of the Group's segment turnover and results for the period by geographical segments is as follows:

	For the six months ended 30 September 2005 (Unaudited)				
	Japan *HK$'000*	**Asia (excluding Japan)** *HK$'000*	**North America** *HK$'000*	**Western Europe** *HK$'000*	**Total** *HK$'000*
Turnover	**125,558**	**683,307**	**352,109**	**604,015**	**1,764,989**
Segment results	**7,772**	**22,539**	**30,738**	**33,645**	**94,694**

	For the six months ended 30 September 2004 (Unaudited) (Restated)				
	Japan *HK$'000*	Asia (excluding Japan) *HK$'000*	North America *HK$'000*	Western Europe *HK$'000*	Total *HK$'000*
Turnover	126,169	552,135	188,194	286,940	1,153,438
Segment results	9,052	18,236	17,144	23,096	67,528

4. OTHER REVENUE

	For the six months ended 30 September	
	2005 (Unaudited) *HK$'000*	2004 (Unaudited) *HK$'000*
Rental income	**1,317**	3,124
Management service income	**–**	1,030
Interest income	**3,995**	1,539
	5,312	5,693

5. OPERATING PROFIT

Operating profit was determined after charging the following items:

	For the six months ended 30 September	
	2005 (Unaudited) *HK$'000*	2004 (Unaudited) *HK$'000* (Restated)
Depreciation of property, plant and equipment	**19,375**	16,926
Amortisation of leasehold land and land use rights	**149**	149
Staff costs	**89,265**	77,436
Transportation	**15,482**	14,592

6. FINANCE COSTS

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on		
– bank borrowings wholly repayable within five years	**11,082**	3,294
– finance leases	**10**	68
– others	**19**	15
	11,111	3,377

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. The amount of taxation charged to the condensed consolidated profit and loss account represents:

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current Hong Kong profits tax	**7,769**	6,276

There is no share of associate's taxation for the six months ended 30 September 2005 (2004: Nil) as there is no assessable profit during the period.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2005 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$81,126,000 (2004: HK$61,900,000) and on the weighted average number of approximately 409,045,000 (2004: 402,819,000) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2005 is based on the consolidated profit attributable to the equity holders of the Company of approximately HK$81,126,000 (2004: HK$61,900,000) and on the weighted average number of approximately 416,365,000 (2004: 406,050,000) shares in issue, after adjusting for the potential dilutive effect in respect of outstanding share options.

9. INTERIM DIVIDEND

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim dividend:		
HK9.0 cents (2004: HK8.5 cents) per share	**36,877**	34,401

10. TRADE RECEIVABLES

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

	As at 30 September 2005 (Unaudited) ***HK$'000***	As at 31 March 2005 (Audited) *HK$'000*
0 to 90 days	**587,701**	472,358
91 to 180 days	**15,192**	76,428
181 to 360 days	**6,831**	9,917
Over 360 days	**37**	1,378
	609,761	560,081

11. TRADE AND BILLS PAYABLES

	As at 30 September 2005 (Unaudited) ***HK$'000***	As at 31 March 2005 (Audited) *HK$'000*
0 to 90 days	**585,124**	430,671
91 to 180 days	**14,346**	13,750
181 to 360 days	**1,417**	1,072
Over 360 days	**2,104**	1,108
	602,991	446,601

12. CAPITAL COMMITMENTS

The Group had the following authorised and contracted capital commitments:

	As at	
	30 September 2005 (Unaudited) ***HK$'000***	**31 March 2005 (Audited)** ***HK$'000***
Contracted but not provided for		
– Investment in a subsidiary	**24,000**	24,000
– Purchase of land use rights	**4,770**	7,780
– Construction of buildings	**22,369**	–
– Purchase of plant and machinery	**832**	1,820
	51,971	33,600

13. PLEDGE OF ASSETS

As at 30 September 2005, the Group's banking facilities were secured by:

(i) mortgages over certain of the Group's land and buildings in Mainland China with a net book value of approximately HK$9,955,000 (31 March 2005: HK$10,077,000); and

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

DIVIDEND

The Board declared an interim dividend of HK9.0 cents (2004/05 interim: HK8.5 cents) per share for the six months ended 30 September 2005 to eligible shareholders whose names appear on the Register of members of the Company on 8 December 2005. The interim dividend will be payable in cash on or about 15 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operation

Mounting New Height

For the six months ended 30 September 2005, turnover rose 53% to HK$1,764,989,000 (2004/05 interim: HK$1,153,438,000) while profit attributable to shareholders increased by 31% to HK$81,126,000 (2004/05 interim: HK$61,900,000). Both figures, aside from representing record highs for the Group for interim results since public flotation in December 1996, signify the continuation of the growth momentum since the completion of consolidation period in 2003/04 (2003/04 interim report, P.21).

– Despite the constant threats of high oil price and high interest rate, the two mega trends of resumption of worldwide technology spending and out-sourcing of production by our customers remain steady on course. Beside, our "Total Transparent Cost Plus Pricing Model" (2004/05 interim report, P.24) has effectively shielded the Group's from most of the cost problems associated with the rising raw material price (with the exception of steel, but steel price declined by around 5% since June 2005). As a result, both our Metal and Plastic business and EMS business continued to record healthy growth.

– However, gross profit margin suffered because of the rising share of the relatively low-margin EMS business and the constant pricing pressure from customers. Hence, the rate of growth of profit attributable to shareholders (31%) was much slower than the rate of growth of turnover.

– Realizing such problems long ago, the Group has tightened up expenses control with the rate of growth of operating expenses amounted to a more modest 7% only despite the vastly increased volume of production activities.

Metal and Plastic Business

The sales of computer casings, office automation products and video cassette housings increased by 32% to HK$682,002,000 due to continued worldwide recovery of technology spending. Because of the relatively higher gross profit margin, the Metal and Plastic Business continued to provide the bulk of the Group's profit.

Electronic Manufacturing Services ("EMS") Business

As a result of the launching of new products, the EMS Business registered a rapid growth of 70% to HK$1,082,987,000. However, because of its low gross profit margin, the rising share of the EMS business would continue to drag down the overall gross profit margin of the Group.

Geographical Distribution

The Group does not rely on any single market through its diversified shipment pattern. The largest market, Asia (excluding Japan), represented only 39% of the total shipment while direct shipment to the North America accounted for only 20%.

RMB Appreciation

In the current reporting period, RMB appreciated by around 2%. This has a negative impact on the Group as in 2004/05 RMB payment represented around 10% of our cost of sales. However, as most of the Group's competitors are also based in China, in theory over the long run, we could raise price to cover the increase in cost provided that the customers stick to their present sourcing pattern (please refer to P.35 to 39 of the 2004/05 Annual Report).

IR Magazine Award

In November 2005, institutional investors and research analysts selected the Group as the first runner-up in Hong Kong in the Grand Prix for Best Overall Investor Relations – Small/Mid-Cap Category (market cap under US$1 billion) poll organized by IR Magazine. This is a remarkable achievement given the fact that the other two top companies are two times larger than the Group in terms of market capitalization. Beside, small caps industrials were not exactly darlings of the market as compared to retail stocks. Bearing these factors in mind, we are deeply grateful for the precious votes from institutional investors and research analysts, who have already voted the Group for two consecutive years in 2003 and 2004 as one of the best-managed companies in Hong Kong in the Asiamoney Poll.

Prospect

Managing Growth with Discipline

1. Most of our customers have continued to feed us with positive messages. However, in face of the continued economic uncertainties resulting from such adverse factors like rising interest rate and oil price, we are convinced that the Group should take a more cautious attitude in the medium term:

   – we maintain our turnover growth target for 2005/06 at 35% (revised upward from 30% in the First Quarterly Results Announcement) as compared to 2004/05;

   – we reduce downward the 2006/07 turnover growth target from 10% to 5% reflecting our concerns over the future of the world economy and the increased denominator (the projected 2005/06 turnover figure) as a result of the revised sales turnover growth target for 2005/06;

   – the current mix of Metal and Plastic Business & EMS Business will continue at around 40:60.

2. In summary

   – in the short term, we are optimistic about the performance for the current year;

   – in the medium term, given such uncertain economic situation, taking prudent view is the responsible way to go;

   – in the long term, we remain optimistic given the strength of our business model, the high level of corporate governance and our professional management team.

3. From a strategic standpoint, we need to bridge two seemingly incompatible objectives:

   – on the one hand, we have to invest in fixed assets and other resources to service our customers

   – on the other hand, we have to prepare for the every eventualities of all those 'what if' situations. Given the potential problems in the horizon, we would be irresponsible if we stay totally optimistic.

   Our corporate policies on dividend, capital expenditure, personnel and so on follow this basic direction.

4. Still, in the short term, business is good. Turnover of October 2005 rose by 78% to approximately HK$338,000,000 (October 2004: HK$190,000,000). However, as the unaudited turnover for the month may not reflect the final result for the year ending 31 March 2006, investors and shareholders are advised to exercise extreme caution when dealing with shares of the Company.

5. The capital expenditure ("capex") budget was maintained at HK$90,000,000 (capex spending up to 30 September 2005 was HK$23,451,000), principally used to finance the construction of the Phase 1 of the new Yu Quan Plant, Fenggang, Dongguan, China. The new factory site was purchased in August 2004 and occupies an area of over 200,000 square metres (site areas of the existing factories: approximately 89,000 square metres.). Upon completion of the Phase 1, we should have sufficient production capacity to meet the production requirement in 2006/07. Construction of the Phase 2 of the new plant will depend upon the state of the economy by then. If all conditions remain the same, a delay in the construction of Phase 2 would actually strengthen the cash flow of the Group and hence its dividend payment ability. But no decision has yet been made at the moment.

6. While we have revised downward of the 2006/07 turnover sales target, we have decided to recommend a payment of interim dividend of HK9.0 cents per share even in face of the huge demand of capital in the construction of Yu Quan Plan (please also refer to the LIQUIDITY RESOURCES AND FINANCING POLICIES).

   – We are confident that the Group's robust cash flow is sufficient to finance our capital expenditure program and the dividend payment.

   – Barring any unforeseeable change of business situation, we maintain our pledge to our shareholders made in 2003/04 (2003/04 annual report, P.35) that should the Board decide to change the existing dividend policy of paying out 50% or more of the after tax profit, we would provide an advance notice in the immediate preceding interim or annual results announcements.

25TH ANNIVERSARY

Your Support My Momentum

This year the Group celebrates its 25th anniversary. On 21 October 2005, we were honored in a banquet by the presence of numerous customers, government officials, suppliers, bankers and, perhaps the most important, our colleagues (Please refer to our website). Without effort of these unsung heroes the Group will not be able to have another record year.

We would like to take this opportunity to thank all of you again: with your continued support, we had and have the momentum to excel and to go forward. While we appreciate that there will be problems and challenges in the future, we are confident that we would be able to overcome them one by one, just as what we had done so in the past 25 years.

CORPORATE GOVERNANCE

We believe that good corporate governance is indispensable in ensuring a well-run corporation and continued investors interest. Thus in addition to the requirements by the HKEx, we have implemented the following measures on a voluntary basis

– quarterly results announcement

– quarterly disclosure by the substantial shareholder confirming no pledge of shares in the Company

– quarterly meeting with individual investors through our 'tea-break' program

Please refer to "COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES" for details of the Company's compliance of the Code Provisions.

Voluntary Disclosure by the Substantial Shareholder Confirming No Pledge of Shares in the Company

The Company was notified by Pearl Court Company Limited ("Pearl Court"), a substantial shareholder of the Company, that it has not pledged any of its interest in ordinary shares of the Company as at 21 November 2005. Pearl Court first made such announcement in the 2004/05 Interim Report in November 2004. It has also undertaken to inform the Board of such pledging status before each annual, half-year or quarterly results announcement, and authorized the Company to publish such information. As at 21 November 2005, Pearl Court held 172,200,000 ordinary shares of HK$0.1 each or 42.02% of the issued share capital of the Company.

Tea-Break with Individual Investors

The Group pioneers this novel and unique concept of direct interface with individual investors through its quarterly "tea-break with individual investors" program. In the fifth 'tea-break' session on 23 September 2005 after the First Quarterly Results Announcement of 2005/06, more than 30 individual investors braved the 66% increase in admission fee (donation required raised from HK$30 to HK$50) and general market apathy toward small cap industrials to attend the session. They enthusiastically participated in the Q&A session. Three of the individual investors were also willing to take the stage at the end of the session to share their feelings and favourable comments with fellow investors.

The sixth "tea-break with individual investors" will be held from 18:30 to 20:30 on Friday, 9 December 2005 at the Vinson Room, Level 5, One Pacific Place, Admiralty, Hong Kong. As part of the Group's social responsibility program, participants will be asked to donate HK$50 directly to charity and we will match the donation dollar for dollar (at a maximum of HK$10,000 in total). For those who are willing to donate HK$100 or more, we will:

– ask the relevant charity to issue a receipt for tax purpose on a best effort basis; and

– confirm seats availability for those top 10 donors without the need of going through the procedure of drawing lots (if required).

A video version of the 'tea-break' will be posted in the website as soon as practicable. Interested investors are invited to visit our website at www.karrie.com.hk for more details. Please go directly to our website to download the application form or call 2411-1142 during office hour. Because of the limited seats available, participation in the 'tea-break' is strictly by confirmed registration only.

LIQUIDITY RESOURCES AND FINANCING POLICIES

The Group's net bank borrowings declined from HK$233,630,000 or a net gearing ratio of 56 % as at 31 March 2005 to HK$111,635,000 or a net gearing ratio as 25% as at 30 September 2005 due to vigorous working capital management and a partial delay of capex spending (as a result of a few months delay in the construction works of the Phase 1 of the Yu Quan Plant due to poor weather and other factors in mid-2005).

We will continue to rely on the free cash flow generated from the profit attributable to shareholders plus non-cash expenses to finance the capex and dividend payment. However, as sale increases, the Group needs to borrow money to finance the average 60 days of credit granted to customers. Therefore we still project net gearing ratio will rise towards the end of the year (2004/05 Annual Report, P.46) with the growth in business and the implementation of the capex plan.

We do not think a high net gearing ratio is an obstacle to growth because

– the Group's non-current asset to shareholders' fund remained at a very low 55%, meaning that all of the Group's non-current assets are financed by stable long term shareholders' fund;

– the current bank borrowings stemmed mainly from the need of account receivables financing:

  1. so in theory in the cases of zero or negative turnover growth situation, there will not be any need to borrow further money to finance the growth in accounts receivables;

  2. the availability of factoring options provides a last resort alternative to reduce/eliminate bank borrowings from the traditional financing method (as at 30 September 2005 trade receivable stood at HK$609,761,000 while net bank borrowings was only HK$111,635,000).

We are confident that with the cash holdings of HK$381,927,000 and banking facilities of approximately HK$1,062,000,000, the Group is able to meet its current operational and capital expenditure requirements.

EXCHANGE RATE EXPOSURE

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, US dollar or Reminbi. As the exchange rate of the Hong Kong dollar, US dollar and Reminbi were relatively stable during the period, the Group was not exposed to material exchange risk (please also refer to P.36 of the 2004/05 Annual Report for the impact of the RMB appreciation).

CONTINGENT LIABILITIES

As at 30 September 2005, the Group has no significant contingent liabilities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2005, the Group employed on average approximately 6,500 employees during the period. Despite the reports of labour shortage in southern China, we have not experienced any serious problems in recruitment. This may be due to the strong reputation we have so strenuously build up in the local community in the past 25 years.

Employee remuneration is determined in accordance with prevailing industry practice and their performances and experiences. Discretionary bonus is linked up with the Group's performance and will be awarded to employees who demonstrated good performance under a reward evaluation policy. Other staff benefits include medical insurance, a housing subsidy scheme and mandatory provident funds.

Besides, the Group proactively uses share options to reward and retain talents under two separate options scheme adopted in 1996 and 2002. Up to 30 September 2005, 130 staff were granted with share options (2004/05 interim:76). Approximately HK$2,948,000 has been charged to the Profit and Loss account as the cost of share options (2004/05 interim: HK$2,359,000). No further share options have been granted during the reporting period.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

According to the requirements of the Listing Rules, in January 1999, the Group has established an Audit Committee which now comprises 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. The unaudited interim results for the six months ended 30 September 2005 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 contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2005 except that the Company does not have a separate Chairman and Chief Executive Officer and Mr. Ho Cheuk Fai ("Mr. Ho") currently holds both positions. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

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 of 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 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 of 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 of the Company comprise Mr. Ho Cheuk Fai, Mr. Ho Cheuk Ming, Mr. Kwok Wing Kin, Francis, Mr. Tam Wing Hung, Mr. Lee Shu Ki and Mr. Wong Shun Pang, and the independent non-executive directors comprise Mr. So Wai Chun, Mr. Chan Sui Sum, Raymond and Mr. Fong Hoi Shing.

By Order of the Board
LEE SHU KI
Director

Hong Kong, 25 November 2005

* *For identification purpose only*

"Please also refer to the published version of this announcement in China Daily"