



Karrie International Holdings Limited

嘉利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1050)

ANNOUNCEMENT

Unaudited Result For the First Quarter of the Financial Year 2008/2009

The Board announces the unaudited result of the Group for the three months ended 30 June 2008. This announcement is made as part of the Group's current practice to publish its quarterly financial result.

HIGHLIGHTS

	For the three months ended 30 June		% change over corresponding period
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	
Revenue	652,695	724,459	-10%
Profit attributable to equity holders of the Company	3,913	13,532	-71%
Basic earnings per share	HK0.68 cents	HK3.20 cents	-79%

Shareholders and investors of the Company are strongly advised to exercise caution in dealing in the shares of the Company.

The board (the "Board") of directors (the "Directors") of Karrie International Holdings Limited (the "Company") announces the unaudited result of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2008. The unaudited result has been reviewed by the Company's Audit Committee.

The unaudited condensed consolidated balance sheet, unaudited condensed consolidated income statement and unaudited condensed consolidated cash flow statement of the Group are listed below:

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	As at 30 June 2008 HK\$'000 (Unaudited)	As at 31 March 2008 HK\$'000 (Audited)
ASSETS		
Non-current assets		
Leasehold land and land use rights	46,610	46,873
Deposits for acquisition of land use rights	26,400	26,400
Property, plant and equipment	426,748	378,328
Interest in associated companies	400	400
Deferred tax assets	387	387
	500,545	452,388
	500,545	452,388
Current assets		
Inventories	260,176	264,352
Trade receivables	492,723	430,742
Prepayments, deposits and other receivables	125,895	151,412
Tax prepaid	7,646	4,783
Cash and bank balances	398,957	353,140
	1,285,397	1,204,429
	1,285,397	1,204,429
Total assets	1,785,942	1,656,817
EQUITY		
Capital and reserve attributable to the Company's equity holders		
Share capital	57,720	57,720
Other reserves	212,471	212,326
Retained earnings	409,284	405,371
	679,475	675,417
Minority interests	424	424
	679,899	675,841
Total equity	679,899	675,841

	As at 30 June 2008 <i>HK\$'000</i> (Unaudited)	As at 31 March 2008 <i>HK\$'000</i> (Audited)
LIABILITIES		
Non-current liabilities		
Long-term bank borrowings, secured	170,200	188,700
Deferred tax liabilities	8,753	8,753
Provision for long service payments	10,729	9,793
	<u>189,682</u>	<u>207,246</u>
Current liabilities		
Trade and bills payables	366,820	351,379
Accruals and other payables	221,909	202,365
Receipts in advance	5,942	2,614
Amount due to associated companies	635	811
Short-term bank borrowings, secured	321,055	216,561
	<u>916,361</u>	<u>773,730</u>
Total liabilities	<u>1,106,043</u>	<u>980,976</u>
Total equity and liabilities	<u>1,785,942</u>	<u>1,656,817</u>
Net current assets	<u>369,036</u>	<u>430,699</u>
Total assets less current liabilities	<u>869,581</u>	<u>883,087</u>

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2008

	For the three months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover		
– Metal and Plastic	340,817	314,187
– Electronic Manufacturing Services	310,989	409,785
– Other gains	889	487
Total revenue	652,695	724,459
Cost of sales	(609,319)	(667,557)
Gross profit	43,376	56,902
Distribution and selling expenses	(7,090)	(7,882)
General and administrative expenses	(30,387)	(31,784)
Operating profit	5,899	17,236
Finance income	1,120	2,925
Finance costs	(2,754)	(5,331)
Profit before taxation	4,265	14,830
Taxation	(352)	(1,298)
Profit attributable to equity holders of the Company	<u>3,913</u>	<u>13,532</u>
Earnings per share (expressed in HK cents)		
– Basic	<u>0.68</u>	<u>3.20</u>
– Diluted	<u>0.68</u>	<u>3.19</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the three months ended 30 June 2008

	For the three months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Profit before taxation	4,265	14,830
Adjustments for non-cash items/interest/tax ⁽¹⁾	9,502	6,502
Changes in working capital	5,850	70,754
Net cash generated from operating activities	19,617	92,086
Net cash used in investing activities	(59,793)	(3,238)
Net cash generated from/(used in) financing activities	85,461	(919)
Net increase in cash and cash equivalents	45,285	87,929
Cash and cash equivalents, at 1 April	352,957	267,145
Cash and cash equivalents, at 30 June	398,242	355,074

Analysis of cash and cash equivalents:

	As at 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Cash and bank balances	398,957	355,122
Bank overdrafts	(715)	(48)
	398,242	355,074

⁽¹⁾ Analysis of adjustments for non-cash items/interest/tax:

	For the three months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	12,492	11,856
Amortisation of leasehold land and land use rights	262	263
Share-based compensation expense	145	387
Loss on disposal of property, plant and equipment	2	266
Provision for long service payment	936	–
Interest income	(1,120)	(2,925)
Hong Kong profits tax paid	(3,215)	(3,345)
	9,502	6,502

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICES

The unaudited quarterly condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong.

The accounting policies adopted and methods of computation used are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in the annual financial statements for the year ended 31 March 2008.

2. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	For the three months ended	
	30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company	<u>3,913</u>	<u>13,532</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	577,198	422,591
Adjustment for share options	—	980
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>577,198</u>	<u>423,571</u>

MANAGEMENT DISCUSSION AND ANALYSIS

1. The business was still sluggish. Revenue for the First Quarter ended 30 June 2008 declined by 10% to HK\$652,695,000 as compared to HK\$724,459,000 in the corresponding period last year.
2. Shipments of laser printers to a major customer had not been recovered after it restructured its business in early 2006 and sales continued to decline by 40% when compared with the sales for the corresponding period last year. Sales to other Electronic Manufacturing Services (“EMS”) customers were also declined for the same period. As a result, the overall turnover of EMS Business dropped 24% to HK\$310,989,000 accordingly during the relevant period. With the product cycle approaching its “end of life”, this declining trend will extend to the second quarter. However, new models will start shipment in the third quarter as replacement. It is expected that the sales to EMS customers will gradually pick up.

(3 months to)	Metal & Plastic		EMS		Total		Year to year % change
	HK\$'000	(%)	HK\$'000	(%)	HK\$'000	(%)	
30/06/05	318,196	39	501,064	61	819,260	100	N/A
30/06/06	363,211	48	389,967	52	753,178	100	- 8%
30/06/07	314,187	43	409,785	57	723,972	100	- 4%
30/06/08	340,817	52	310,989	48	651,806	100	- 10%

3. The turnover in the Metal & Plastic Business rose by 8% to HK\$340,817,000 as compared to HK\$314,187,000 in the corresponding period last year. Shipments in respect of the server business were relatively steady and the sales to Metal & Plastic Business customers recorded slight growth. The Metal & Plastic Business contributed to 52% of the Group’s total turnover.
4. The Group still faced the adverse impacts from the rising cost structure, which results in profit attributable to equity holders of the Company declined by 71% to HK\$3,913,000 as compared to HK\$13,532,000 in the corresponding period last year. During this period,
 - (i) The exchange rate of RMB appreciated by approximately 13%;
 - (ii) With the implement of the Labour Contract Law, the minimum wage increased by approximately 15%;
 - (iii) Fuel price rose approximately 30%; and
 - (iv) Steel price rose approximately 8%.

FINANCIAL RESOURCES

The unaudited net gearing ratio was approximately 14% as at 30 June 2008 (8% as at 31 March 2008). In this aspect, the net gearing ratio was expected to maintain at a lower than 50% level by the end of financial year 08/09. At the same time, it is also our principle that the after tax profits and the funds from the right issues are used to support our capital expenditure (“Capex”) requirements. As the non-current asset to shareholders’ fund ratio remained at a level of 74%, the financial position is still healthy.

The cash and cash equivalents holding of HK\$398,242,000 and banking facilities of approximately HK\$1,180,040,000, the Group is able to meet its current and future operational and capital expenditure requirements.

PROSPECT

1. We believe that the business environment is still difficult. The Group will face different kinds of challenges mainly due from the twin problems of economic uncertainty in the world and the rising cost structure in the Pearl River Delta. The combined impacts of the above factors will result in an adverse effect on the Group's performance in 2008/09.
2. It is anticipated that the Group's sales for this financial year will be steady as compared with the previous financial year or even drop by a mid single digit percentage. We also expect that the turnover of the Metal & Plastic Business and the EMS Business will maintain a ratio of roughly 50: 50.
3. The Group proactively communicates with our customers with a view to transfer part of the costs to them and accelerates the process of automation and streamlines the operation to improve efficiency, to reduce material scrap and to cut labour cost.
4. Construction of Yi Xing plant had been commenced. It is estimated that three factories will be constructed and pilot production will commence in the 4th quarter of this year. Meanwhile, the Phase II of Yu Quan was constructed as scheduled. With the gradual completion of our plants, our production capacity will be further enhanced so as to meet the requirements of customers located in different regions.
5. On 10 July 2008 (Hong Kong time), the Group entered into the shareholders' agreement with Sagem for the establishment of the joint venture company. According to the shareholders' agreement, the Group and Sagem will have a 60% interest and a 40% interest respectively. The establishment of the joint venture company can further strengthen the business relationship between Sagem and the Group and will enable the Group to get access to the worldwide market demand of Sagem. In addition, the operation efficiency of the Group will be undoubtedly enhanced as a result of operating leverage following the establishment of the joint venture company.

The entering into of the Servicing Agreement between the Group and Sagem will further assist the technical development of the Group in manufacturing electronic products. In the meantime, the joint venture project will enable the Group to secure a stable turnover and a steady growth of business for the Group.

6. Since the financial year 2003/04, the Group has been implementing a capacity expansion plan to further exploit economies of scale and accelerate automation so as to strengthen cost competitiveness. After several years' investments, it is expected that after completion of the capital expenditure this year, the capacity and productivity will increase significantly to meet future business development of the Group. This round's Capex will terminate and the subsequent investment amounts will decrease remarkably. The Capex for the period ended 30 June 2008 was HK\$60,914,000. However, owing to the rise in materials cost, appreciation of RMB and the increment of labour wages, we will raise our Capex for this year from HK\$80,000,000 to HK\$100,000,000.

7. The unaudited turnover of the Group for July and August 2008 was approximately HK\$388,000,000 (July and August 2007: HK\$446,000,000). As the unaudited turnover for these month may not represent the final result for the year ended 31 March 2009, investors and shareholders are advised to exercise extreme caution when dealing in the shares of the Company.

DIVIDEND

The Directors do not recommend the payment of a first quarter dividend for the three months ended 30 June 2008 (first quarter of the three months ended 30 June 2007: Nil).

REVIEW OF ACCOUNTS

The Audit Committee had reviewed the unaudited result of the Group for the three months ended 30 June 2008.

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.

Shareholders and investors of the Company are strongly advised to exercise caution in dealing in the shares of the Company.

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
Lee Shu Ki
Director

Hong Kong, 11 September 2008

* *For identification purpose*