





# Karrie International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

( 嘉利國際控股有限公司 )

( 於百慕達註冊成立之有限公司 )



## ANNUAL REPORT 1997/98

一九九七 / 九八年年報



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## CORPORATE INFORMATION

**Registered office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

**Head office and principal  
place of business**

10th Floor  
Southeast Industrial Building  
611-619 Castle Peak Road  
Tsuen Wan  
New Territories  
Hong Kong

**Directors**

*Executive Directors:*

Mr. HO Cheuk Fai  
(President and Managing Director)  
Mr. HO Cheuk Ming  
Mr. LI Cheuk Sum (Vice-President)  
Mr. TAM Wing Hung  
Mr. LEE Shu Ki

*Non-executive Directors:*

Mr. CHAN Sui Sum, Raymond  
Mr. LEUNG Wai Ho

**Company secretary**

Miss SIU Tin Ho

**Auditors**

Price Waterhouse  
Certified Public Accountants  
22nd Floor  
Prince's Building  
Hong Kong



CORPORATE INFORMATION (CONT'D)

<b>Principal banker</b>	Standard Chartered Bank Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
<b>Principal share registrars and transfer office</b>	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
<b>Hong Kong branch share registrars and transfer office</b>	Central Registration Hong Kong Limited Rooms 1712-6, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong

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## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Cambridge Room, Lobby Floor, Kimberley Hotel, 28 Kimberley Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 24th September, 1998 at 3:00 p.m. for the following purposes:

1. To receive and adopt the audited Financial Statements of the Company and the Reports of the Directors and of the Auditors for the year ended 31st March, 1998.
2. To consider and declare a final dividend for the year ended 31st March, 1998.
3. To re-elect the retiring Directors and to authorise the Board of Directors to fix the Directors' remuneration.
4. To re-appoint Messrs. Price Waterhouse as the Auditors of the Company and to authorise the Board of Directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

A. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers after the end of the Relevant Period;



## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or on the exercise of any options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly; and

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of :

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-laws of the Company to be held; and
- (iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”.

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## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

## B. “THAT:

(a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-laws of the Company to be held; and
- (iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.”.





## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

- C. “**THAT** conditional on the passing of the resolution set out in paragraph 5B of the notice convening this meeting, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5B of the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution.”.

By Order of the Board

**Siu Tin Ho**

*Company Secretary*

Hong Kong, 14th August, 1998

*Principal Place of Business:*

10th Floor, Southeast Industrial Building

611-619 Castle Peak Road

Tsuen Wan, New Territories

Hong Kong

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NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

*Notes:*

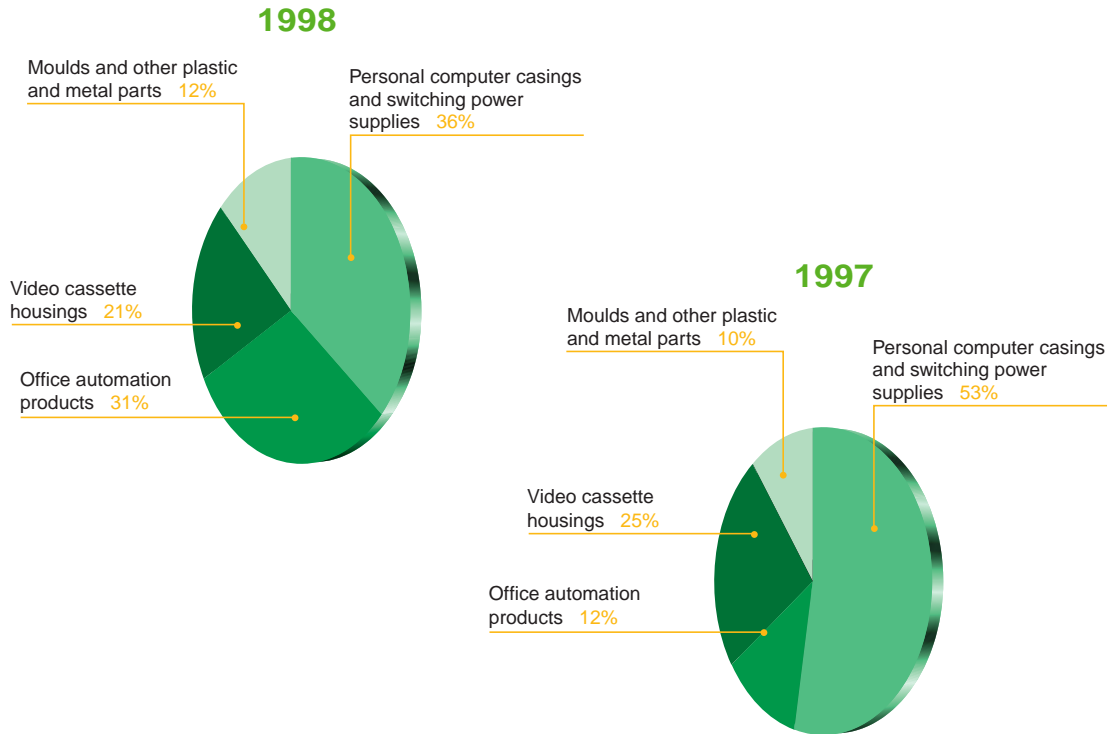
1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at 10th Floor, Southeast Industrial Building, 611-619 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The Register of Members of the Company will be closed from Friday, 18th September, 1998 to Thursday, 24th September, 1998 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Central Registration Hong Kong Limited, Rooms 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 17th September, 1998.

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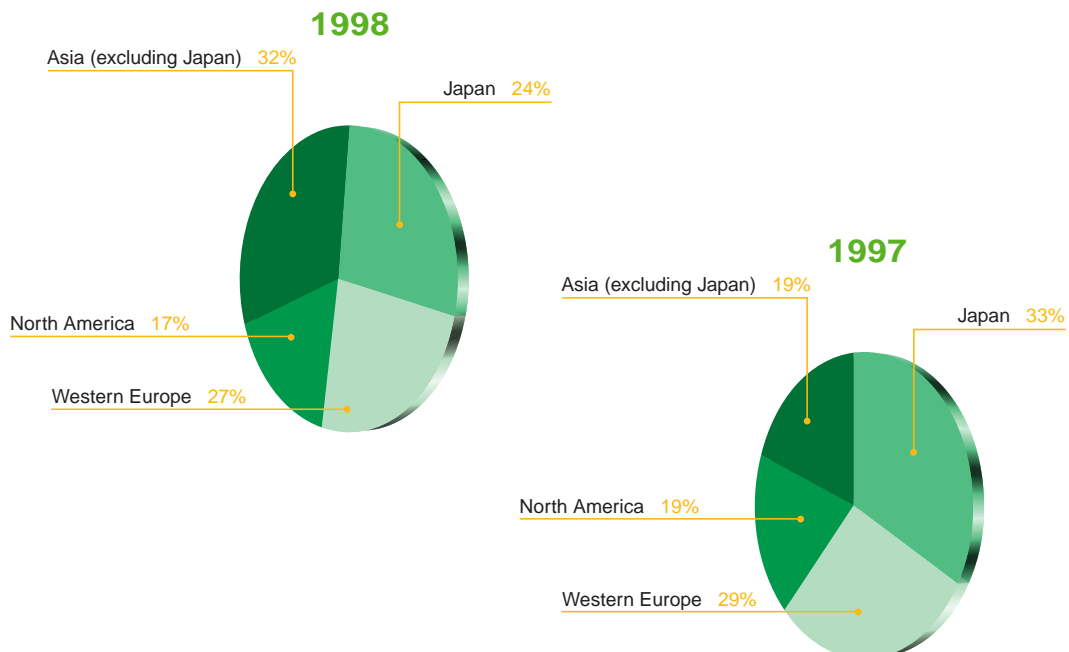


## FINANCIAL HIGHLIGHTS

### TURNOVER BY PRODUCT



### TURNOVER BY LOCATION



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## PRESIDENT'S STATEMENT:

### BUILDING A SOLID FOUNDATION FOR FUTURE GROWTH

I am pleased to present the annual report of Karrie International Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st March, 1998.

### PRINCIPAL ACTIVITIES AND RESULTS

The Group is principally engaged in the manufacture and sale of personal computer casings, switching power supplies, video cassette housings, office automation products and moulds and other plastic and metal parts.

The Group's turnover for the year ended 31st March, 1998 was HK\$618,614,000. This represented an increase of approximately 3% from the turnover of HK\$598,622,000 for the year ended 31st March, 1997. The consolidated profit after taxation of the Group amounted to HK\$27,865,000 representing a decrease of approximately 66% as compared with that for the year ended 31st March, 1997. However, compared with the interim consolidated profit after taxation of about HK\$3,000,000 for the six months' period ended 30th September, 1997, performance in the second half of the financial year has drastically improved. Based on the fact that 360,000,000 shares were in issue during the year, the earnings per share for the year ended 31st March, 1998 was HK7.7 cents.

### FINAL DIVIDEND

The Directors have recommended a final dividend of HK1 cent per share to shareholders whose names appear on the Register of Members of the Company on 24th September, 1998. The final dividend will be payable on or about 15th October, 1998.



**Mr. Ho Cheuk Fai,**  
*President & Managing Director*



## PRESIDENT'S STATEMENT (CONT'D)

**BUSINESS REVIEW**

The year of 1998 has been a difficult year for most of us with roots in Hong Kong. Notwithstanding Hong Kong's joyous reunion with the People's Republic of China (the "PRC") on 1st July 1997, the people of Hong Kong were caught by firstly the turmoil in South East Asia during the second half of 1997, then the sudden crash of the property market and finally the drastic downturn of the economy.

Fortunately the Group has been concentrating on its principal lines of business and not engaged in any other investment activities. While we are inevitably affected by the economic downturn, the Directors have instituted measures to put the Group on a sound footing in preparation for the coming years ahead. Short-term sacrifice has been made to put the Group on a stronger foundation.

Put it simply, the Group has to diversify its business and reduce its reliance on traditional product lines of computer casings, office automation and video cassette housings to propel its future growth. It has to expand its inherent strength in the metal and plastic making capabilities to build a new platform in the moulds and tools business. This includes, but not limited to, the purchase of millions of dollars of new machinery, establishment of rapid redeployment procedures of human resources and re-engineering of its huge manufacturing setup in the PRC. The year ended 31st March, 1998 is a good testament of the implementation of this vital strategic shift.

Performance of the Group is hereby analyzed with reference to the following divisions:

- computer casings and switching power supplies
- office automation products
- video cassette housings
- moulds and tools

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## PRESIDENT'S STATEMENT (CONT'D)

**COMPUTER CASINGS AND SWITCHING POWER SUPPLIES**

The Group's sale of original equipment manufacturing ("OEM") personal computer casings for the year ended 31st March 1998 suffered decline as a new computer model introduced by one of the major customers had not been well received by the market. As a result, sale to that customer fell by 65%.

Unlike the previous year, this reduction in sale in the OEM business during the year ended 31st March, 1998 has not been compensated by any increase in sale of non-OEM products ("standard casings"), which included the installation of switching power supplies manufactured by the Group. The Directors correctly decided to consolidate its sales of standard casings in Europe and the USA to maintain quality of its account receivables.

The overall sale of computer casings reduced by 29% compared with that of the last financial year and represented only 36% of the Group's sale (1997: 53%). As a result of such dual decline of the sale of computer casings on OEM and non-OEM basis, the Group's profit for the year ended 31st March, 1998 has suffered correspondingly.

**OFFICE AUTOMATION PRODUCTS**

The sale of the Group's main office automation products, such as paper cassettes and paper feeding mechanism frames for photocopiers, showed growth.

The Directors have foreseen the need to develop alternative products to supplement its traditional product lines. Sufficient resources were applied to develop laser printers and multi-functional facsimile machines on an OEM basis.

As expected by the Directors, production started off with problems. This was aggravated by the fact that the customer had time and again revised the specification, design and functions of the products, necessitated stationing of tens of the customer's own engineers in the Group's factory in Yantian, Dongguan, the PRC. It is no wonder that the initial production volume was much lower than expectation.



## PRESIDENT'S STATEMENT (CONT'D)

The increase of direct material cost as a result of such low volume and increase in factory overheads to meet the expected production schedule had contributed to the disappointing interim results. Since then, however, the Group had fixed the production problems and pared the increase in overhead costs along the line of the learning curve. Production volume had climbed to the projected level in the first three months of 1998. The Group had also come to agreement with the customer so that the customer is now responsible for the purchase of all those expensive electronic and other components.

The Office Automation Products Division has gross sales amounting to 31% of the total Group's turnover (1997: 12%). However, increase in sale of laser printers and multi-functional facsimile machines can be partly attributed to a much larger proportion of purchased components. Therefore the gross profit margin of the Group has shown no improvement.

**VIDEO CASSETTE HOUSINGS**

The sale of video cassette housings has experienced a modest 14% decline. Nonetheless with implementation of tight cost control and efficient management, the Group has kept the division as a steady if unspectacular profit contributor.

**MOULDS AND TOOLS**

Since listing in 1996, the Group has further enhanced its Moulds and Tools Division with over ten million dollars in purchase of new machinery. The Group has added more CNC wire cutting machines, computer 3D CAD machines, CNC machine centres, electrical discharge machines to the Group's vast arsenal. The Moulds and Tools Division in Yantian, Fenggang, Dongguan, the PRC, is now electronically linked up through internets with major customers so that their product specifications, designs and changes can be sent and exchanged directly and rapidly. At present the division boasts a payroll of 310 and a monthly moulds production capacity of around 200 sets.

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## PRESIDENT'S STATEMENT (CONT'D)

As reported last year, the Group has entered into an unrestricted alliance known as the “Global Sourcing Strategy” with Fullarton Computer Industries Limited (“Fullarton”) with the blessing of IBM. Fullarton is one of the large computer casing manufacturers in Europe and vendors for computer casings for IBM in Europe. Under such an alliance the Group is responsible for making all the moulds for the production of metal stamping dies and part of the plastic injection moulds for the manufacture of a new computer model. As a result of this alliance, the Group has experienced a 77% increase in sale of moulds and tools.

The Group's customers have been very satisfied with the quality and delivery of our moulds. This has encouraged the Group to further explore the market for moulds and tools. As such, the Directors will continue the policy of purchasing advance machinery, sending engineers overseas to learn new mould-making technologies and selling of mould accessory making equipment to customers so that they can amend their moulds to suit their requirements. The Directors believe that sale of moulds will continue to bring in satisfactory profit for the Group.

**OPERATING RESULTS**

Despite the increase in turnover, the operating profit before exceptional items and taxation for the year ended 31st March 1998 revealed an unfortunate decline of HK\$30,016,000 as compared with the previous year. The decrease can be largely explained by

- the reduction in sale of OEM and non-OEM computer casings
- the increase of production overheads in anticipation of the increase in the sales of laser printers and multi-functional facsimile machines
- the low gross profit margins for laser printers and multi-functional facsimile machines





## PRESIDENT'S STATEMENT (CONT'D)

**FINANCIAL REVIEW**

Since late 1997, Hong Kong has experienced a dramatic credit squeeze by both foreign and, to a lesser degree, domestic banks. Most foreign banks are reducing their exposures in Hong Kong by being reluctant to lend irrespective of the performance of individual companies. Some of these banks had made, at least from the borrowers' standpoint, unreasonable demands on speedy repayment of outstanding loans in a very short period of time. Even healthy and stable companies are affected by this sudden contraction of credits. To cater for such further threats, companies in Hong Kong are either trying to keep hold of sufficient cash and halting all expansion program or even declining further orders. No doubt this will affect their business performance, lead to more staff redundancy and start a vicious cycle that put further deflationary pressure in the economy.

While the Group has adhered to its main lines of business and has not ventured into any speculative investments, it still requires funding from banks for part of its daily operation. The Group is therefore one of the many victims of such vicious credit squeeze. Specifically, the Group has been affected in two ways:

- unused credit facilities were cancelled
- credit facilities which have been used were either kept at reduced levels or had to be repaid through monthly installments.

Despite such handicaps, the Group has been able to demonstrate its strong cash generating ability by meeting its financial obligation on the relevant due dates.

Total net bank borrowing stays at a healthy rate of lower than 30% of the net assets of the Group.

Because of the deteriorating market conditions, the Group has taken a conservative view of business expansion. The Directors have instituted tight measures to ensure the sufficiency of working capital. Specifically these include close monitoring of accounts receivables and further extension of credit period from suppliers.

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## PRESIDENT'S STATEMENT (CONT'D)

**PROSPECT**

To the Group, the 1997/98 financial year was full of challenges: profit after taxation for the 6 months ended 30th September, 1997 dropped substantially and by 91% as compared with that of the six months ended 30th September, 1996.

Fortunately, with joint dedicated efforts of the employees and the Directors, the Group's performance greatly improved during the second half of the financial year. The Directors are confident that the Group has once again returned to the right track and will improve its performance further. Performance projections are analyzed below.

**SALES AND MARKETING**

The Directors have reorganized the Sales and Marketing Department to ensure that the Directors are fully aware of all matters relating to the operation of the department and pertinent to all market information. The Group has also redoubled its effort to cultivate its relationship with major customers. New moulds were made and the computer casing business shows marked upturns. Therefore, despite difficult market conditions, the Directors are confident that the computer casing business will reverse the previous decline and show noticeable improvement in the coming year.

The business of laser printers and multi-functional facsimile machines is expected to show stable growth as the Group masters the keys in solving the relevant production problems. The Group will endeavour to adopt a prudent and active approach with a view to satisfying the demand of customers and spreading its operating risks by increasing its products lines, improving the quality of its products and expanding its customer base.



## PRESIDENT'S STATEMENT (CONT'D)

**PRODUCTION**

The Group has streamlined its production in its factory in the PRC since late 1997 for two reasons:

- the price of personal computers continues to fall and thereby increases the pressure on all components manufacturers to cut cost
- the fall of the once mighty yen against US\$ (and therefore HK\$) to 140 and beyond has adversely affected our Japanese customers' ability to buy from us unless we cut our price

In order to save cost, the Group's production facility in Dongguan, the PRC has undergone internal restructuring. Head counts have been reduced especially in the middle management level. Traditionally production workers in the PRC were paid on a monthly basis and this reduced the Group's flexibility in dealing with sudden downturn of business. Pilot projects of introducing piece rate and hourly rate pay scales have been implemented to control labour cost. These projects will have the following advantages:

- encourage staff to work more efficiently for more remuneration
- enable the Group to monitor costing and estimate production time for each individual order
- facilitate accountability of staff for their works

While it is still too early to say what the results are, initial finding shows a marked improvement in production efficiency and reduction of direct labour cost.

The Group has also relocated its Moulds and Tools Department in Hong Kong to the PRC. This has resulted in the reduction of payroll cost and rental charges as it enables the Group to terminate its current lease.

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## PRESIDENT'S STATEMENT (CONT'D)

As described in the prospectus for new issue of shares (as published on 29th November, 1996), the joint venture contract for Huizhou Hung Hing Computer Fittings Factory Limited ("Huizhou JV") in which the Group held a 51% interest expired in April, 1998. The business of Huizhou JV was the carrying out of electroplating and spraying works for personal computer casings and office automation products. Because of the shift of the Group's production and customers' focus, the Group has long decided to dissolve the Huizhou JV. As the amount involved is not material in relation to the Group and that full provision for diminution of value has been made, the Directors believe that such dissolution will not affect the business of the Group and in fact enables the Group to reduce its overheads.

**FINANCE**

In May, 1998 Pearl Court Company Limited ("Pearl Court"), which held the majority of the shares of the Company as trustee for a unit trust known as the Ho Cheuk Fai Family Trust, has redeemed all the 183,600,000 shares (representing 51% of the shares in issue of the Company) pledged to ING Nominees (Hong Kong) Limited, a nominee of ING Capital Markets (Hong Kong) Limited ("ING Capital Markets") after repaying to ING Capital Markets all its outstanding loan. The pledge of such shares, while strictly speaking is a matter of Pearl Court and not of the Group, has often been cited by the Group's bankers as one of the main reasons for their decision to tighten credits. With the release of the said charge and with improved operating results as compared with the disappointing interim figures, the Directors are confident that the Group has cleared all the obstacles for improvement of its relationship with the existing banks in Hong Kong.

In addition, to tackle the liquidity problem and poor sentiment in the Hong Kong credit market, the Group has been exercising its goodwill built up in the PRC in the past 10 years to raise funds by borrowing RMB loans from financial institutions in the PRC. Such loans are secured by charges over the Group's production premises in the PRC. The Group is also able to secure new credit facilities from banks and financial institutions in Hong Kong and the PRC on an unsecured basis.

Finally the Group will continue to closely monitor its accounts receivable and payable.



## PRESIDENT'S STATEMENT (CONT'D)

**NEW FACTORY**

As reported in the last year's annual report, the Group has entered into an agreement with an independent third party on 10th July, 1997 for the assistance in the acquisition of approximately 27,824 square metres of the land situated at Fenggang, Dongguan, the PRC. Land Use Rights Certificates in respect of 28,020 square metres have been issued. However, because of the sudden downturn of the economy and the general credit squeeze the Group has drastically changed the original plan for factory construction. The Group is now only constructing two buildings for the purpose of housing the followings:

- electricity generators
- a production line for manufacturing and assembling personal computer casings (but not that of servers)
- a production line for manufacturing and assembling image unit or toner cartridge of photocopiers ("IU")

The total floor area of these buildings will be around 22,500 square metres and the Directors expect that initial production can start around October, 1998. The Directors believe that the Group's production capacity for computer casings will be increased to 350,000 sets per month while the production capacity for IU will be around 40,000 sets per month.

One of these buildings specifically used for the production of personal computer casings is a far cry from the makeshift production facilities the Group is using at the moment. It is specially designed to improve production efficiency of the manufacturing operation. Three storeys of the building are connected with hanging conveyers so that the production processes such as metal stamping, spraying and assembly can be integrated in a vertical manufacturing unit. The Directors believe there will be significant cost savings and improvement in efficiency once the new production on line becomes fully operational.

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## PRESIDENT'S STATEMENT (CONT'D)

**YEAR 2000 PROBLEM**

The Group is aware that the year 2000 problem may affect most of the computers and other computer-related installations. The Group has started to look into the issue last year and has formulated various action plans to test the operation of the computers and other computer-related installations so as to ensure the Group's software and hardware are Year 2000 compliant. The Group has taken into consideration the Year 2000 issue when making decision to purchase new computers and designing new computer systems. In addition, the Group will engage external information technology professionals to carry out testing on computer systems of some designated departments. Barring any unforeseen external factors, the Directors are confident that the Year 2000 issue does not pose a threat to the Group's operation.

**APPRECIATION**

I would like to thank our customers, suppliers, bankers, shareholders and others who have extended their invaluable support to the Group, and my fellow Directors, managers and all staff for their considerable contributions to the Group's success.

**Ho Cheuk Fai**

*President and Managing Director*

Hong Kong, 13th August, 1998



# SENIOR MANAGEMENT PROFILE

## DIRECTORS

### Executive Directors

*Mr. HO Cheuk Fai*, aged 52, was appointed as a Director of the Company in October, 1996 and is the President and Managing Director of the Company as well as the founder of the Group. He is also a director of Pearl Court Company Limited which is a shareholder of the Company. Prior to founding the Group in 1980, Mr. Ho had over 10 years' experience in factory management and in manufacturing plastic, metal and electronic products. He is responsible for the overall supervision of the Group's activities as well as policy making. He is the brother of Mr. Ho Cheuk Ming and the husband of Ms. Ho Po Chu, Scandy.

*Mr. HO Cheuk Ming*, aged 44, was appointed as a Director of the Company in October, 1996 and is the general manager of the Group. He is responsible for supervising all the Group's production activities in Hong Kong and the PRC. He joined the Group in 1980 and has over 20 years' experience in factory production. He is the brother of Mr. Ho Cheuk Fai and the brother-in-law of Ms. Ho Po Chu, Scandy. He is also a director of Pearl Court Company Limited.

*Mr. LI Cheuk Sum*, aged 49, was appointed as a Director of the Company in October, 1996. He is also the Vice-President of the Company and marketing director of the Group responsible for sales and marketing of the Group's products. Mr. Li has over 17 years' experience in the manufacture and sale of video cassette housings. Prior to joining the Group in 1980, Mr. Li had over 10 years' experience in the electronics industry and in marine radio communication.

*Mr. TAM Wing Hung*, aged 39, was appointed as a Director of the Company in October, 1996 and is the assistant general manager of the Group responsible for the Group's production activities in the PRC. He has been working for the Company's wholly-owned subsidiary, Hong Kong Hung Hing Metal Manufacturing Company Limited, since 1973 and has over 20 years' experience in the metal manufacturing business.

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## SENIOR MANAGEMENT PROFILE (CONT'D)

*Mr. LEE Shu Ki*, aged 42, was appointed as a Director of the Company in December, 1997 and is responsible for overseeing the daily operation of the Group's accounts department. Mr. Lee graduated from the Hong Kong Polytechnic University with a higher diploma in accountancy and is an associate member of the Chartered Institute of Management Accountants of the United Kingdom. He has over 15 years' accounting and financial management experience in manufacturing businesses. Mr. Lee joined the Group in June, 1995.

**Non-executive Directors**

*Mr. CHAN Sui Sum, Raymond*, aged 58, was appointed as a Director of the Company in February, 1998. He graduated from Oklahoma Baptist University in the United States with a bachelor's degree in Arts in 1964. Mr. Chan has over 30 years' experience in the construction industry. He is also a director of Chaplin Chemicals Limited and Shelton Food Industry Limited.

*Mr. LEUNG Wai Ho*, aged 48, was appointed as a Director of the Company in December, 1997. Mr. Leung has over 20 years' experience in the watch industry. He was the awardee of Young Industrialist Awards of Hong Kong 1990. Mr. Leung is the Advisor of the Hong Kong Watch Manufacturers Association and the Chairman of the Hong Kong Watch & Clock Council. He is also the executive chairman of Dailywin Group Limited.

**Management**

*Ms. HO Po Chu, Scandy*, aged 49, is the director of administration of the Group. She is the wife of Mr. Ho Cheuk Fai and sister-in-law of Mr. Ho Cheuk Ming. Ms. Ho is one of the founding members of the Group back in 1980 and has over 20 years' experience in office administration and purchasing. She is responsible for personnel and for the overall administration of the Group.





## SENIOR MANAGEMENT PROFILE (CONT'D)

*Mr. CHOW Kwok Hung, Alfred*, aged 42, is the chief financial officer for treasury of the Group. Mr. Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science and is an associate member of each of the Hong Kong Society of Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators and has over 15 years' experience in financial management. He joined the Group in April, 1998 and is responsible for the Group's financial management and strategic planning.

*Mr. KWOK Wing Kin*, aged 36, is the assistant director of marketing of the Group. Mr. Kwok graduated from the Hong Kong Polytechnic University with a diploma in business management and is an associate member of the Hong Kong Management Association. Prior to joining the Group in 1989, Mr. Kwok had six years' experience as a project engineer in a plastic manufacturing company and two years' experience as a procurement engineer in an electronics manufacturing company.

*Mr. WONG Siu Ching*, aged 40, is the assistant director of marketing of the Group responsible for project development and marketing for the Group. Prior to joining the Group in 1988, Mr. Wong had over 10 years' experience in sales and marketing.

*Mr. HO Wing Kuen*, aged 40, is the chief engineering manager of the Group. Mr. Ho graduated from the Hong Kong Polytechnic University with a higher certificate in production and industrial engineering in 1983. Prior to joining the Group in 1988, he had 10 years' experience in the research, development and engineering aspects of the plastic and metal assembly industry.

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## REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited accounts for the year ended 31st March, 1998.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of personal computer casings and switching power supplies, video cassette housings, office automation products and moulds and other plastic and metal parts.

An analysis of the Group's turnover and contribution to operating profit by principal activity and market is as follows:

	Turnover		Contribution to operating profit	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysis by principal activity				
Manufacturing and sale of				
— Video cassette housings	126,921	148,079	20,234	31,010
— Personal computer casings and switching power supplies	225,549	318,377	59,312	81,192
— Office automation products	189,045	72,973	35,587	23,224
— Moulds and other plastic and metal parts	77,099	59,193	29,316	21,488
	<u>618,614</u>	<u>598,622</u>	<u>144,449</u>	<u>156,914</u>
Less: Administrative and selling expenses			<u>(100,330)</u>	<u>(82,779)</u>
			<u>44,119</u>	<u>74,135</u>



## REPORT OF THE DIRECTORS (CONT'D)

	Turnover		Contribution to operating profit	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysis by principal market				
Western Europe	164,980	173,081	35,772	49,061
Japan	147,343	196,000	30,119	44,666
North America	107,321	115,191	27,116	27,847
Asia (excluding Japan)	198,970	114,350	51,442	35,340
	<u>618,614</u>	<u>598,622</u>	<u>144,449</u>	<u>156,914</u>
Less: Administrative and selling expenses			(100,330)	(82,779)
			<u>44,119</u>	<u>74,135</u>

*Remarks:*

Certain comparative figures have been reclassified to conform with current year's presentation.

**RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31st March, 1998 are set out in the consolidated profit and loss account on page 38 of the annual report.

The Directors have recommended the payment of a final dividend of HK1 cent per ordinary share totalling HK\$3,600,000.

**FINANCIAL SUMMARY**

A summary of the results of the Group for each of the financial year 1994 to 1998 and the assets and liabilities of the Group as at 31st March, 1996, 1997 and 1998 are shown on pages 67 and 68 of the annual report.

**RESERVES**

Movements in the reserves of the Group and the Company during the year are shown in note 20 to the accounts.

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## REPORT OF THE DIRECTORS (CONT'D)

**FIXED ASSETS**

Details of the movements in fixed assets are shown in note 12 to the accounts.

**SUBSIDIARIES**

Particulars of the Company's subsidiaries as at 31st March, 1998 are set out in notes 13 and 14 to the accounts.

**DIRECTORS**

The Directors during the year were:

**Executive Directors**

Mr. Ho Cheuk Fai

Mr. Ho Cheuk Ming

Mr. Chang Ping Kin

(resigned on 1st December, 1997)

Mr. Li Cheuk Sum

Mr. Tam Wing Hung

Mr. Lee Shu Ki

(appointed on 8th December, 1997)

**Independent non-executive Directors**

Dr. Chang Chu Cheng

(resigned on 22nd December, 1997)

The Hon. Dr. Lee Peng Fei, Allen, CBE, JP

(resigned on 22nd January, 1998)

Mr. Chan Sui Sum, Raymond

(appointed on 5th February, 1998)

Mr. Leung Wai Ho

(appointed on 8th December, 1997)

In accordance with bye-law 86(2) of the Company's Bye-Laws, Messrs. Lee Shu Ki, Chan Sui Sum, Raymond and Leung Wai Ho retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Ho Cheuk Ming retires from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.



## REPORT OF THE DIRECTORS (CONT'D)

**DIRECTORS' SERVICE CONTRACTS**

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

**DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS**

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted a waiver to the Company from strict compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on the following recurring connected transactions. Pursuant to the waiver, the Company is not required to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. Details of such connected transactions are as follows:

- (i) Castfast Industrial (Yan Tien) Limited ("Castfast (Yan Tien)"), a wholly-owned subsidiary of the Company, received rentals in aggregate of HK\$379,644 during the financial year under review from Kar-Info Company Limited ("Kar Info") in respect of a portion of 3rd Floor of Phase 4 of a factory in Yantian, Dongguan, the People's Republic of China pursuant to a five-year lease agreement entered into between Castfast (Yan Tien) and Kar-Info on 15th November, 1996.
- (ii) Karrie Industrial Company Limited ("Karrie Industrial"), a wholly-owned subsidiary of the Company, paid rentals in aggregate of HK\$486,000 during the financial year under review to Kings Lion Development Limited ("Kings Lion") in respect of a portion of 9th Floor, Southeast Industrial Building, 611-619 Castle Peak Road, Tsuen Wan, New Territories together with two car parking spaces in the same building pursuant to a three-year lease agreement entered into between Karrie Industrial and Kings Lion on 18th November, 1996.

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## REPORT OF THE DIRECTORS (CONT'D)

- (iii) Karrie Industrial received a management fee in aggregate of HK\$600,000 during the financial year under review from Kar-Info in respect of the provision of management services to the business of Kar-Info pursuant to a five-year management service agreement entered into between Karrie Industrial and Kar-Info on 23rd November, 1996.
- (iv) Castfast (Yan Tien) received rentals in aggregate of HK\$2,861,640 during the financial year under review from Dongguan Yanxun Electronics Company Limited (“Dongguan Yanxun”), an 85% owned subsidiary of the Company, in respect of a portion of a factory in Yantian, Dongguan, the People’s Republic of China pursuant to a five-year lease agreement entered into between Castfast (Yan Tien) and Dongguan Yanxun on 15th November, 1996.

Kar-Info and Kings Lion are connected persons of the Company under Chapter 14 of the Listing Rules for the reason that Mr. Ho Cheuk Fai, a Director of the Company, together with his wife, control 100% of the voting power in general meetings and also control the board of each of Kar-Info and Kings Lion.

The independent non-executive Directors have reviewed the above transactions and confirmed that those transactions have been entered into by the Group in the ordinary and usual course of its business and on normal commercial terms which are fair and reasonable so far as the shareholders of the Company are concerned.

In addition, the Group has also entered into the following connected transactions during the year:

- (a) On 11th August, 1997, Karrie Industrial entered into an agreement (the “Agreement”) with Kar-Info whereby Karrie Industrial agreed to manufacture the devices for capturing data in smart card management systems developed by Kar-Info to the specifications of Kar-Info and in accordance with work orders placed by Kar-Info during a term of two years from 11th August, 1997 to 10th August, 1999 on the conditions that (i) the gross profit margin of Karrie Industrial attributable to the arrangement under the Agreement would not be less than 30% each year and (ii) the aggregate value of such work orders during the term of the Agreement would not be more than HK\$7,200,000.



## REPORT OF THE DIRECTORS (CONT'D)

The Agreement constituted a connected transaction to the Company and has been approved by the independent non-executive Directors of the Company and was disclosed by way of a press notice on 11th August, 1997.

- (b) On 16th December, 1997, a charge was entered into between Castfast (Yan Tien) as chargor and the Fenggang Office of The Industrial and Commercial Bank of China, Dongguan Branch as chargee whereby the chargor charged part of its production facility located in Yantian Management District, Fenggang, Dongguan, Guangdong Province, the People's Republic of China to the chargee to secure the banking facilities to the extent of RMB3,000,000 granted by the chargee to Dongguan Yanxun.

The charge constituted a connected transaction to the Company and requires disclosure in the annual report of the Company.

- (c) On 15th January, 1998, a charge was entered into between Castfast (Yan Tien) as chargor, The Rural Credit Co-operative in Fenggang, Dongguan as chargee and Dongguan Yanxun as borrower whereby the chargor charged part of its production facility located in Yantian Management District, Fenggang, Dongguan, Guangdong Province, the People's Republic of China to the chargee to secure the banking facilities to the extent of RMB10,000,000 granted by the chargee to the borrower.

The charge constituted a connected transaction to the Company and requires disclosure in the annual report of the Company.

Save as disclosed above, no other contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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## REPORT OF THE DIRECTORS (CONT'D)

**DIRECTORS' INTERESTS IN SHARES**

As at 31st March, 1998, the interests of the Directors and chief executives in the shares of the Company and any associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**(A) Interests in the Company**

	Number of ordinary shares of HK\$0.10 each			
	Personal interests	Family interests	Corporate/ Other interests	Total interests
Mr. Ho Cheuk Fai	—	37,800,000 (Note 1)	232,200,000 (Notes 2 and 3)	270,000,000
Mr. Ho Cheuk Ming	—	—	232,176,780 (Note 4)	232,176,780

*Notes:*

- 1 Mr. Ho Cheuk Fai was deemed to be interested in these shares which were held personally by his wife, Ms. Ho Po Chu, Scandy.
- 2 183,600,000 of these shares (the "Charged Shares") were held by ING Nominees (Hong Kong) Limited ("ING Nominees") as security under a share charge deed dated 17th March, 1997 (the "Charge") made between Pearl Court Company Limited ("Pearl Court") and ING Capital Markets (Hong Kong) Limited ("ING Capital") and the remaining 48,600,000 shares were held by Pearl Court. In both cases, Pearl Court acted as trustee for a unit trust known as the Ho Cheuk Fai Family Trust (the "HCF Trust"). The security under the Charge had not been enforced. Mr. Ho Cheuk Fai was deemed to be interested in these shares by virtue of the fact that his wife, Ms. Ho Po Chu, Scandy, was the only shareholder of Pearl Court and therefore entitled to exercise one-third or more of the voting power at general meetings of Pearl Court. In addition, Mr. Ho Cheuk Fai and his wife were two of the three directors of Pearl Court.
- 3 One unit of the HCF Trust as referred to in note 2 above was held by Ms. Ho Po Chu, Scandy and 9,999 units were held by HSBC International Trustee Limited as trustee for a discretionary trust known as the Ho Wai Leung Memorial Trust (the "HWL Trust"). Mr. Ho Cheuk Fai was deemed to be interested in these shares by virtue of his wife's interest and by virtue of the fact that the beneficiaries of the HWL Trust included his wife and children under 18.
- 4 Mr. Ho Cheuk Ming was deemed to be interested in these shares by virtue of the fact that he and his child under 18 were beneficiaries of the HWL Trust.





## REPORT OF THE DIRECTORS (CONT'D)

On 3rd June, 1998, the Company received a notice from each of Messrs. Ho Cheuk Fai and Ho Cheuk Ming stating that ING Nominees re-assigned the Charged Shares to Pearl Court on 2nd June, 1998 as Pearl Court had repaid all the outstanding loans due to ING Capital and the Charge was discharged on 3rd June, 1998.

**(B) Interests in associated corporations**

## (i) Karrie Industrial Company Limited

	Number of non-voting deferred shares of HK\$100 each			
	Personal interests	Family interests	Corporate/ Other interests	Total interests
Mr. Ho Cheuk Fai	43,000	7,000	—	50,000

## (ii) Karpo Technologies Limited

	Number of non-voting deferred shares of HK\$100 each			
	Personal interests	Family interests	Corporate/ Other interests	Total interests
Mr. Ho Cheuk Fai	10,000	—	—	10,000

## (iii) Karrie Industrial Holdings Limited

	Number of non-voting deferred shares of HK\$1 each			
	Personal interests	Family interests	Corporate/ Other interests	Total interests
Mr. Ho Cheuk Fai	1	1	—	2

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31st March, 1998.

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## REPORT OF THE DIRECTORS (CONT'D)

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 1998, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

	Number of ordinary shares of HK\$0.10 each		
	Personal interests	Corporate/ Other interests	Total interests
ING Nominees (Hong Kong) Limited	—	183,600,000 (Note 1)	183,600,000
Ms. Ho Po Chu, Scandy	37,800,000	232,200,000 (Note 2)	270,000,000
Pearl Court Company Limited	—	232,200,000 (Note 3)	232,200,000

	Number of ordinary shares of HK\$0.10 each		
	Personal interests	Corporate/ Other interests	Total interests
HSBC Holdings plc	—	232,176,780 (Note 4)	232,176,780
HSBC Finance (Netherlands)	—	232,176,780 (Note 4)	232,176,780
HSBC Holdings B.V.	—	232,176,780 (Note 4)	232,176,780
HSBC Investment Bank Holdings B.V.	—	232,176,780 (Note 4)	232,176,780
HSBC International Trustee Limited	—	232,176,780 (Note 4)	232,176,780



## REPORT OF THE DIRECTORS (CONT'D)

*Notes:*

- 1 These shares were held by ING Nominees as security under the Charge, as referred to in note 2 of the section headed "DIRECTORS' INTERESTS IN SHARES — Interests in the Company". The security under the Charge had not been enforced.
- 2 183,600,000 of these shares were held by ING Nominees as security under the Charge, as referred to in note 2 of the section headed "DIRECTORS' INTERESTS IN SHARES — Interests in the Company" and the remainder by Pearl Court as trustee for the HCF Trust. Ms. Ho Po Chu, Scandy was deemed to be interested in these shares through Pearl Court by virtue of the fact that she and her husband were two of the three directors of Pearl Court and that she was also the only shareholder of Pearl Court. She also held one unit of the HCF Trust and was a beneficiary under the HWL Trust, as referred to in note 3 of the section headed "DIRECTORS' INTERESTS IN SHARES — Interests in the Company".
- 3 183,600,000 of these shares were held by ING Nominees as security under the Charge, as referred to in note 2 of the section headed "DIRECTORS' INTERESTS IN SHARES — Interests in the Company" and the remainder by Pearl Court as trustee for the HCF Trust.
- 4 HSBC International Trustee Limited ("HITL") was a wholly-owned subsidiary of HSBC Holdings plc ("HSBC Holdings") through HSBC Finance (Netherlands), HSBC Holdings B.V. and HSBC Investment Bank Holdings B.V. which were also wholly-owned subsidiaries of HSBC Holdings (together known as the "HSBC Group"). HITL was the trustee of the HWL Trust as referred to in note 3 of the section headed "DIRECTORS' INTERESTS IN SHARES — Interests in the Company" above holding 9,999 units of the HCF Trust. The HSBC Group was interested in these shares through Pearl Court which was the trustee of the HCF Trust.

Save as disclosed above, there were no other interests as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as at 31st March, 1998.

On 3rd June, 1998, the Company received a notice from each of Pearl Court and Ms. Ho Po Chu, Scandy notifying the Company of the transfer of the Charged Shares from ING Nominees to Pearl Court upon release of the Charge.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st March, 1998. There has been no exercise of convertible securities, options, warrants or other similar rights during the year ended 31st March, 1998.

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## REPORT OF THE DIRECTORS (CONT'D)

**ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES**

A Share Option Scheme, as more fully described in note 19 to the accounts, is maintained by the Company under which eligible employees of the Group, including executive Directors of the Company, may be granted options to subscribe for shares in the Company. No option was granted during the year ended 31st March, 1998.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements which enabled the Directors or chief executives of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

**MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.



## REPORT OF THE DIRECTORS (CONT'D)

**BORROWINGS**

Details of borrowings of the Group as at 31st March, 1998 are set out in notes 16 and 21 to the accounts.

**MAJOR SUPPLIERS AND CUSTOMERS**

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	8.9%
Percentage of purchases attributable to the Group's five largest suppliers	31.3%
Percentage of sales attributable to the Group's largest customer	25.2%
Percentage of sales attributable to the Group's five largest customers	77.5%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers and customers.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

Throughout the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**AUDITORS**

The accounts have been audited by Price Waterhouse who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Ho Cheuk Fai**

*President and Managing Director*

HONG KONG, 13th August, 1998

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# REPORT OF THE AUDITORS

## **TO THE SHAREHOLDERS OF**

## **KARRIE INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 38 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.



REPORT OF THE AUDITORS (CONT'D)

**OPINION**

In our opinion the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31st March, 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PRICE WATERHOUSE**

*Certified Public Accountants*

HONG KONG, 13th August, 1998

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# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March, 1998

	<i>Note</i>	<b>1998</b> <b>HK\$'000</b>	1997 <i>HK\$'000</i>
TURNOVER	2	<b>618,614</b>	598,622
OPERATING PROFIT	3	<b>44,119</b>	74,135
EXCEPTIONAL ITEMS	6	<b>(27,087)</b>	21,049
PROFIT BEFORE TAXATION		<b>17,032</b>	95,184
TAXATION	7	<b>10,582</b>	(13,971)
PROFIT AFTER TAXATION		<b>27,614</b>	81,213
MINORITY INTERESTS		<b>251</b>	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	<b>27,865</b>	81,213
DIVIDENDS	9	<b>(3,600)</b>	(38,440)
PROFIT FOR THE YEAR RETAINED		<b>24,265</b>	42,773
EARNINGS PER SHARE	10	<b>HK7.7 cents</b>	HK27.3 cents





# CONSOLIDATED BALANCE SHEET

As at 31st March, 1998

	Note	1998 HK\$'000	1997 HK\$'000
FIXED ASSETS	12	206,460	165,004
NON-CONSOLIDATED SUBSIDIARY	14	—	781
DEVELOPMENT COSTS	15	9,307	—
NET CURRENT ASSETS	16	124,022	139,593
		<b>339,789</b>	<b>305,378</b>
Financed by:			
SHARE CAPITAL	19	36,000	36,000
RESERVES	20	278,419	254,154
SHAREHOLDERS' FUNDS		314,419	290,154
MINORITY INTERESTS		424	675
LONG TERM LIABILITIES	21	17,537	8,332
DEFERRED TAXATION	22	7,409	6,217
		<b>339,789</b>	<b>305,378</b>

Approved by the Board of Directors on 13th August, 1998

**Ho Cheuk Fai**  
Director

**Li Cheuk Sum**  
Director

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# BALANCE SHEET

As at 31st March, 1998

	<i>Note</i>	<b>1998</b> <i>HK\$'000</i>	1997 <i>HK\$'000</i>
SUBSIDIARIES	13	<b>288,432</b>	292,428
NET CURRENT LIABILITIES	16	<b>(6,015)</b>	(9,632)
		<b>282,417</b>	282,796
Financed by:			
SHARE CAPITAL	19	<b>36,000</b>	36,000
RESERVES	20	<b>246,417</b>	246,796
SHAREHOLDERS' FUNDS		<b>282,417</b>	282,796

Approved by the Board of Directors on 13th August, 1998

**Ho Cheuk Fai**  
*Director*

**Li Cheuk Sum**  
*Director*



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 1998

	Note	1998 HK\$'000	1997 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	26(a)	57,789	(17,492)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		598	6,810
Interest paid		(7,956)	(5,029)
Interest element of finance lease rental payments		(955)	(971)
Dividend paid		(19,440)	—
NET CASH (OUTFLOW)/ INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(27,753)	810
TAXATION			
Tax refunded		291	48
Hong Kong profits tax paid		(2,229)	(8,429)
TAX PAID		(1,938)	(8,381)
INVESTING ACTIVITIES			
Development costs paid		(10,742)	—
Purchase of fixed assets		(61,325)	(32,382)
Purchase of subsidiary		—	(3,030)
Sale of fixed assets		305	8,258
Decrease/(increase) in amount due from a non-consolidated subsidiary		781	(174)
Increase in amount due from a minority shareholder		(373)	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(71,354)	(27,328)
NET CASH OUTFLOW BEFORE FINANCING		(43,256)	(52,391)

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CONSOLIDATED CASH FLOW STATEMENT (CONT'D)  
For the year ended 31st March, 1998

	<i>Note</i>	<b>1998</b> <b>HK\$'000</b>	1997 <i>HK\$'000</i>
<b>FINANCING</b>			
Proceeds from issue of shares		—	103,500
New share issue expenses		—	(14,634)
New bank loans borrowed		<b>25,500</b>	—
Capital element of finance lease rental payments		<b>(5,411)</b>	(5,967)
<b>NET CASH INFLOW FROM FINANCING</b>	<i>26(b)</i>	<b>20,089</b>	82,899
(Decrease)/increase in cash and cash equivalents		<b>(23,167)</b>	30,508
Cash and cash equivalents at beginning of the year		<b>(5,359)</b>	(35,867)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>(28,526)</b>	(5,359)
Analysis of the balances of cash and cash equivalents	<i>26(c)</i>		
Cash and bank balances		<b>26,494</b>	21,796
Bank loans and overdrafts		<b>(55,020)</b>	(27,155)
		<b>(28,526)</b>	(5,359)



# NOTES TO THE ACCOUNTS

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in the preparation of the accounts, which conform with accounting principles generally accepted in Hong Kong, are as follows:

### (a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

### (b) Subsidiary

A company is a subsidiary if more than 50% of the issued voting capital is held for the long term.

### (c) Revenue recognition

- (i) Revenue from sale of goods is recognised on delivery of merchandise.
- (ii) Interest income is recognised on a time proportion basis.

### (d) Depreciation

Fixed assets other than construction in progress are stated at cost or valuation less accumulated depreciation. Construction in progress is stated at cost.

Medium term leasehold land is amortised over the remaining period of the leases. Other fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight line basis at the following annual rates:

Buildings	2-4%
Leasehold improvements	2-4%
Plant and machinery	15-20%
Production toolings	10-15%
Furniture and equipment	10-30%

Profits and losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of assets and are dealt with in the profit and loss accounts. Upon disposal of revalued assets, any revaluation surplus is transferred directly to retained profit.

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## NOTES TO THE ACCOUNTS (CONT'D)

**1 PRINCIPAL ACCOUNTING POLICIES** (*Cont'd*)**(e) Assets under leases****(i) Finance leases**

Leases that transfer to the Group substantially all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding interest element, to pay future rentals.

Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Fixed assets held under finance leases are depreciated on the same basis as other fixed assets as described in note 1(d) above.

**(ii) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on a straight line basis over the lease term.

**(f) Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(g) Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.



## NOTES TO THE ACCOUNTS (CONT'D)

**1 PRINCIPAL ACCOUNTING POLICIES** (*Cont'd*)**(h) Foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

**(i) Development costs**

Development costs comprise all costs directly attributable to the Group's development of laser printer and multi-functional fax machines. Development costs are recognised as an asset and amortised on a straight line basis over 5 years to reflect the pattern in which the related economic benefits are recognised.

**(j) Related companies**

A related company is a company in which a Director of the Company or his family member has a significant direct or indirect beneficial interest.

**2 TURNOVER**

Turnover represents invoiced value of goods sold and services provided to the following:

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Third parties	<b>618,444</b>	576,808
Related companies	<b>170</b>	21,814
	<b>618,614</b>	<b>598,622</b>



## NOTES TO THE ACCOUNTS (CONT'D)

**3 OPERATING PROFIT**

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Rental income less outgoings	<b>311</b>	<b>1,041</b>
<b>Charging</b>		
Amortisation of development costs (note 15)	<b>2,327</b>	—
Auditors' remuneration	<b>1,297</b>	1,223
Depreciation		
— owned fixed assets	<b>22,961</b>	15,354
— leased fixed assets	<b>3,116</b>	4,426
Less: capitalised under development costs	<b>(892)</b>	—
	<b>25,185</b>	19,780
Interest expenses (note 4)	<b>8,911</b>	6,000
Operating lease rentals		
— land and buildings	<b>3,576</b>	2,390
— plant and machinery	—	267
Provision for long service payments	<b>1,273</b>	400





## NOTES TO THE ACCOUNTS (CONT'D)

**4 INTEREST EXPENSES**

	<b>Group</b>	
	<b>1998</b>	1997
	<b>HK\$'000</b>	HK\$'000
Bank loans and overdrafts	<b>7,956</b>	5,029
Finance leases	<b>955</b>	971
	<b>8,911</b>	6,000

**5 EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES**

Details of emoluments paid by the Group to the Directors are as follows:

	<b>Group</b>	
	<b>1998</b>	1997
	<b>HK\$'000</b>	HK\$'000
Independent non-executive Directors		
Fees	<b>567</b>	200
Executive Directors		
Fees	—	—
Salaries and other emoluments	<b>4,625</b>	4,199
Bonuses	<b>1,600</b>	4,453
	<b>6,792</b>	8,852

The emoluments were paid to the Directors as follows:

	<b>Number of Directors</b>	
	<b>1998</b>	1997
Emoluments band		
HK\$nil — HK\$1,000,000	<b>9</b>	2
HK\$1,000,001 — HK\$1,500,000	—	3
HK\$1,500,001 — HK\$2,000,000	—	1
HK\$3,500,001 — HK\$4,000,000	<b>1</b>	1
	<b>10</b>	7



## NOTES TO THE ACCOUNTS (CONT'D)

**5 EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES** (*Cont'd*)

The five highest paid individuals during the year include three (1997: all) executive Directors and details of their emoluments are included above. Details of the emoluments of the remaining two highest paid individuals during the year are as follows:

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Salaries and other emoluments	<b>1,465</b>	—
Bonuses	<b>130</b>	—
	<b>1,595</b>	—
	<b>Number of individuals</b>	
	<b>1998</b>	<b>1997</b>
Emoluments band		
HK\$nil — HK\$1,000,000	<b>2</b>	—

**6 EXCEPTIONAL ITEMS**

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Write back on amounts due from related companies	—	5,839
Profit on disposal of a property	—	9,516
Interest income on application monies received		
on issue of new shares	—	5,694
Provision for doubtful debts	<b>(27,087)</b>	—
	<b>(27,087)</b>	<b>21,049</b>



## NOTES TO THE ACCOUNTS (CONT'D)

**7 TAXATION**

Hong Kong profits tax has been provided at the rate of 16.5% (1997: 16.5%) on the estimated assessable profit for the year.

	<b>Group</b>	
	<b>1998</b>	1997
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>2,095</b>	11,493
Overprovision in prior years	<b>(13,869)</b>	—
Deferred taxation (note 22)	<b>1,192</b>	2,478
	<b>(10,582)</b>	13,971

The overprovision in prior years relates to settlement of a tax dispute with the Hong Kong Inland Revenue Department previously provided for.

The deferred taxation charges for the year which have not been accounted for in the accounts are as follows:

	<b>Group</b>	
	<b>1998</b>	1997
	<b>HK\$'000</b>	HK\$'000
Accelerated depreciation allowances	<b>1,032</b>	629
Tax losses	<b>238</b>	382
Other timing differences	<b>1,591</b>	—
	<b>2,861</b>	1,011

**8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$3,221,000 (1997: HK\$20,085,000).



## NOTES TO THE ACCOUNTS (CONT'D)

**9 DIVIDENDS**

	<b>1998</b> <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Interim dividend paid by a subsidiary to its then shareholders as part of the reorganisation of the Group	—	19,000
Final proposed dividend of HK1 cent (1997: HK5.4 cents) per ordinary share	<u><b>3,600</b></u>	<u>19,440</u>
	<u><b>3,600</b></u>	<u>38,440</u>

**10 EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$27,865,000 (1997: HK\$81,213,000) and the weighted average number of 360,000,000 ordinary shares (1997: 297,863,014 ordinary shares) in issue during the year.

**11 RELATED PARTY TRANSACTIONS**

Details of significant related party transactions, which in the opinion of the Directors of the Company were carried out in the ordinary course of the Group's business, are as follows:

	<b>Group</b> <b>1998</b> <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Income:		
Sales	<b>170</b>	21,814
Rental income	<b>380</b>	1,057
Interest income	—	467
Management fee	<b>600</b>	1,600
Subcontracting charge	<u>—</u>	<u>321</u>
Expenses:		
Repair and maintenance expenses	—	1,867
Operating lease rentals	<b>486</b>	483
Purchases	<u>—</u>	<u>938</u>



## NOTES TO THE ACCOUNTS (CONT'D)

## 12 FIXED ASSETS

## Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Production toolings <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation							
At 1st April, 1997	80,450	—	30,224	140,524	70,579	25,129	346,906
Additions	1,238	13,849	3,034	39,557	4,457	5,469	67,604
Disposals	—	—	—	(826)	(67)	(472)	(1,365)
At 31st March, 1998	81,688	13,849	33,258	179,255	74,969	30,126	413,145
Accumulated depreciation							
At 1st April, 1997	1,204	—	4,658	101,186	57,078	17,776	181,902
Charge for the year	1,876	—	806	15,493	5,406	2,496	26,077
Written back on disposals	—	—	—	(767)	(58)	(469)	(1,294)
At 31st March, 1998	3,080	—	5,464	115,912	62,426	19,803	206,685
Net book value							
At 31st March, 1998	78,608	13,849	27,794	63,343	12,543	10,323	206,460
At 31st March, 1997	79,246	—	25,566	39,338	13,501	7,353	165,004
The analysis of cost or valuation of the above assets is as follows:							
At cost	1,238	13,849	33,258	179,255	74,969	30,126	332,695
At professional valuation — 1996	80,450	—	—	—	—	—	80,450
	81,688	13,849	33,258	179,255	74,969	30,126	413,145

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## NOTES TO THE ACCOUNTS (CONT'D)

**12 FIXED ASSETS** (*Cont'd*)

- (a) The Group's land and buildings were revalued as at 30th September, 1996 by Jones Lang Wootton, an independent firm of professional valuers, on an open market value basis. The carrying amount of leasehold land and buildings would have been HK\$36,236,000 (1997: HK\$35,841,000) had they been stated at cost less accumulated depreciation.
- (b) Included in plant and machinery were assets held under finance leases with net book value of HK\$14,244,000 (1997: HK\$13,078,000).
- (c) The leasehold land and buildings are analysed as follows:

	<b>Group</b> <i>HK\$'000</i>
On medium term lease	
Held in Hong Kong	16,450
Held outside Hong Kong	<u>65,238</u>
	<u><u>81,688</u></u>

- (d) Certain of the Group's leasehold land and buildings have been pledged to banks to secure bank loans amounting to HK\$13,000,000.

**13 SUBSIDIARIES**

	<b>Company</b>	
	<b>1998</b>	1997
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Unlisted shares, at cost	<b>193,285</b>	193,285
Amounts due from subsidiaries	<b>96,947</b>	99,155
Amount due to a subsidiary	<b>(1,800)</b>	<u>(12)</u>
	<u><b>288,432</b></u>	<u><u>292,428</u></u>

The amounts due from/(to) subsidiaries are unsecured and interest free, and have no fixed repayment terms.



## NOTES TO THE ACCOUNTS (CONT'D)

**13 SUBSIDIARIES** (Cont'd)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ operation	Percentage attributable equity interest		Registered capital/ issued and fully paid share capital	Principal activities
		Held directly	Held indirectly		
Castfast Industrial Company Limited	Hong Kong	—	100	Ordinary HK\$100 Deferred* HK\$990,200	Plastic injection moulding operations
Castfast Industrial (Yan Tien) Limited	Hong Kong/ The People's Republic of China	—	100	Ordinary HK\$100 Deferred* HK\$10,000	Property holding and investment holding
Castfast Magnetics Moulding Limited	Hong Kong	—	100	Ordinary HK\$10 Deferred* HK\$30,000	Manufacture of plastic injection moulds and metal stamping dies
Dongguan Yanxun Electronics Company Limited	The People's Republic of China	—	85	Registered HK\$4,500,000	Manufacture of computer casings, video cassette housings, office automation products and plastic and metal parts
Hong Kong Hung Hing Metal Manufacturing Company Limited	Hong Kong	—	100	Ordinary HK\$100 Deferred* HK\$250,000	Manufacture and sale of metal parts; design of switching power supplies

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## NOTES TO THE ACCOUNTS (CONT'D)

## 13 SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operation	Percentage attributable equity interest		Registered capital/ issued and fully paid share capital	Principal activities
		Held directly	Held indirectly		
Huizhou Hung Hing Computer Fittings Factory Limited	The People's Republic of China	—	51	Registered US\$2,600,000	Electroplating and spraying operations
Karwin Engineering Company Limited	Hong Kong	—	100	Ordinary HK\$10 Deferred* HK\$100	Sale of computer casings, switching power supplies and office automation products
Kings Horse Investment Limited	Hong Kong	—	100	Ordinary HK\$10 Deferred* HK\$10,000	Property holding
Kwong Hing Computer Metallic Components Limited	Hong Kong	—	100	Ordinary HK\$100 Deferred* HK\$1,250,010	Inactive
Karrie Industrial Company Limited	Hong Kong	—	100	Ordinary HK\$1,000 Deferred* HK\$5,000,000	Design, manufacture and sale of computer casings and video cassette housings; manufacture and sale of plastic and metal parts, switching power supplies, metal stamping dies and plastic injection moulds
Karrie International (B.V.I.) Limited	British Virgin Islands	100	—	Ordinary US\$100	Investment holding





## NOTES TO THE ACCOUNTS (CONT'D)

## 13 SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operation	Percentage attributable equity interest		Registered capital/ issued and fully paid share capital	Principal activities
		Held directly	Held indirectly		
Karpo Technologies Limited	Hong Kong	—	100	Ordinary HK\$1,000 Deferred* HK\$1,000,000	Inactive
Karrie Industrial Holdings Limited	Hong Kong	—	100	Ordinary HK\$10 Deferred* HK\$2	Not yet commenced business
Karrie (Video) Industrial Company Limited	Hong Kong	—	100	Ordinary HK\$1,000 Deferred* HK\$1,000,000	Not yet commenced business

\* The deferred shares carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up unless the assets of the companies to be returned on winding up exceed the value of HK\$200,000,000,000.

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## NOTES TO THE ACCOUNTS (CONT'D)

## 14 NON-CONSOLIDATED SUBSIDIARY

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted investment, at cost	<b>3,184</b>	3,184
Less: Provision for permanent diminution	<b>(3,184)</b>	(3,184)
	<u>—</u>	<u>—</u>
Amount due from the non-consolidated subsidiary	<u>—</u>	<u>781</u>
	<u>—</u>	<u>781</u>

The non-consolidated subsidiary is Huizhou Hung Hing Computer Fittings Factory Limited whose accounts have not been included in the Group accounts because, in the opinion of the Directors, it would be of no real value to members of the Company in view of the insignificant amounts involved.

The post-acquisition losses of this non-consolidated subsidiary attributable to the Group are as follows:

	<b>Year ended 31st March, 1998</b>	<b>Previous years since acquisition</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Dealt with in the Group accounts	<u>—</u>	<u>3,184</u>	<u>3,184</u>

## 15 DEVELOPMENT COSTS

	<b>Group</b>
	<b>HK\$'000</b>
Additions during the year	11,634
Amortisation (note 3)	<u>(2,327)</u>
At 31st March, 1998	<u>9,307</u>



## NOTES TO THE ACCOUNTS (CONT'D)

## 16 NET CURRENT ASSETS/(LIABILITIES)

	Group		Company	
	1998	1997	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets				
Stocks (note 17)	128,061	103,220	—	—
Trade debtors and bills receivable	176,096	180,491	—	—
Sundry debtors, deposits and prepayments	17,767	15,393	—	57
Amount due from a minority shareholder	373	—	—	—
Amounts due from related companies (note 18)	—	6,573	—	—
Cash and bank balances	26,494	21,796	31	13,583
	<u>348,791</u>	<u>327,473</u>	<u>31</u>	<u>13,640</u>
Current liabilities				
Trade creditors and accruals	130,425	109,073	2,446	3,832
Bills payable	2,651	4,241	—	—
Amounts due to related companies (note 18)	498	120	—	—
Current portion of long term liabilities (note 21)	10,162	4,726	—	—
Taxation payable	9,413	23,125	—	—
Proposed dividend	3,600	19,440	3,600	19,440
Bank loans and overdrafts				
— secured	13,000	—	—	—
— unsecured	55,020	27,155	—	—
	<u>224,769</u>	<u>187,880</u>	<u>6,046</u>	<u>23,272</u>
	<u>124,022</u>	<u>139,593</u>	<u>(6,015)</u>	<u>(9,632)</u>

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## NOTES TO THE ACCOUNTS (CONT'D)

## 17 STOCKS

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	<b>90,933</b>	66,159
Work in progress	<b>16,297</b>	15,862
Finished goods	<b>20,831</b>	21,199
	<b>128,061</b>	103,220

## 18 AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Disclosure pursuant to Section 161(B) of the Hong Kong Companies Ordinance is as follows:

	<b>Group</b>		<b>Maximum amount outstanding during the year</b>
<b>Name</b>	<b>Balances as at 31st March, 1998</b>	<b>1997</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Castford Industrial Company Limited	—	3,410	3,512
Kar-Info Company Limited	—	3,163	4,837
	<b>—</b>	<b>6,573</b>	

The amounts due from related companies were unsecured and interest free. Mr. Ho Cheuk Fai has a controlling interest in and is a director of all the above companies.

The amounts due to related companies are unsecured and interest free, and have no fixed terms of repayment.



## NOTES TO THE ACCOUNTS (CONT'D)

## 19 SHARE CAPITAL

	<b>Company</b>	
	<b>1998</b>	1997
	<b>HK\$'000</b>	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	<b>80,000</b>	80,000
Issued and fully paid:		
360,000,000 ordinary shares of HK\$0.10 each	<b>36,000</b>	36,000

On 27th November, 1996, the Company adopted a Share Option Scheme at a special general meeting pursuant to which the Directors may grant options to eligible employees, including executive Directors of the Group, to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors and notified to each grantee and will not be less than 80% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited on each of the five trading days immediately preceding the date of offer of the option granted to a grantee or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

No option has been granted since the adoption of the Share Option Scheme.



## NOTES TO THE ACCOUNTS (CONT'D)

## 20 RESERVES

**Group**

	<b>Share premium HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Property revaluation reserve HK\$'000</b>	<b>Profit and loss account HK\$'000</b>	<b>Total HK\$'000</b>
At 1st April, 1997	52,966	5,900	44,165	151,123	254,154
Profit attributable to shareholders	—	—	—	27,865	27,865
Dividend (note 9)	—	—	—	(3,600)	(3,600)
At 31st March, 1998	<u>52,966</u>	<u>5,900</u>	<u>44,165</u>	<u>175,388</u>	<u>278,419</u>

**Company**

	<b>Share premium HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Profit and loss account HK\$'000</b>	<b>Total HK\$'000</b>
At 1st April, 1997	52,966	193,185	645	246,796
Profit for the year	—	—	3,221	3,221
Dividend (note 9)	—	—	(3,600)	(3,600)
At 31st March, 1998	<u>52,966</u>	<u>193,185</u>	<u>266</u>	<u>246,417</u>

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries at the date on which the shares were acquired by the Company over the nominal value of the Company's shares issued for the acquisition.

The contributed surplus of the Company represents the excess value of the consolidated shareholders' funds of Karrie International (B.V.I.) Limited at the date on which its shares were acquired by the Company over the nominal value of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable.

Distributable reserves of the Company as at 31st March, 1998 amounted to HK\$193,451,000.



## NOTES TO THE ACCOUNTS (CONT'D)

## 21 LONG TERM LIABILITIES

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Wholly repayable within five years		
— unsecured bank loans	<b>12,500</b>	—
— obligations under finance leases	<b>9,526</b>	8,658
Total long term loans	<b>22,026</b>	8,658
Less: Amounts repayable within one year included under current liabilities (note 16)	<b>(10,162)</b>	(4,726)
	<b>11,864</b>	3,932
Provision for long service payments	<b>5,673</b>	4,400
	<b>17,537</b>	8,332

(a) The maturity of the Group's long term loans is as follows:

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank loans		
— within one year	<b>5,000</b>	—
— in the second year	<b>5,000</b>	—
— in the third to fifth years inclusive	<b>2,500</b>	—
	<b>12,500</b>	—
Obligations under finance leases		
— within one year	<b>5,162</b>	4,726
— in the second year	<b>2,967</b>	3,152
— in the third to fifth years inclusive	<b>1,397</b>	780
	<b>9,526</b>	8,658
	<b>22,026</b>	8,658



## NOTES TO THE ACCOUNTS (CONT'D)

**21 LONG TERM LIABILITIES** (*Cont'd*)

- (b) A number of employees have completed the required number of years of service under the Employment Ordinance so as to be eligible for long service payments on termination of their employment. However, the Group is liable to make such payments only when certain circumstances specified in the Employment Ordinance are met. If all the circumstances required by the Employment Ordinance are met, the liabilities to the Group as at 31st March, 1998 would be approximately HK\$11,346,000 (1997: HK\$8,780,000). The unprovided amount of HK\$5,673,000 (1997: HK\$4,380,000) is included in contingent liabilities in note 25(b).

**22 DEFERRED TAXATION**

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At beginning of the year	<b>6,217</b>	3,739
Transfer from profit and loss account (note 7)	<b>1,192</b>	2,478
	<hr/>	<hr/>
At end of the year	<b>7,409</b>	6,217
	<hr/>	<hr/>
Provided in the accounts in respect of:		
Accelerated depreciation allowances	<b>7,409</b>	6,217
	<hr/>	<hr/>
Deferred tax assets/(liabilities) which have not been accounted for in the accounts amount to:		
Accelerated depreciation allowances	<b>(945)</b>	87
Unutilised tax losses	<b>1,361</b>	1,599
Other timing differences	<b>—</b>	1,591
	<hr/>	<hr/>
	<b>416</b>	3,277
	<hr/>	<hr/>

The surplus on revaluation of the Group's land and buildings does not constitute timing differences for deferred taxation purposes.





## NOTES TO THE ACCOUNTS (CONT'D)

## 23 CAPITAL COMMITMENTS

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Contracted but not provided for	<b>13,744</b>	<b>22,814</b>

The capital commitments relate to construction costs to be incurred on a new factory and purchase of plant and machinery.

## 24 LEASE COMMITMENTS

	<b>Group</b>	
	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating lease commitments at 31st March payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:		
Land and buildings		
— expiring in the first year	<b>649</b>	<b>311</b>
— expiring in the second to fifth years inclusive	<b>1,380</b>	<b>1,451</b>
— expiring after the fifth year	<b>625</b>	<b>30</b>
	<b>2,654</b>	<b>1,792</b>



## NOTES TO THE ACCOUNTS (CONT'D)

**25 CONTINGENT LIABILITIES**

- (a) The Company has given guarantees in respect of the banking facilities to the extent of HK\$77,348,000 granted by banks to the Company's subsidiaries. The amount of banking facilities utilised by the subsidiaries as at 31st March, 1998 was approximately HK\$62,799,000.

(b)

<b>Group</b>	
<b>1998</b>	<b>1997</b>
<b>HK\$'000</b>	<b>HK\$'000</b>

Unprovided long service payments under the  
Employment Ordinance (note 21(b))

**5,673**      **4,380**

**26 CONSOLIDATED CASH FLOW STATEMENT**

- (a) **Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities**

	<b>1998</b>	<b>1997</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit before taxation	<b>17,032</b>	95,184
Profit on disposal of fixed assets	<b>(234)</b>	(9,977)
Depreciation	<b>25,185</b>	19,780
Amortisation of development costs	<b>2,327</b>	—
Interest income	<b>(598)</b>	(6,810)
Interest expenses	<b>8,911</b>	6,000
Provision for long service payments	<b>1,273</b>	400
(Increase)/decrease in stocks	<b>(24,841)</b>	8,311
Decrease/(increase) in trade debtors and bills receivable	<b>4,395</b>	(178,869)
Increase in sundry debtors, deposits and prepayments	<b>(2,374)</b>	(5,537)
Decrease in amount due from a director	—	1,158
Decrease in net amounts due from related companies	<b>6,951</b>	46,991
Increase in trade creditors and accruals	<b>21,352</b>	13,004
Decrease in bills payable	<b>(1,590)</b>	(7,127)
Net cash inflow/(outflow) from operating activities	<b>57,789</b>	(17,492)



## NOTES TO THE ACCOUNTS (CONT'D)

## 26 CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

## (b) Analysis of changes in financing during the year

	Bank loan HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000	Total HK\$'000
Balance at 1st April, 1997	—	8,658	675	9,333
Share of loss of a subsidiary by minority shareholder	—	—	(251)	(251)
Inception of finance leases	—	6,279	—	6,279
New loans borrowed	25,500	—	—	25,500
Repayments	—	(5,411)	—	(5,411)
Balance at 31st March, 1998	25,500	9,526	424	35,450

## (c) Reconciliation of the balances of cash and cash equivalents

	1998 HK\$'000	1997 HK\$'000
Cash and bank balances	26,494	21,796
Bank loans and overdrafts		
— secured	13,000	—
— unsecured	55,020	27,155
Non-cash equivalents	68,020 (13,000)	27,155 —
Cash and cash equivalents	55,020 (28,526)	27,155 (5,359)

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NOTES TO THE ACCOUNTS (CONT'D)

**26 CONSOLIDATED CASH FLOW STATEMENT** (*Cont'd*)

**(d) Major non-cash transaction**

During the year the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$6,279,000.

**27 APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of Directors on 13th August, 1998.

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## FINANCIAL SUMMARY

The results of the Group for the last five financial years ended 31st March, 1998 and the assets and liabilities of the Group as at 31st March, 1996, 1997 and 1998 are as follows:

### Results

	Year ended 31st March,				
	1998	1997	1996	1995	1994
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>618,614</b>	598,622	749,072	482,220	349,303
Operating profit	<b>44,119</b>	74,135	62,610	21,954	22,149
Exceptional items	<b>(27,087)</b>	21,049	2,093	—	(1,980)
Profit before taxation	<b>17,032</b>	95,184	64,703	21,954	20,169
Taxation	<b>10,582</b>	(13,971)	(14,067)	(3,505)	(2,953)
Profit after taxation	<b>27,614</b>	81,213	50,636	18,449	17,216
Minority interests	<b>251</b>	—	—	—	—
Profit attributable to shareholders	<b>27,865</b>	81,213	50,636	18,449	17,216

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## FINANCIAL SUMMARY (CONT'D)

**Assets and liabilities**

	<b>As at 31st March,</b>		
	<b>1998</b>	1997	1996
	<b>HK\$'000</b>	HK\$'000	HK\$'000
Fixed assets	<b>206,460</b>	165,004	104,586
Non-consolidated subsidiary	—	781	607
Development costs	<b>9,307</b>	—	—
Net current assets	<b>124,022</b>	139,593	19,653
	<b>339,789</b>	305,378	124,846
Financed by:			
Share capital	<b>36,000</b>	36,000	100
Reserves	<b>278,419</b>	254,154	114,250
Shareholders' funds	<b>314,419</b>	290,154	114,350
Minority interests	<b>424</b>	675	—
Long term liabilities	<b>17,537</b>	8,332	6,757
Deferred taxation	<b>7,409</b>	6,217	3,739
	<b>339,789</b>	305,378	124,846