

Chairman's Statement

主席報告

「天行健，君子以自強不息」，這是《易經》中最核心的一句話，這句話揭示了「天道」運行，周而復始。剛健有力，「健」就是「天」的本質作用，而運行不息，沛然剛健正是陽氣的本質，而這天之陽氣促使萬物生長，這就是生機勃勃的世界。

而我們人，就應該效法天的剛健精神，奮發進取，就叫「自強不息」，這就叫「法天而行」。
法天而行就是天人合一，老天爺當你的後台，戰無不勝。

原文載於《信報》二零零三年二月十日 (筆者張立)

天行健
君子以自強不息



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On behalf of the Board of Directors, 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 31 March 2004.

PRINCIPAL ACTIVITIES AND RESULTS

The Group is principally engaged in

- Metal and Plastic Business: including the manufacture and sales of metal and plastic products including computer casings, office automation products, video cassette housings, moulds, plastic and metal parts; and
- Electronics Manufacturing Services Business ("EMS" Business): the manufacture and sales of laser printers, magnetic tape drive and other computer peripheral products.

2003/04 Performance

For the year ended 31 March 2004, the turnover of the Group was HK\$1,692,960,000 and operating profit was HK\$106,527,000, a decline of 3% and 26% respectively as compared to those of last year.

Impact of SARS on Turnover

As explained in the interim report, most of our customers were not able to come to Hong Kong and China during the SARS (Severe Acute Respiratory Syndrome) period from March to July 2003. Likewise our marketing team and engineers were not able to visit overseas customers. While video-conferencing and e-mails were able to provide the basic communication link with our customers, they were not satisfactory substitutes to face-to-face communication. As a result, the progress of engineering works on some production models was delayed, which in turn led to delays in the launching of new products to fill up the production vacuum created by the expiry of life cycle of some of the existing products. This naturally contributed to the decline in turnover for the current year against the earlier projection of 10% growth (2002/03 Annual Report, P.24).

我謹此代表董事會提交嘉利國際控股有限公司(「公司」)及其附屬公司(「集團」)截至二零零四年三月三十一日止的年報。

主要業務及業績

集團主要從事

- 五金塑膠業務—製造及銷售五金及塑膠產品，包括電腦外殼、辦公室文儀產品、錄影帶外殼、模具、塑膠及金屬部件等；及
- 電子專業代工業務—製造及銷售鐳射打印機、磁帶解碼器及其他電腦週邊產品。

二零零三／零四年度業務表現

截至二零零四年三月三十一日止，集團錄得營業額達1,692,960,000港元，而經營溢利為106,527,000港元，較去年同期分別下跌3%及26%。

非典型肺炎對營業方面的影響

如中期業績報告所述，於二零零三年三月至七月期間集團受到非典型肺炎肆虐影響，以致大部份客戶未能抵港及中國內地，同樣地我們的市務及工程人員亦未能遠赴海外與客戶會面。雖然我們仍透過視像會議及電郵通訊與客戶保持基本接觸，但可惜這些措施並無法完全取替直接會面。因此，個別項目之前期工程工作受到阻延，以致無法如期安排生產，加上某些產品已到達生產週期尾聲，形成了生產的空檔期，因而導致本年度之營業額下降，無法達致10%之預期增長(二零零二／零三年年報中第二十四頁)。

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Reasons for the Reduction in Profit

Some of the principal reasons for the reduction in profit were as follows:

- **continued pricing pressure** leading to further decline of gross profit margin;
- while the decline of gross profit margin was nothing new, the Group had been able to use "operating leverage" to deliver profit growth in the past years. With a reduction in turnover because of SARS and other reasons in the current year of consolidation, there was **no positive contribution from a huge increase in turnover to offset the reduction in the gross profit margin**; and
- as the Group is optimistic about its future turnover growth, we have not strived to reduce cost despite the reduction in profit. On the contrary, **we have invested additional resources for development works on new projects secured.**

Doom & Gloom? Certainly Not!

The turnover of the Group was only HK\$661,887,000 in 1999/2000. Over a period of three years, the turnover shot up to HK\$1,737,979,000 in 2002/03, an increase of 162%. You could easily visualise all sorts of problems related to rapid growth:

- from a marketing prospective, the reliance on the EMS business for growth in general and the appearance of an unhealthy trend of customer concentration in particular (with the single largest customer contributing 40% to the Group's total turnover in 2002/03); and
- from a production perspective, the occurrence of production bottlenecks, minor quality problems, human resources mismatching, increasing material wastage, logistic inefficiencies, ad hoc mode of problems solving and others.

溢利下跌的原因

造成溢利下跌之主因如下：

- **價格持續受壓**引致毛利率繼續收窄；
- 雖然毛利率持續下跌已非新事，但過往集團仍能利用「營運槓桿」維持溢利增長，但由於集團因受非典型肺炎打擊及進入整固期而令營業額下跌，故此**無法以增加營業額來抵銷毛利率下跌的負面影響**；及
- 由於集團對未來營業額增長抱樂觀態度，故雖然溢利下跌亦未有刻意銳減成本，相反地，**我們更投入額外資源以確保新項目做妥前期準備工作。**

堅定不移 那怕風雨

於一九九九／二零零零年度，集團之營業額僅為661,887,000港元，而短短三年間，二零零二／零三年度之營業額大幅上升至1,737,979,000港元，升幅達162%。在這業務高速增長下，你可輕易地想像到各式各樣的問題將隨之而生：

- 從市務角度而言，除了增加依重電子專業代工業務外，更出現了個別客戶比重過份集中的情況（於二零零二／零三年度中，最大單一客戶佔集團總營業額40%）；及
- 從生產角度而言，生產出現樽頸問題、個別產品未符合品質要求、人力資源錯配、浪費原料比例上升、物流運作效率下降，以及未有徹底根治日常生產所遇到之種種問題等。



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Back in 2003, the Directors were already convinced that a period of consolidation was needed to prepare the Group for the next phase of growth (2002/03 Annual Report, P.24). Thus, with hindsight, SARS was a blessing in disguise. It has hardened our determination and provided us with the breathing room to sort out some of the problems associated with past turbo-charged growth. Our colleagues could shift at least partially their attention from meeting customers' stringent delivery requirements to working on new projects and sorting out housekeeping works.

So instead of doom and gloom that you might expect from a company having a decline of profit, we have a strong sense of relief here. I have been on my own for over 30 years already. **If I am not optimistic, why should I endorse the hiring of additional staff and increase of capital expenditures ("capex") by two times to HK\$60,000,000 for 2003/04?**

You may still not be convinced. The key to the understanding of the rationale of our strategic thinking lies in the conceptual framework of the modern supply chain management in the computer industry and related fields.

Supply Chain Management

In a highly generalised and simplified business model, the Group is only a very small but integral and indispensable part of the global supply chain of our multi-national customers. It works as follows:

- customers award us with projects, which require months of design, engineering and other development works before the final shipment of goods. Thus we have relatively high business "long term visibility";



Overseas JIT warehouse: we trust our customers
and the customers trust us
位於海外的「即時供貨」貨倉：我們信賴客戶.....
而客戶亦信賴我們

於二零零三年，董事們亦意識到集團確實有必要進行內部整固，讓我們有充份準備去迎接下一個增長階段（二零零二／零三年年報中第二十四頁）。雖似是「事後孔明」，但從長遠角度而言，非典型肺炎的出現亦可說是「塞翁失馬」，因此反而加強我們對集團進行整固的決心，集團可趁機從過往急促增長的步伐中稍作喘息，解決各樣繁瑣問題。我們的同事亦可暫時將注意力從應付客戶緊迫付運要求轉移至新項目的開發與及內部微調整頓工作等。

你或許會認為一間公司溢利顯著下跌，員工們一定會感到垂頭喪氣，但事實上我們卻有如釋重負之感，我作為集團最高決策者，過去三十年飽歷風雨，試問如果我不感樂觀，為何仍要認同增聘員工與及於二零零三／零四年度一再修訂固定資產投資至60,000,000港元呢？

可能你對我們的想法仍是摸不透，其實我們所定下的策略皆源自電腦及相關行業的現代供應鏈管理架構中。

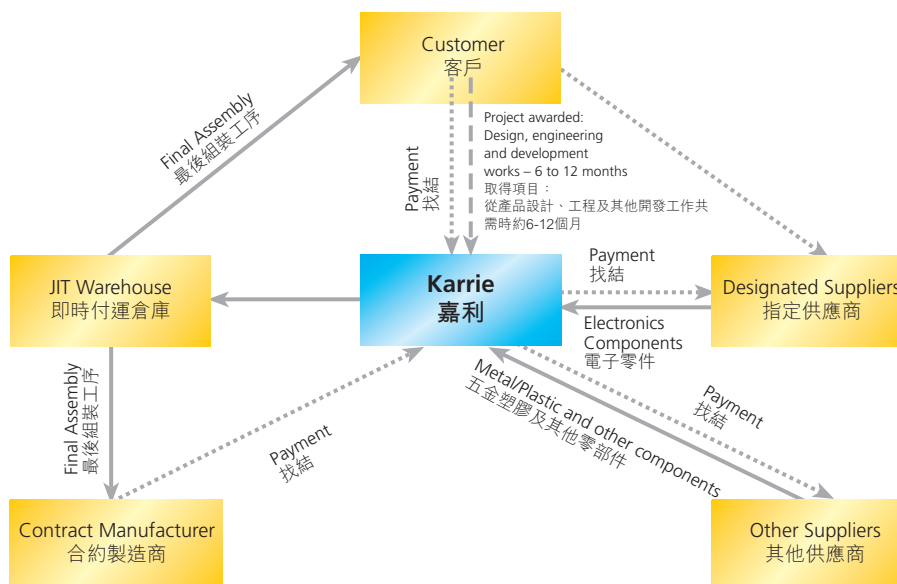
供應鏈管理

在一個「一般化」及「簡單化」的業務模式說明中，本集團於那些跨國大企業云云全球供應商當中，只是一個微不足道但又不可或缺的部份，此供應鏈模式運行如下：

- 客戶給予的產品項目，一般從設計、工程及其他前期開發工作至最後付運階段，所需時間達數月至超過半年之久，這令我們具備對生意前景比較上有「長線洞悉力」；

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Generalised Flow Chart of the Supply Chain Management System 供應鍊管理系統一般運作流程圖



- however, we do not normally have a large order backlog because of the customers' adoption of the just-in-time (JIT) inventory, rolling forecast, Electronic Data Interexchange (EDI) or a combination of the above methods. Thus we do not have much business "short term visibility";
 - Usually customers will award a project to only one supplier. Therefore for any particular contract confirmed, we have the obligation to ship goods on time to customers even if the sales volume is much higher than the initial projection; and
 - Under the direction of the customers, the Group:
 - a. purchases a major portion, if not all, of the electronic components parts from designated suppliers or the customers; and
 - b. ships the finished goods to either the JIT warehouse, the customers or "contract manufacturers" along the supply chain for the next stage of production. (please refer to the flow chart above)
- 由於我們客戶的訂單一般以「即時付運貨存」、「滾動式預算」、「電子信息交換系統」，甚至混合以上形式等，故此我們並無大量的手頭訂單，因而我們對生意前景較缺乏「短線洞悉力」；
 - 由於通常我們是特定產品項目之唯一供應商，倘若客戶之產品銷售比預期理想，我們有責任確保所需產品如期付運；及
 - 在客戶的指引下，集團會按以下情況採購：
 - a. 大部份之電子零件均從指定供應商或客戶採購；及
 - b. 將製成品付運予供應鏈內的「即時付運」倉庫、客戶或「合約製造商」，以便進行下一程序生產。（請參照上述流程圖）

Under such a business model, **the customer and its suppliers have to build up mutual trust under a "business partnership" both in name and in reality: Customer has to trust its sole supplier to deliver the goods on time while the supplier has to trust the customer as the supplier assumes high risks in delivering goods to the JIT warehouse and/or in paying for large amount of components.**

在此模式下，客戶與供應商一定要互相信賴而成為真正的「商業夥伴」關係，因為客戶必須信任其唯一供應商能將產品如期付運；而另一方面供應商亦必須信任客戶，因其代客戶大量採購零部件與及於「即時供貨」模式的暫存倉內存放大量成品均要承受相當風險。

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Painful but Courageous Decision

In mid-2003, the Directors faced an intriguing dilemma. Turnover was down because of SARS. We could have cut back on expenses to mitigate the impact on profit. But then we were on the final stages of confirmation of various new projects. **After careful deliberation, we took the difficult route for the long-term interest of the Group.** We started to hire more staff and invest additional resources to cater for the development works and the subsequent shipment production capacities. **Certainly these did not help our current year's performance. But this courageous decision has laid down the foundation for the next phase of growth.**

Quarterly Results Announcement

Against this backdrop and despite previous reservation regarding quarterly results announcement (2002/03 Annual Report, P.16), **in September 2003 the Group made its first quarterly results announcement of a profit reduction as compared to last year so that the investment community would be kept informed of the latest development as soon as practicable.** The Directors are convinced that this is an important step in our constant drive to increase transparency and putting Karrie one step closer to our goal of building up a strong corporate franchise.

Votes of Confidence

Investors were no doubt unhappy with the performance. But through patient explanation, gradually words spread:

- In September 2003, for example, in an investment seminar held in Singapore, Karrie was informally rated the best in terms of "quality in presentation" and "plausibility of story" among more than 10 participating listed companies;

決斷英明 奠下根基

於二零零三年年中，**董事們面對一個兩難的局面**，營業額受到非典型肺炎所拖累，當時我們可以選擇縮減開支以減輕對溢利的打擊，惟這時候正有幾個新產品項目洽談至最後階段，**我們經過審慎的考慮後，決定為集團長遠的利益著想，因而選擇踏上一條較崎嶇的道路。**我們開始招聘更多人員與及投入額外資源以配合各項前期準備工作到位，務求應付最終產能需要。**當然這等投資對本年度的業務表現幫助不大，但這果敢的決定卻為我們下一階段的增長奠下了穩固的根基。**

季度業績公佈

在此背景下，雖然初期我們對公佈季度業績有所保留(二零零二／零三年年報中第十六頁)，**集團於二零零三年九月毅然公佈了溢利比去年同期遜色的第一季度業績**，希望公眾投資者能夠在可行的情況下得知集團最新的動向發展，董事們深信對於我們致力提升透明度及努力建立「嘉利」品牌，這一步是必須堅持的。

努力耕耘 初有小成

投資者對業績表現當然會感到不悅，但經過細心的講解，他們最終亦接納集團之取向：

- 二零零三年九月於新加坡舉行的一個投資論壇中，集團於超過10間參與的上市公司當中，獲非正式地評估為「最佳演譯」及「最可信」之公司；



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- In January 2004, in an "Asiamoney" Poll by fund managers and research analysts, Karrie was voted as the 8th Best Managed Company in Hong Kong despite the announcement of a profit reduction previously. It is also worth mentioning that the other 8 companies on the list are all constituents stocks of the Hang Sang Index and the remaining company has a market capitalisation of at least 10 times bigger than us; and



- 二零零四年一月，亞洲貨幣雜誌「Asiamoney」與眾基金經理與及研究分析員舉行一個投票選舉，而集團當時雖然已對外公佈了溢利下跌的消息，但仍被推選為「香港最佳管理公司」第八位，值得一提的是其餘八間獲排名的公司均為恒生指數成份股，而剩餘一間市值則比集團至少大十倍；及



為何我們要建立「嘉利」的品牌？

Why do we need to build up the Karrie franchise?

- In March 2004, Karrie was ranked by "CFO Asia" magazine as the second best company in working capital management in the "miscellaneous industrial" category in Asia. Out of the 22 Hong Kong companies on the list, Karrie is probably the only industrial company from the EMS & Metal/Plastic sectors.

- 二零零四年三月，集團獲亞洲財務總監雜誌「CFO Asia」於最佳流動資金管理評選中之「其他工業類別」取得全亞洲第二排名，而於獲排名的二十二間香港公司當中，集團應當是唯一的電子專業代工及五金塑膠製品的工業界代表。

The Karrie Franchise

In the long run, our effort in building up the Group's franchise in investors relationship will eventually bear fruit as investors may start to equate Karrie with

- **good corporate governance** ranging from clearly defined corporate goals to high transparency (see appendix 2 on P.44);

「嘉利」品牌

長遠而言，集團於投資者關係工作中的努力，其成效將慢慢地顯現出來，屆時投資者便可輕易地將「嘉利」品牌等同為

- **企業管治**—從清晰介定的集團目標以至高透明度的披露，表現出優質的企業管治（見第四十四頁附錄二）；

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- **professional management** as the Group is managed on an operation basis by a group of professional managers of the Executive Committee since 2001; and
- **high dividend** (see appendix 3 on P.45)
- **專業管理**—集團自二零零一年成立了執行委員會，並由一班專業管理人員以專組形式處理日常運作，令集團更趨專業化；及
- **高股息**(見第四十五頁附錄三)

THE PROFESSIONAL MANAGEMENT TEAM

專業管理隊伍



S K Lee 李樹琪
Accounting 會計
Investor Relations 投資者關係



Stephen Wong 黃順鵬
Production 生產管理



Francis Kwok 郭永堅
Marketing 市務



Ho Cheuk Ming 何卓明
Policy & Major Decision Making 政策及重要決定
Conflicts Resolution 平衡部門分歧
Capex 固定資產投資



Alfred Chow 周國雄
Finance 財務
Strategic Planning & Risk Management 策略規劃及風險管理
Investor Relations 投資者關係



Silvia Chan 陳名妹
Personnel & Administration 人事及行政
EDP 電腦資訊管理
Internal Audit 內部審計

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Risk Management

We continue to closely monitor operating and financial risk arising out of the ordinary course of business. Three particular topics are worth mentioning here:

1. RMB appreciation

Until recently, there has been persistent rumour of impending appreciation of the RMB. As the Group's production base is in Mainland China, an appreciation of the RMB will definitely have an impact on the Group's performance. However,

- the Group always maintains a surplus of its RMB assets over its RMB liabilities; and
- while the Group has no plan to move its production base to other countries, it should be noted that there is no cost effective hedge against RMB appreciation as the cost of using "Non-deliverable forward (NDF) RMB contracts" is very expensive.

2. Electricity Supply

Roughly speaking the Group suffers from an outage in two days each week at present:

- the Group has sufficient alternative electricity supply to ensure uninterrupted production; and
- while the cost of such supply is much more expensive, the overall impact on the Group is not material unless there is a further drastic increase in oil price and/or an extended period of outage.

風險管理

我們繼續對營運及財務上可能出現的風險保持嚴謹的監察，尤其以下三項值得探討：

1. 人民幣升值

直至最近，仍不時傳出人民幣升值的謠傳，由於集團之生產基地位於國內，故此倘若人民幣升值，集團之業績表現必然會受到影響，雖然如此：

- 集團致力維持人民幣資產高於人民幣負債；及
- 雖然集團未有計劃將生產基地移離中國，投資者需明白目前未有有效的外匯對沖工具，因為「不交收人民幣遠期合約」之溢價成本十分昂貴。

2. 電力供應

粗略估計，集團目前每星期有兩天受到停電的影響：

- 集團有充份的後備電力供應以確保生產不受影響；及
- 除非油價繼續大幅上升及／或停電情況惡化，雖然後備發電的成本較為昂貴，但其對集團的整體影響輕微。

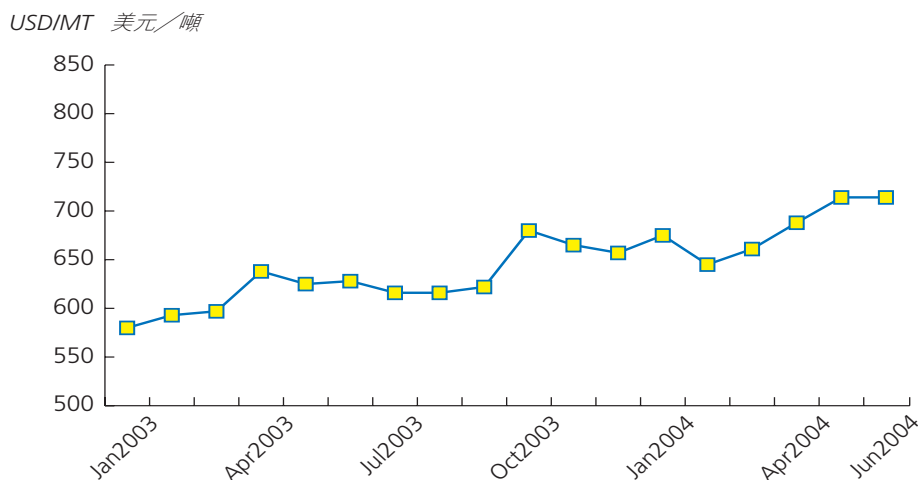


The art of risk management: Putting out small fires before it goes out of control

風險管理的藝術：盡快撲熄小火，以免一發不可收拾

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Generalised Price Movement Graph of Electro-Galvanised Steel Coil
電解片鐵料概括價格走勢圖



3. Steel Price

The problem of rising steel price has plagued many industrial companies. Back in early 2003 we had already recognised the ominous price trend and had decided to increase our inventory level of electro-plated galvanized steel plates. This is the reason why our inventory turnover ratio declined by 17% as compared to 2002/03. So far we have escaped the crisis with only minor impact. Going forward, the old trick of raising inventory level will not work well as nobody can predict with confidence the future direction of steel price:

- measures taken by China to cool down the economy, steel price may fall. So continuous buildup of steel plates inventory may lead to serious loss; and
- but on the other hand, with the continuing growth of the US economy and recovery of Japanese economy, the demand of steel plates may still push up steel price.

So at the moment we will continue to keep a close watch of any new development and have no plan to change the level of steel inventory.

3. 鐵料價格

鐵料價格上升的問題困擾著很多同業，自二零零三年初我們早已察覺到這上升的趨勢，因而將電解片鐵料之存貨量提高，這正好解釋為何我們的存貨週轉率會比二零零二／零三年度下降了17%，直至現時為止，我們不免受到輕度影響，但總算避過了危機。至於將來是否仍然採取高存貨的政策，我們相信這未必是良策，因為現在根本無人能夠確切預測日後鐵料價格之走勢：

- 隨著中國對經濟採取宏觀調控的政策，鐵料價格或會回落，故此若繼續將鐵料存貨提升將造成重大的差價損失；及
- 但另一方面，美國經濟持續增長與及日本經濟復甦等，鐵料需求的上升必然會推高價格。

故此現階段我們適宜繼續密切留意事態的發展，與及維持現有之存貨水平。

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Dividend and Dividend Policy

The Directors have recommended a final dividend of HK12.0 cents per share to shareholders whose names appear on the Register of members of the Company on 30 July 2004. Together with the interim dividend of HK8.0 cents per share, total dividends for the year amounts to HK20.0 cents (2002/03: HK24.0 cents). The final dividend will be payable on or about 12 August 2004. This dividend payment is in line with our policy of paying out 50% or more of the after tax profit of the year.

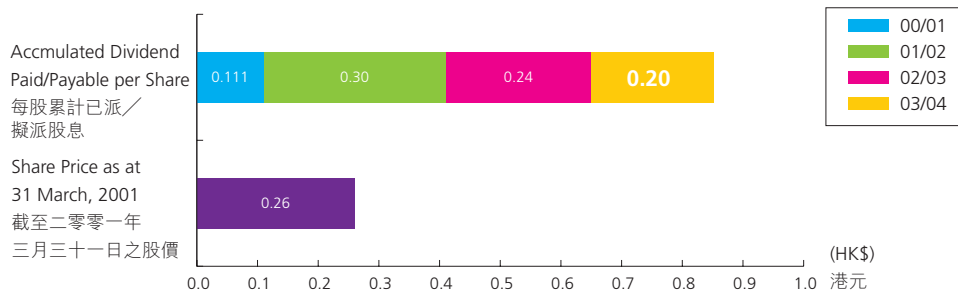
Since 2000/01, the Group has paid out in actual cash disbursement of dividends of over HK\$270,000,000 or 72% of the shareholders' fund. If the current recommended dividend is counted, then the total payout will be roughly equal to 85% of the shareholders' fund. Shareholders starting to invest in Karrie in 2000/01 would have received a total dividend of HK85.1 cents per share (including proposed final dividend of 2003/04).

股息及股息政策

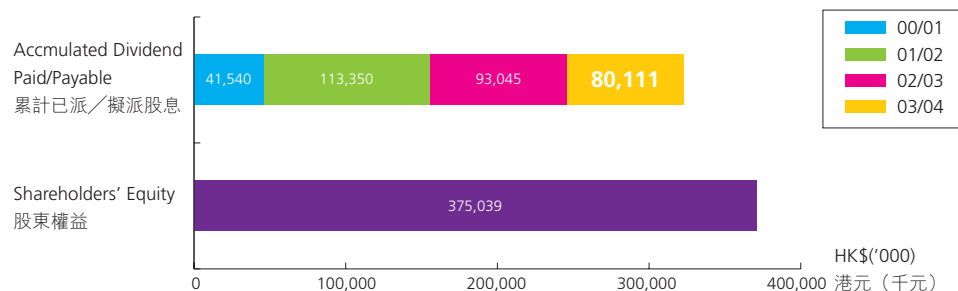
董事們已建議派發末期股息每股12.0港仙予所有於二零零四年七月三十日當日名列於本公司股東名冊內的股東。連同中期股息每股8.0港仙，全年股息共達每股20.0港仙(二零零二／零三年度：24.0港仙)。末期股息將於或接近於二零零四年八月十二日派發。這個派發比率與集團將除稅後溢利之50%或以上分發給股東的政策相符。

自二零零零／零一年度開始，集團合共派發現金股息超過270,000,000港元，佔股東資金72%，如將今次建議派發之股息計算在內，其總派發比率將佔股東資金85%。如於二零零零／零一年度開始投資於嘉利股票，至今每股所收取的股息合共85.1港仙(二零零三／零四年度建議派發末期股息包括在內)。

Dividend Paid/Payable per Share
每股已派／擬派股息



Shareholders' Equity and Dividend Paid/Payable
股東權益與已派／擬派股息



Our biased view on corporate governance: sharing wealth created with all shareholders through dividend

我們對企業管治的獨有看法，就是透過派發股息與一眾投資者分享財富



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Return on Equity

In the current low interest rate environment, the Directors believe that investing the Group's surplus cash in financial instrument is not consistent with our corporate objective of increasing shareholders value. **If we cannot use the surplus cash to generate our required return on equity (ROE) ratio of 20%, such surplus cash should be best distributed to shareholders so that they can make their own investment according to their own risk profile.**

This careful balancing of capital management structure and dividend policy ensures that the Group's ROE ratio stayed at a comfortable 24% level despite the 25% drop in profit. By vigorously pursuing a proactive capital structure management policy, the Group hopes to reduce the chance of big write-offs as a result of over-investment in capex program or working capitals.

Corporate Governance

Measures undertaken by the Group in addition to statutory and regulatory requirements are listed in details in Appendix 2 on P.44. During the year we have voluntarily published quarterly results announcements to ensure fair distribution of information as far as practicable. We will also launch a new program to reach out for the individual investors soon in addition to timely public announcements and updates through our websites, so that they can have face-to-face contacts with the management.

The professional management team is encouraged to hold the shares of the Group as long-term investment. We understand that value of such investment forms a substantial part of the personal net worth of our executive directors and other members of team. This alignment of interest between the shareholders and the management may be one of the key reasons why we always act according to the long-term interest of the shareholders instead of focusing on short-term gains (please refer "Painful but courageous decision" on P.16).

While the experts may disagree (in the "Asiamoney" Poll, the Group was voted as second in the "Most Improved in Corporate Governance" category), I personally believe that our willingness to share with the public investors the wealth created through the distribution of dividend is the greatest and most direct manifestation of our corporate governance achievement.

股東權益回報率

現今仍處於低息率時代，董事們相信倘若集團結存過多現金對集團致力提升股東權益的路向相違背，故此若然我們未能利用這些資金以達至股東權益回報率20%之要求，我們就應該將剩餘的現金退還予各股東，讓他們按照自己的風險承擔力而自行作出個別投資決定。

由於我們於資金管理架構與股息政策取得平衡，故此就算溢利下跌25%仍能確保集團的股東權益回報率維持於24%。集團採取主動進取之資本架構管理政策，亦會減少因過度投資於固定資產或流動資金所導致的大幅撇賬風險。

企業管治

除法律規定及條例要求外，集團所採納的額外措施均已詳細刊載於第四十四頁之附錄二，過去一年，集團自發地公佈季度業績以確保訊息在可行的情況下向公眾發放，同時亦將會推出一個新計劃，讓小投資者除了定期收到報章公告與及網頁更新資料以外，能與管理層面對面多接觸。

我們亦鼓勵集團之專業管理階層持有集團股票作長線投資，據了解此等投資佔集團執行董事及其它管理者之個人財富的一個頗大的比例。故股東們與本集團之管理階層榮辱共享，此亦是本集團之決策為長遠而非短期利益之其中一個原因。(請參閱第十六頁「決斷英明 奠下根基」)

雖然一些專業人仕或不表認同(集團被亞洲貨幣雜誌「Asiamoney」評選為「最佳企業管治進步表現公司」全港排名第二)，但我個人相信，我們以派發股息來與一眾投資者分享財富乃落實企業管治的最佳及最直接之表現。

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BUSINESS REVIEW

Metal & Plastic Business

The Metal & Plastic Business showed signs of recovery with turnover increased from HK\$843,623,000 in 2002/03 to HK\$963,002,000, probably due to the gradual worldwide resumption of technological spending. However, due to continued pressure on the profit margin, operating profit from this division dropped to HK\$80,591,000 as compared to HK\$98,190,000 in 2002/03.

EMS Business

Sales attributable to this division showed its first decline after 3 years of rapid growth. Turnover dropped from HK\$894,356,000 in 2002/03 to HK\$729,958,000. The reduction is mostly related to the delays in the launching of new products to fill up the production vacuum created by the expiry of life cycle of some of the existing products as a result of the occurrence of SARS in early 2003. As a result, operating profit declined to HK\$19,351,000 (2002/03: HK\$36,395,000).

Geographical Distribution

Asia has replaced Western Europe as our major market as the turnover in Asia (excluding Japan) for the current year reached HK\$781,751,000 (2002/03: HK\$610,529,000). The shift can be attributed to a change of logistic decision by our multi-national customers and the reduction of sales of the previously strong EMS business. Nonetheless, the shipment pattern of the Group continues to adopt our established practice of geographical diversification.

PROSPECTS

Better Days Ahead

Despite the disappointing performance for the current year, we remain very optimistic about the future. As outlined previously, we have relatively high long-term visibility because of the special characteristics of our trade and business model. At present we have secured most of the important projects for the



The seeds sowed will start to bear fruit tomorrow

昔日播下的種子，明日分享成果

業務回顧

五金塑膠業務

五金塑膠業務出現復甦跡象，銷售從二零零二／零三年度843,623,000港元回升至963,002,000港元，主要因全球逐步恢復對科技產品的支出，但由於毛利率持續受壓，令此業務之經營溢利從二零零二／零三年度之98,190,000港元下降至80,591,000港元。

電子專業代工業務

經過三年以來的快速增長，本業務銷售首次錄得下跌，營業額從二零零二／零三年度894,356,000港元下跌至729,958,000港元，主要下跌原因為二零零三年初受到非典型肺炎影響，令到新產品工程受到阻延，而個別產品又到了產品完結週期，令生產出現了真空期現象，故此經營溢利下跌至19,351,000港元（二零零二／零三年度：36,395,000港元）。

地域分佈

於本年度亞洲區（日本除外）營業額錄得781,751,000港元（二零零二／零三年度：610,529,000港元），已超越西歐成為主要市場，這個轉變主要由於跨國客戶改變其付運要求與及電子專業代工業務銷售下跌所致。此外，集團付運的模式會繼續採取多元化方針。

展望

漸現曙光 前景秀麗

雖然本年度之業績未如人意，但我們依舊對前景非常樂觀，如前段所述，由於我們的經營模式有其獨特之處，令我們對長遠的路向更具洞悉力。現時有關二零零四／零五年度的大部份重要的產品項目經已得到落實，而相關之前期準備工程工作已大致完成，集團更是大部份項目之唯一供應商，故現

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2004/05 financial year. **As the related engineering works have largely been completed and in most cases the Group is the sole supplier for the confirmed projects, our problem is therefore one of production, and not of marketing. In particular**

- we are still keeping the long-term business goal made in 2001/02 of doubling turnover of approximately HK\$1,156,000,000 to around HK\$2,300,000,000 in three years time (2001/02 Annual Report, P.29); and
- the unaudited turnover of the Group for the two months ended 31 May 2004 was HK\$350,000,000 (2003: HK\$312,000,000). As the unaudited turnover for these two months may not reflect the final result for the year ending 31 March 2005, investors and shareholders are advised to exercise extreme caution when dealing in the shares of the Company.

Sources of Growth Momentum

Barring any unforeseen circumstances, momentum of performance growth will mainly come from:

- for 2004/05, from positive operating leverage because of the projected 35% growth in turnover. As the overhead expenses should in theory be rising much slower than growth in turnover, positive contribution from operating leverage should be reflected in the bottom line; and
- for 2005/06, the rate of growth in turnover may slow down to low double digits primarily because of the enlarged denominator. Momentum of performance growth is expected to come from productivity initiatives either in the process of implementation or in planning stages.

Sunset, Sunrise

While for statutory reasons we have to submit the financial reports every 12 months, in reality we cannot manage our manufacturing business within such a short time framework. Marketing, production or even investors relation strategies are long-term commitment. We cannot devise and implement business strategies based on short-

在不是憂慮訂單不足，而是考慮該如何完成生產任務。

- 我們現時仍然維持二零零一／零二年的長遠營業目標，就是三年內將營業額從約1,156,000,000港元倍增至2,300,000,000港元。(二零零一／零二年年報第二十九頁)；及
- 集團截至二零零四年五月三十一日止兩個月未經審核之營業額為350,000,000港元(二零零三年：312,000,000港元)。因這兩個月之未經審核營業額未必能反映截至二零零五年三月三十一日止之最後業績，懇請各投資者及股東在買賣本公司股份時務須謹慎行事。

增長的原動力

撇除一些未可預知的因素，集團之表現增長動力主要來自：

- 由於二零零四／零五年度的營業額預計將有35%或以上的增長，將可帶來正面的營運槓桿效應，理論上營運費用的上升幅度會較營業額增長為低，因而相信可為盈利帶來正面的貢獻；及
- 由於營業額的基數愈來愈大，故此相信二零零五／零六年度的營業額增長比率會減慢至低雙位數，屆時集團之表現增長動力主要來自進行中或計劃中生產力之改善。

日出日落 自然法則

雖然法例規定每隔十二個月需提交財務報告，但現實中，我們處理製造業務時所考慮的一切，並不能只局限於這個短暫時期，需知道照顧客戶、生產甚至是投資者關係長遠政策釐定時，並不可能只著眼於短線利益，如投資者們因短期業績未如他

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term focus. **Investors not comfortable with short-term performance disappointment should excuse the Directors who care for the long-term interests of shareholders and stakeholders. Without sunset, how would there be sunrise?** Growth and consolidation are the twin faces of the same coin and integral part of the ongoing evolution of nature. So long as our management team remains focused, I am perfectly comfortable.

Smiling Faces

Despite the profit reduction and sometimes-harsh criticism in the past 12 months, we have no ugly faces here. Nor have I tried to pass the buck to subordinates. I told all my colleagues to continue to wear a smiling face and work hard to accommodate the requests of our customers. They are our true masters. **So long as we are able to provide superior service, we will keep our fair share of their business and all the resulting goodies. To stay ahead, we have instituted changes in marketing, production and the investors relations fields.**

The Quiet Revolution

1. Marketing

- We will strive to maintain the balance between the Metal/Plastic and the EMS business with no single growth driver;
- There will be continuous pressure from customers on the pricing front. However with the recovery of the world economy, we believe that such pressure will be much more manageable;



One of our secrets weapons: integrated project team from marketing and engineering

我們的其中一種秘密武器：市務及工程方面的專責組別

們心目中的要求的話，盼請他們原諒，董事們所關注的是股東們及有利益人仕的長遠利益！倘若沒有日落，又何來日出呢？增長與整固往往是企業循環演變中不斷互相交替的，只要我們管理層意志堅定，我仍是感到萬分安慰的。

面對逆境 笑臉依然

雖然過去十二個月遭受盈利下跌甚至外間無情的批評，但我們並無因此而感到垂頭喪氣或互相推卸責任，我鼓勵員工們應繼續保持笑容努力工作，盡力滿足客人的需要，因為客戶才是我們的主宰。我們相信只有對客戶專心一致，提供稱心滿意的服務，自然會獲得豐盛的回報。為求達到快人一步之目標，我們已推動各項市務、生產及投資者關係方面之改革。

堅持信念 靜默革命

1. 市務方面

- 我們努力讓電子專業代工與五金塑膠業務能夠取得適當平衡，避免過份偏重任何一方；
- 仍需面對客戶不斷要求降價的壓力，但隨著世界經濟逐步復甦，我們相信此等壓力可較易化解；

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- While new customers are certainly welcomed, we believe that it is much more important and time efficient to grow our existing business;
 - Our ability to secure new projects from customers depends not on cost alone, but on our ability to serve our customers in terms of design, moulds making, procurement, logistic support, project management and delivery of final products. For example, one multi-national customer has recently ranked us as the top 3 among over 30 suppliers worldwide. **Investors may be puzzled on why the Group is able to beat our foreign competitors, which are a few to tens of times larger than us. The ability to serve our demanding customers explains the high barrier of entry into the industry and the secret of our continued success. Sometimes I just wonder whether we should be classified as in the service industry rather than the manufacturing industry; and**
 - In the past few years, customers in general have put their resources to marketing, brand management and R&D. They want a solution provider rather than a pure component supplier. As such, we have been asked by our customers to fill up more "EMS" function in our traditional Metal/Plastic business. In the future it is possible we may merge the EMS and the Metal/Plastic Division for reporting purpose as the dividing line is increasingly blurred.
- 我們對新客戶當然是無任歡迎，但相信現時最重要和最迫切是好好應付現有業務之增長；
 - 我們能夠取得新項目並非單憑價格上的競爭，還包括我們各方面的服務質素，例如設計及制模能力、採購和物流支援、項目管理以至產品的付運等。舉例說我們其中一名跨國企業客戶最近從世界各地共三十多名供應商當中，評選集團為最佳表現第三名。或許投資者對於集團如何能持續超越規模遠比我們大數倍，甚至是數十倍的國際競爭對手中取得客戶之新項目感到疑惑，這就是最好的引証。對於要求極為嚴格的客戶而言，優質之服務令他們感到稱心滿意，便足以解釋為何我們這行業並不容易加入，亦是我們一直如此成功的秘訣。有時我亦分不清集團所從事的究竟是製造業抑或是服務業；及
 - 過去幾年，大部份的客戶均集中資源於處理業務推廣、品牌管理以及科研發展，他們需要的不僅是「部件供應商」，而是「問題解決者」。因此，客戶要求我們於原有的五金、塑膠業務當中不斷加入更多「電子專業代工」的元素。由於電子專業代工與五金塑膠業務的區別已變得愈來愈含糊，我們並不排除將來會將兩項業務融合為一作匯報之可能性。

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2. Production

- Our works of reforms have not been completed. In the current year we will continue our productivity initiatives including (but not limited to) the introduction of progressive stamping die, supplier-managed inventory system, departmental management by objectives, new supplier quality standards and appraisal system, integrated project team, standardization of project engineering procedures, new mechanical design group, central material library, cell/flexible production lines and so on;

2. 生產方面

- 改革的工作尚未完結，來年我們仍會繼續理首於改善生產力，當中包括(不局限於)快速五金沖壓(操兵模)、供應商存貨管理系統、部門目標為本管理、釐定評核新供應商之標準、項目專責小組、工程項目運作標準化、增設機械工程設計組、設立中央物料資料庫、細胞式／柔性生產線等等；



Money well-spent: The new 600-tons metal stamping machine facilitating the introduction of progressive stamping die.

資金用得其所：新配置600噸五金沖床用於配合快速「操兵模」的運作。

- However, impact of such changes take some time to work out and so we expect such initiatives will only be reflected in 2005/06; and
- Capex budget will be around HK\$65,000,000. (2003/04: HK\$60,000,000).
- 以上改善措施不會立刻見到成效，必需耐心等待，相信到二零零五／零六年度時其影響會逐步顯現；及
- 固定資產投資預算大概約65,000,000港元(二零零三／零四年度：60,000,000港元)。

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3. *Investors Relations*

- Since 2002, investors have paid a lot of attention to small-capitalisation stocks. However, with the change of economic environment small-caps stocks may be temporarily out of favour. Instead of wasting our time to attend to the uncertainty of the stock market, we are convinced that the best strategy is to continue to build up the brand franchise of Karrie by emphasising on good corporate governance, professional management and high dividend;
- a. We must build up our reputation as "reliable". We need our own franchise to command a premium;
- b. With these considerations in mind we will continue to try to differentiate our "product". We may not be the best but we are and will continue to be different. Borrowing our strategy in dealing with bankers we will not be afraid of any short term negative impact by putting all the positive and negative factors on the table. If we are not able to deliver what we have promised, we must inform our audience as soon as practicable. Corporate governance and transparency will continue to be the core stone of our investors relations policy; and

3. 投資者關係

- 投資者從二零零二年開始對中小型股份產生了濃厚的興趣，但隨著市場氣氛轉變，他們似乎又興趣大減了。但與其浪費時間關注著股票市場上的波動，我們認為倒不如努力專注於企業管治、專業化管理及股息政策等工作，積極建立「嘉利」品牌更為有建設性；
- a. 我們必須要建立「可靠」的聲譽，我們必須要有自己的品牌，地位才會得到肯定；
- b. 雖然我們未必是最優秀的，但我們考慮建立品牌的重要性，必須有別樹一格的形象，我們將維持獨有的風格路向。正如我們與銀行家交往一樣，我們並不擔心同時將好與壞的消息同時發放，縱然或許會帶來短暫的負面影響。若我們未能實踐承諾應盡早讓各關心我們的人仕知悉，而企業管治及企業透明度仍然是我們投資者關係政策的核心支柱；及

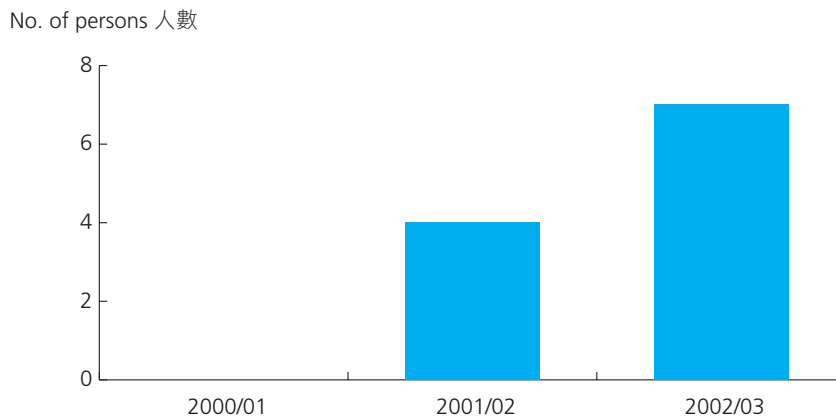


Chairman's Statement 主席報告

c. Judging by the increasing (though still small) number of attendees to our annual general meeting, I do think we are on the right direction.

c. 從股東週年大會的參與人數逐年增加(雖然至今仍是微不足道)，我深信朝著這個方向走是正確的。

Shareholders' Attendance in Annual General Meeting
股東週年大會股東人數出席統計



Remarks: Excluding shareholders who are also directors or staff of the Company, or representatives from HKSCC Nominees Ltd.

註：若然該股東同時亦是本公司之董事或員工，或屬香港中央結算所之委任代表，皆不計算在內。

- for institutional investors, we will continue our tradition of attending meetings as invited whenever possible; and
- for retail investors, we will initiate a new "Friends of Karrie" program by reaching them directly through a tentative meeting program after each quarterly/interim announcement instead of waiting till the next annual general meeting. By the time of the first quarterly announcement, we hope that we will be ready to announce more details including the meeting time and venue so that individual investors will have the chance of meeting with the management team directly.

- 對於機構投資者，我們仍會如往常般盡量應邀出席他們的會議；及
- 對於公眾投資者，我們正在構思成立「嘉利之友」，嘗試於每次季度／中期業績後安排一些見面機會，無需讓投資者待至週年股東大會才見面。預期第一季度業績公佈時可進一步提供更確實的會面地點及時間等，讓眾投資者有更多機會直接與管理層見面。

I sincerely hope that investors will have patience to feel the pulse of our effort in marching toward excellence.

本人深深期望投資者能夠耐心等待，慢慢去感受集團的脈搏，與集團一起攜手邁向更卓越的明天。

Chairman's Statement 主席報告

Top Gun in Production

Mr. Wong Shun Pang joined the Group in 1981 responsible for production and engineering. Very soon he became my chief assistant in running the manufacturing operation. Unfortunately, due to policy differences, Mr. Wong left the Group in 1993.

When the Group started to enter the new EMS field in 2001 and obtained new projects in the production of the laser printers, the professional managers of the Executive Committee strongly recommended Mr. Wong as the best candidate to take up the challenge.

The addition of Mr. Wong to our team certainly provided us with new momentum, as evidenced by the rapid growth of the EMS business in the last few years. Mr. Wong was appointed as a member of the Executive Committee in April 2003 and as an executive director of the Company on 1 June 2004. He is in charge of production and reform of the Group as a whole.

Of course we do not expect Mr. Wong to perform instant miracle in delivering results immediately. But with his experience in production management and the heightened team spirit, the Directors believe that the professional management team is now one more step closer to perfection. We will continue to exercise teamwork in marching toward excellence.

猛將加盟 如虎添翼

黃順鵬先生於一九八一年加入集團負責生產及工程事宜，為本人最得力助手，唯後期大家於管理上意見存在分歧，故黃先生於一九九三年離任。

二零零一年集團開始踏足電子專業代工業務，並取得了打印機生產機會，此新業務對集團而言乃一項新挑戰。「聞戰鼓，思良將」，執行委員會內之專業管理層向本人大力引薦黃先生，在此因緣際遇下與黃先生再度合作。

黃先生的加盟為集團帶來了新動力，從這幾年間集團電子專業代工業務的快速發展已可見一斑。為加強專業管理，黃先生於二零零三年四月被委任為執行委員會成員，繼而於二零零四年六月一日正式被委任為集團執行董事，負責整體生產管理及改革工作。

當然，我們不能期望黃先生一步到位，正所謂「十年樹木，百年樹人」，但憑藉黃先生於生產管理上的豐富經驗，與及整個團隊上下一心，董事們深信現時之專業管理梯隊組合更趨向完整，繼續發揮團隊精神，一起朝著共同目標為集團創出美好佳績。

Chairman's Statement 主席報告

FINANCIAL RESOURCES

Strong Recurrent Cash flow

Despite the drop in profit, heavy capex program and payment of dividend, the Group continued to enjoy strong recurrent cash flow. The Finance Department must admit that it has under-estimated the cash generating ability of the core operation. The net bank borrowings as at 31 March 2004 was only HK\$6,287,000 or a net gearing ratio of 2%, a far cry from the expected 15 to 20% level.

However, the net gearing ratio may still go higher to 30% or above if:

- the Group needs to maintain a high capex program; and
- high investment in working capital especially in JIT inventory as sales picks up.

Financing Options

The Group will continue to maintain its close relationship with its core and non-core bankers. In addition, we have also arranged from Hang Seng Bank a new medium term loan facility of HK\$35,000,000 to improve the net current ratio. Such loan facility still remains undrawn as at today.

With the low cost of debt against the cost of equity, debt is the preferred financing method. However, should net gearing approach or exceed our safety level of 30% net gearing or interest rate continue to rise, we may have to consider the non-debt option.

財政資源

強勁現金流轉

雖然期內盈利下跌且有重大的固定資產投資計劃，加上派發股息，但集團仍能保持強勁的現金流轉，事實上財務部低估了核心業務的變現能力，而淨銀行借貸遠比我們原來預計的15%至20%之水平為低，截至二零零四年三月三十一日之淨借貸僅為6,287,000港元，或淨借貸比率2%。

假若出現以下情況，淨借貸比率仍有可能攀升至30%或更高的水平：

- 集團需要維持較大的固定資產投資計劃；及
- 當營業額上升時，即時供貨系統中的存貨會引致流動資金需求急升。

財務週轉的方法

集團與各核心及非核心的銀行繼續保持緊密合作關係，另外我們已從恒生銀行取得一項中期貸款額35,000,000港元，以改善淨流動資金比率，惟至今此筆貸款額尚未動用。

由於銀行借貸成本相比於股本成本為低，故此銀行借貸仍屬集團之首選，但若然集團之淨負債比例超出30%的安全水平時，又或者利率不斷上升，介時可能需考慮一些非銀行借貸形式的方案。

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The Dividend Alternative?

One of the possible non-debt financing option is to cut back on the Group's dividend payment, which totalled HK\$94,597,000 in 2003/04 (2002/03 final and special dividends and 2003/04 interim dividend). However, the Directors wish to make it crystal clear it has not committed a course of action, as the future is still very uncertain:

1. Barring any unforeseen change of business situation, should the Directors decide any change of the existing dividend policy, it would provide at least 6-months notice in advance; and
2. We fully recognise the value of dividend to some shareholders. The general criteria of any changes in our dividend policy must be based on three basic principles:
 - a. that the Group can put the money thus saved into more productive use consistent with our ROE ratio requirement;
 - b. that the changes are much cheaper to the shareholders than the potential dilutive effect of the issue of more equity; and
 - c. that the level of net gearing is not conducive to long term stability of the Group financial position.

Based on the current level of bank borrowings, interest rate expectation and business plan, we do not expect a serious review of the dividend policy until late 2004. But just in case if there are any changes of dividend policy by then, I would see it as a piece of good news, not bad news as finally the Group would be able to put its financial resources into value-enhancing investment instead of distributing the cash dividends.

改變股息政策會否是另一選擇?

其中一個可行的非銀行借貸資金週轉方法是減少派發股息，以二零零三／零四年度計算共派發94,597,000港元股息(二零零二／零三年度末期及特別股息及二零零三／零四年度中期股息)，但董事們向各位清楚說明，由於前景未明，故此直至現時董事們仍未有任何確實的決定：

1. 除出現不可預知的轉變外，倘若董事們對現行股息政策有任何改變，必會最少提前六個月通知公眾；及
2. 我們絕對明白股息對部份股東的重要性，若出現任何轉變必須符合以下三個重大原則：
 - a. 集團將省下的資金用於更具生產效益的用途，以符合提升股東權益回報率的要求；
 - b. 股東們因此付出之代價比起於資本市場籌集資金所帶來的股東攤薄效應較輕微；及
 - c. 淨負債比率的水平可能影響集團長遠的財務穩定狀況。

考慮到現時整體銀行借貸、息率走勢與及業務發展計劃，集團會待至二零零四年末才會對股息政策作審慎評估。倘若屆時真的出現了變化而改變派息政策，我會認為是一件好事，因為集團終於可以將資金靈活運用作增值投資，無需為處理多餘現金而派發股息。

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Optimal Capital Structure

We welcome a modest amount of net bank borrowings because:

1. such interest-bearing debts will provide a strong financial discipline on the management team; and
2. it will improve financial leverage in terms of return of capital.

Even at a 30% net gearing ratio, the incremental impact of a say 3% increase in interest rate will add around HK\$3,000,000 to our interest expense bill, hardly a significant figure in the overall context.

Provided that the net gearing ratio stays at the 30% level, we see no reason why we have to consider non-debt alternatives.

最合適的資本結構

我們歡迎一個溫和的淨銀行借貸水平，因為：

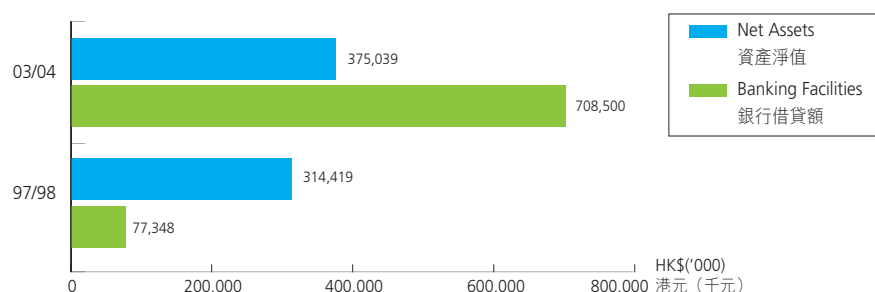
1. 需要支付利息的債務，可以加強管理層決策融資時的財務紀律；及
2. 採用財務槓桿以改善資金投資回報率。

倘若淨負債比率處於30%的水平而利率調升3%的話，其對集團利息支出的影響約3,000,000港元，對整體賬目的影響性不大。

假設淨負債比率能夠維持30%之水平，我們認為無必要考慮其他非借貸形式的資金週轉方法。

Comparison of banking facilities available and the net assets for 1998 and 2004

對比1998年與2004年之銀行借貸額及資產淨值



Why banks trust us now but not in 1998

when we had roughly the same amount of net assets?

1998年時集團淨資產值與2004年大致相同，為什麼銀行於1998年向集團投下不信任之一票？

Resources Available

The Directors are confident that with the cash holdings of HK\$245,203,000 and banking facilities of approximately HK\$708,500,000, the Group is able to meet its current operational and capital expenditure requirements.

As at 31 March 2004, part of the Group's banking facilities were secured by mortgages over certain of the Group's land and buildings in Mainland China with a net book value of approximately HK\$16,825,000 (2003: HK\$17,225,000).

可動用資源

以集團現時分別擁有手頭現金245,203,000港元與及銀行借貸額約708,500,000港元，董事們有信心足夠應付現時營運與及資本性開支的需要。

於二零零四年三月三十一日，本集團部份銀行融資之抵押為本集團位於中國之部份土地及樓宇，帳面值約16,825,000港元(二零零三年：17,225,000港元)。

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EXCHANGE RATE EXPOSURE

All the Group's assets, liabilities and transactions are denominated either in Hong Kong Dollars, US dollar or Renminbi. As the exchange rate of the Hong Kong dollar, US dollar and Renminbi were relatively stable during the year, the Group was not exposed to material exchange risk at the moment (please refer "Risk Management" on P.20). As at 31 March 2004, the Group's US dollar assets exceeded its US-dollar liabilities by US\$40,000,000.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group had no significant contingent liabilities.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, we continue to promote social responsibility programs quietly. In the current financial year, we have joined forces with our colleagues in donating and establishing new "schools of hopes". Our staff had also actively participated in a number of activities including visiting senior citizens and street cleaning campaign. Personally I have also done my part in joining various local trade associations to promote the dialogue with the local authorities.



Street cleaning campaign
街頭清潔運動

匯兌風險

集團所有資產、負債及交易均以港元、美元或人民幣計算，由於年內港元、美元及人民幣之匯率一直維持穩定，故此集團現時並無任何重大的匯兌風險。(請參閱第二十頁「風險管理」)截至二零零四年三月三十一日止，集團的美元資產較美元負債多出40,000,000美元。

或然負債

截至二零零四年三月三十一日止，本集團並無重大或然負債。



Participation in local trade associations of foreign enterprises
參與外商協會會務工作

企業社會責任

嘉利作為一個負責任之企業公民，我們一直默默地推行企業社會責任運動，不遺餘力。於本年度，集團與員工再度攜手捐助辦學，包括興建新的「希望學校」及參與助學活動，員工亦積極參與各項社區活動，包括探訪老人院、街頭清潔運動等。本人亦略盡棉力，為推動外商與當地政府之間的溝通，於多個外商投資企業協會中擔當會務工作。

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In 2001, the Group obtained the ISO 14001 Environmental Management System accreditation. We will continue our best effort in using environmental-friendly raw materials in products design, improving polluted air filtering system, speeding up the response to customers' queries in environment concerns in our products, reusing recycled waste water in toilet etc.

As the Group experienced a profit reduction in the current financial year, I have decided to promote various social activities out of my pocket so as to relieve the Group's financial burden. Fortunately the response was good. For example, in Fenggang, Dongguan, the site of our manufacturing base, we have recently initiated a new "culture workshop" to promote local culture and to attract talents. With the need of more and more top talents and the Group's emphasis on recruiting the best people, such "culture workshop" will help in attracting and retaining talents in the community in the long term.

EMPLOYMENT AND REMUNERATION POLICIES

Proactive Policies

With the recovery of the economy and the coming end of deflation in Hong Kong, we face the same problems like other employers in how to retain, motivate and recruit talented staff. As our competing advantage lies in the premium service offered to our customers, it is imperative that we have the best personnel resources available. Since 2001, we have gradually moved toward a performance-based rewarding system including:



Visiting senior citizens
探訪老人院



Contributing my modest part
略盡綿力

在二零零一年，我們獲頒ISO 14001環境管理體系認證。我們會繼續努力改進集團定下的環境改善措施，例如我們在設計產品方面盡量使用環保原材料、改善排氣過濾系統、加快回應客戶對我們的產品在符合環保要求上的查詢、將經處理過的廢水回用於洗手間等。

本人有感本年度之集團溢利有所倒退，故自資推廣多項社會公益事務，以減少集團此方面之財務負擔，可幸的是各方反應熱烈，例如最近本集團在生產基地東莞市鳳崗鎮組織「文化沙龍」，主力提升當地文化氣息及匯聚人才。現時國家求才甚殷，以集團一向致力於「以人為本」的精神，相信長遠而言，「文化沙龍」能為當地及集團招攬人才方面更添優勢。

僱員及薪酬政策

採取主動政策

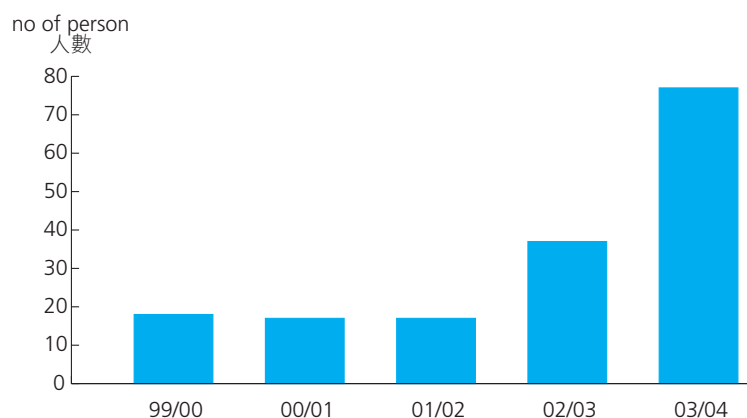
隨著整體經濟復甦，而香港通縮時代漸去，我們就如其他香港僱主一樣同樣面對如何挽留、推動與及招聘有才能的員工等難題，一直以來我們的競爭優勢源自優質的服務，故此提供最佳人才配合是必要的，自二零零一年集團已逐步推行以表現掛勾的獎勵制度，包括：

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1. abolishing the standard 13th month bonus and instead substituting a performance based bonus. Staffs are ranked according to a number of criteria. While those of sub-standard performance may not get any performance bonus, those with superb performance have been more richly rewarded than under the previous bonus system; and

1. 取消固有的第十三個月薪金，取而代之推出與表現掛勾的獎金制，員工按照不同的基準排列等級，表現低於標準的員工可能得不到任何獎金，至於有超卓表現的員工則會獲發比以往更為可觀的獎金；及

Summary of Share Options Granted to Employees
員工獲發購股權概括表



Linking the interest of our shareholders with a greater number of staff through stock options

透過派發購股權證予更多員工，將股東們之利益與他們串連在一處

2. staff entitling stock options are no longer limited to senior employees of the Group. In the current financial year, we have pushed the granting of stock options down the management ladder to foster a strong bond between the Group's overall performance and the staff's well-being. Despite the current negative feelings on the issue of options to staff, I am still convinced that shares options are the most effective way to link up the interest of the shareholders and staff. To protect the interest of the shareholders, we would of course closely monitor the amount of shares options issued and the vesting period to minimise its dilutive effect.

2. 擁有購股權的員工已不再局限於高職人員，於本財政年度，集團將購股權適用範圍擴大至整個管理階層，將員工的得益與及集團的整體表現互相緊扣。雖然近日外間對於派發員工購股權證有所保留，但本人始終認為將員工與股東之利益連成一線為最合適做法。當然從股東權益著想，我們會小心控制派發購股權證之數量與及行使日期，務求令股東權益的攤薄影響減至最低。

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Potential Dilutive Effect of Share Options

(As at 15 June 2004, total issued share capital is 401,356,000 shares)

購股權潛在攤薄影響

(截至二零零四年六月十五日已發行股本為 401,356,000股)

Exercisable during or after the period 於期內或之後可行使之年度	Number of exercisable outstanding share options 未行使購股權數目			Percentage over total issued share capital 佔已發行股本之百分比
	Directors 董事	Other Participants 其他參與者	Total 總數	
01/04/2004 - 31/03/2005	6,420,000	10,946,000	17,366,000	4.33%
01/04/2005 - 31/03/2006*	800,000	5,216,000	6,016,000	1.50%
01/04/2006 - 31/03/2007*	800,000	4,956,000	5,756,000	1.43%
Cumulative total 累計	8,020,000	21,118,000	29,138,000	7.26%

* Additional exercisable outstanding share options during the period
於期間所增加之未行使購股權



The new canteen: does good food lead to more productive workers?
新建飯堂：好的食物能否為我們帶來更具效率的員工？

Stability vs Creativity

As at 31 March 2004, the Group employed on average 5,459 staff and workers in the previous year. Beside the proactive remuneration policies, we have also implemented changes to improve the quarters, canteens and other measures to retain and motivate staff.

穩定與創造力

截至二零零四年三月三十一日止，集團於過去一年平均聘有5,459職員與員工，除了採用較主動的薪酬政策外，我們不斷改善員工宿舍、飯堂與及多項措施來挽留及推動員工。

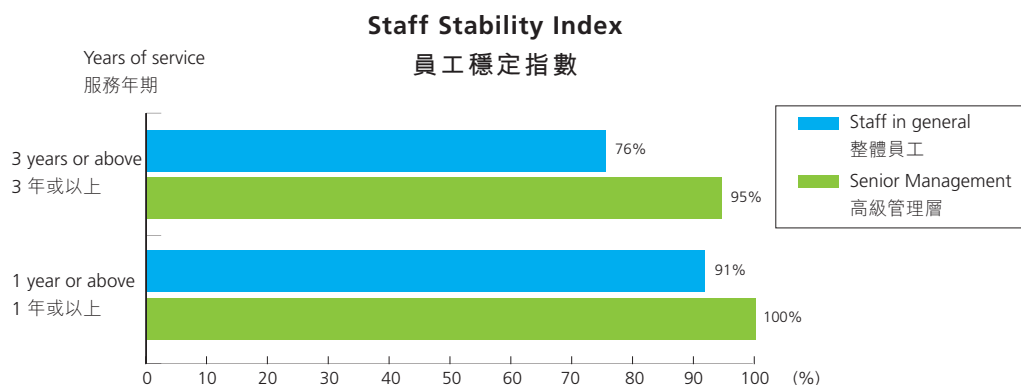


The new Karrie's e-newsletter
新的員工電子通訊站：
「嘉料站」

Chairman's Statement 主席報告

While employee turnover is inevitable both in China and Hong Kong, the Group has a remarkable record of low staff and senior management turnover because of its unique culture and enlightened personnel policy. But while low staff turnover ratio is essential for stability, long service years may provide stumbling blocks for changes in this fast moving world. In this aspect,

雖然國內及香港出現員工流失情況是無可避免，但集團憑其獨有企業文化及開明的人事管理作風，由職員以至高級管理層的流失率都明顯較低，雖然員工的流失率低能令企業保持穩定，但在現今這個快速變化的時代，一成不變可能成為發展的絆腳石，



1. we are lucky that the Group is doing business with some of the biggest and best enterprises in the world in their field. To stay in the same rhythm, our colleagues have to run at the same pace of our demanding customers just to stay even; and

1. 集團有幸能替業內最大及最知名的企業合作，為了配合客戶的發展步伐，我們的同事必須緊貼客戶的步伐；及



Morale building with new interactive e-newsletter: staff winners of a photo-quiz sharing a light moment with the management team
利用互動式通訊站建立員工士氣：照片競猜得獎員工與管理層共享輕鬆時刻

2. Among other measures, we have started an e-newsletter to actively encourage a two-way communication flow.

2. 在眾多措施中，我們增設了一個電子化員工通訊站，加強員工彼此間的溝通。

In 2003/04, we have additionally recruited 10 more new colleagues from Hong Kong and overseas to our payroll. As at 31 March 2004, we have a total of 9 staff in overseas representative offices. We will continue to improve our employment and remuneration policies to recruit top talents to join us to cater for our demanding customers.

於二零零三／零四年度，我們額外招聘了十名香港以至海外的職員，截至二零零四年三月三十一日，我們的海外辦事處共聘有九名職員，我們會繼續完善僱員及薪酬政策，並致力廣納人才以滿足客戶的需要。

Chairman's Statement 主席報告

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.

Ho Cheuk Fai

Chairman

Hong Kong, 25 June 2004

致謝

本人謹向一直鼎力支持集團的所有客戶、供應商、往來銀行、股東、以及所有給予本公司支持者致以衷心致謝。此外更感謝一直為集團作出寶貴貢獻之董事、經理及員工們。

主席

何焯輝

香港，二零零四年六月二十五日

Chairman's Statement 主席報告

APPENDIX 1

Special Characteristics of Our Business Model

Some or all of the following characteristics apply in our dealing with customers. Such characteristics have been generalised/simplified to enable easy understanding:

1. We deal with projects, which can take one year of development and engineering works from initial project confirmation to final shipment of goods. A project's shipment cycle can run for 12 to 18 months.
2. We do not normally have a large orders backlog because the customers' adoption of either the just-in-time (JIT) inventory, rolling forecast, Electronic Data Interexchange (EDI) or a combination of the above methods.
3. Usually we are the only vendor for a particular project and therefore have the obligation to ship goods to customers even if the sales volume is much higher than the initial projection.
4. Most of our customers are not retailers, but manufacturers themselves. Some of them even have factories in China. Most of the electronics components are either sourced through the customers or their designated suppliers.
5. While the metal and plastic enclosures business is an integral part of the computer and computer peripheral sector, the industry thrives only in Taiwan but not in Hong Kong.
6. Our customers are mostly multi-national companies. Thus we frequently have the situations like project originated in Japan, components assembled in China while the final products shipped to Asia or Europe. Our definition of breakdown by market is by shipment destination but not country of origin of the customers.

附錄一

經營模式之特色

以下的幾點經營特色或多或少是我們與客戶之間生意上交往時會遇到的，方便大家理解，已將下列之特色簡化表達：

1. 我們接回來的生意一般是以項目形式進行，而每個項目從開發，工程設計到起辦，至成品付運，整個過程為時約一年，而項目本身之週期為十二至十八個月。
2. 一般我們並無大量的實單在手，因為客戶落單以即時供貨(JIT)，「滾動式預算」又或以「電子信息交換系統」(EDI)進行，甚至混合以上形式等。
3. 很多時我們所負責的項目都是客戶該項目的唯一供應商，因此就算客戶突然將訂單數量增加，我們亦有責任準時付運。
4. 我們的客戶大多是廠家，而非零售商，有些更於中國設有廠房，大部份的電子零件都是客戶指定供應商又或是他們自己提供的。
5. 雖然五金塑膠外殼業務乃電腦及其週邊產品的核心部份，但這行業於台灣遠比香港盛行。
6. 我們的客戶大部份屬國際知名品牌，故很多時會出現如下情況：客戶之項目源自日本，但在中國生產，成品最終付運到亞洲及歐洲等地。而我們對於市場分佈之界定則以成品付運終點站為準，而非客戶來自那個國家。

Chairman's Statement 主席報告

APPENDIX 2

Corporate Governance

1. Three independent non-executive directors out of a total of nine directors;
2. Establishment of an Executive Committee to improve decision-making efficiency;
3. Efforts to improve transparency
 - meetings with the press and analysts; and
 - detailed explanation of corporate strategies and the rationale behind;
4. Clearly defined dividend policy of payment of 50% or more of the after tax profit;
5. Clearly defined ROE objective of 20%;
6. Clearly defined future turnover targets;
7. Announcing quarterly results - Putting the shareholders' interest first in publishing a disappointing quarterly profit drop in September 2003 instead of just following the previous practice of publishing turnover figure only (which showed an increase of 19% for the first quarter of 2003/04).....as if we were not able to deliver according to plan, we will let the investors know as far as practical;
8. Increasing the number of audit committee meetings to 4 times a year;
9. Encouraging executive directors to hold at least 500,000 shares of the Group;
10. Including a social responsibility statement in the annual report;
11. Estimating the cost of options granted; and
12. Enhancing stock market liquidity with the major shareholder's placement of 60,000,000 shares to institutional shareholders in May 2003.

附錄二

公司管治

1. 九名董事會成員中,獨立非執行董事共佔三席;
2. 成立執行委員會加快決策效率;
3. 致力提高透明度
 - 與媒體及分析員會面; 及
 - 詳細解釋集團策略與其背後之理念;
4. 將除稅後溢利之50%或以上用作派息作為集團之派息政策;
5. 清晰釐定股東權益回報率目標為20%;
6. 清晰釐定集團未來銷售目標;
7. 公佈季度業績—以照顧股東利益為大前題,於二零零三年九月選擇公佈了令人失望的季度盈利報告,而非按之前的做法只公佈銷售數字(二零零三/零四年度第一季銷售額上升了19%).....即使我們未能按實踐承諾,仍會盡力讓投資者知道事實;
8. 增加召開審核委員會會議之次數至每年四次;
9. 鼓勵各執行董事持有不少於500,000股集團股份;
10. 於年報內增設企業社會責任的部份;
11. 估計購股權之成本; 及
12. 為提高市場流通量,集團之主要股東於二零零三年五月向機構投資者配售60,000,000股份。

Chairman's Statement 主席報告

APPENDIX 3

附錄三

Dividends and Dividend Policy
股息及股息政策

Group's policy to distribute 50% or more of its profits attributable to shareholders' as dividends
集團既定股息政策為股東應佔溢利50%或以上用作派息

Seven Years' Trend of Dividend Payment

過去7年派息資料參考

All dividend paid shown below is in HK cents per share

下列每股派發之股息全以港仙計算

	Interim 中期	Final 末期	Subtotal 小計	Interim	Final	Special	Total 合計	Dividend Payout Ratio 派發比率	
				Special 中期 特別股息	Special 末期 特別股息	Subtotal 特別股息 小計		(Excluding)* (不包括在內)*	(Including)# (包括在內)#
1997/98	Nil 無	1.00	1.00	Nil 無	Nil 無	Nil 無	1.00	13%	N/A 不適用
1998/99	2.00	2.00	4.00	Nil 無	Nil 無	Nil 無	4.00	58%	N/A 不適用
1999/00	2.20	2.20	4.40	Nil 無	Nil 無	Nil 無	4.40	77%	N/A 不適用
2000/01	1.10	3.80	4.90	Nil 無	6.20	6.20	11.10	69%	156%
2001/02	5.00	5.90	10.90	5.00	14.10	19.10	30.00	50%	138%
2002/03	8.00	11.00	19.00	Nil 無	5.00	5.00	24.00	60%	75%
2003/04	8.00	12.00	20.00	Nil 無	Nil 無	Nil 無	20.00	87%	N/A 不適用

Remarks: *Excluding special dividend
備註: *不包括特別股息

#Including special dividend
#包括特別股息

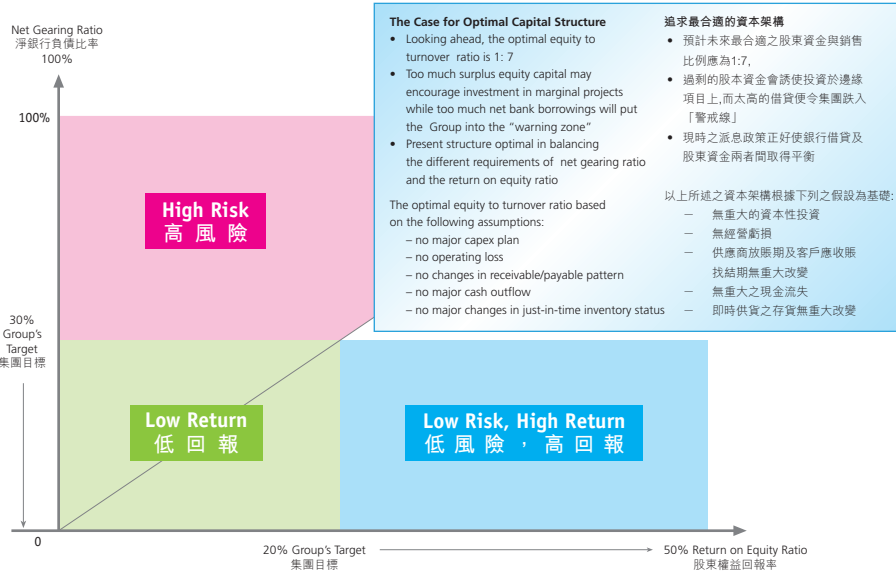
Chairman's Statement 主席報告

APPENDIX 4

附錄四

Equity to Turnover Ratio
股東資金與銷售比例

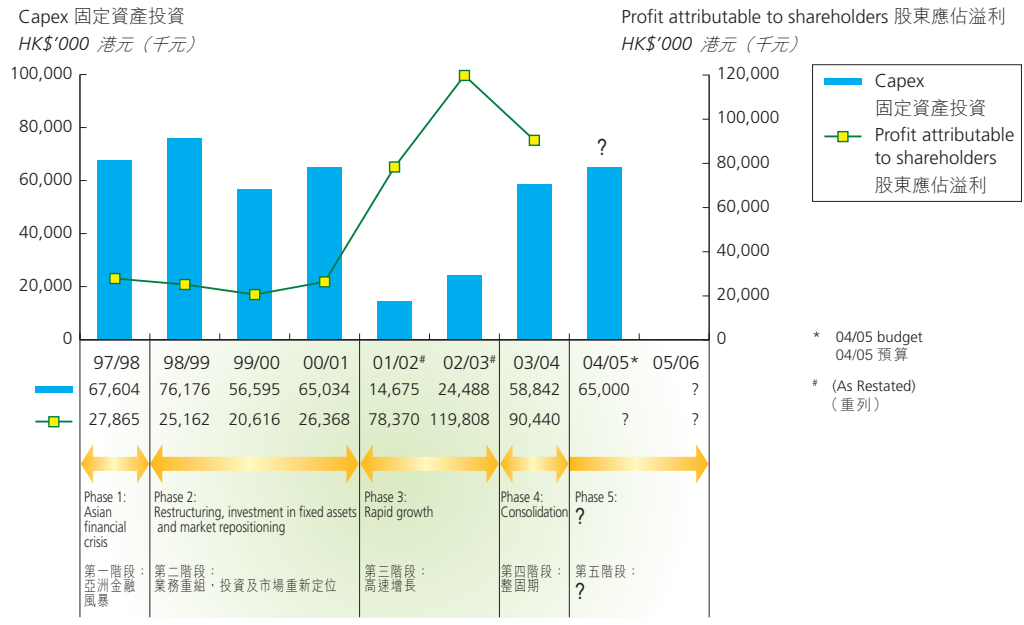
Simplified Diagram showing relationship between Group's Net Gearing Ratio and Return on Equity Ratio
簡易圖表說明集團股東權益回報率與淨銀行負債比率之關係



APPENDIX 5

附錄五

Capex
固定資產投資



Chairman's Statement 主席報告

APPENDIX 6

Superb management? Or Just Pure Luck?

1. Solving liquidity problem during the Asian Financial Turmoil, 1998
 - (a) Severe cash flow squeeze resulting from the suspension of credit facilities from most banks and financial problem of a major customer; and
 - (b) Recovering from a net bank borrowing of HK\$66,000,000 as at 31 March 1998 to a net bank borrowings of HK\$6,000,000 as at 31 March 2004 after payment of dividends of more than HK\$270,000,000 during that period (excluding final dividends of 2003/04)

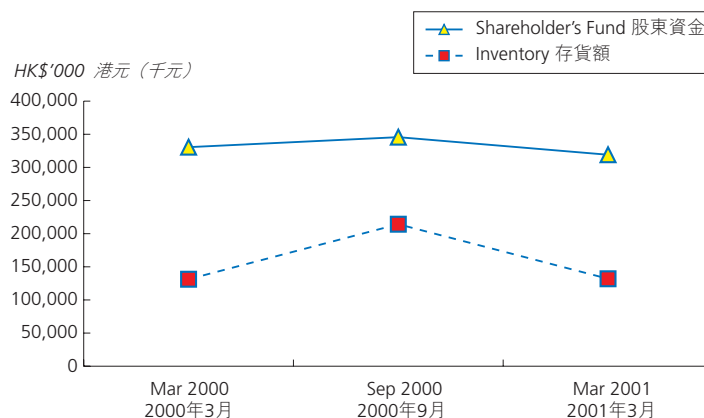
2. Dealing with excess inventory build-up in 2000

附錄六

是優質管理？抑或純粹運氣？

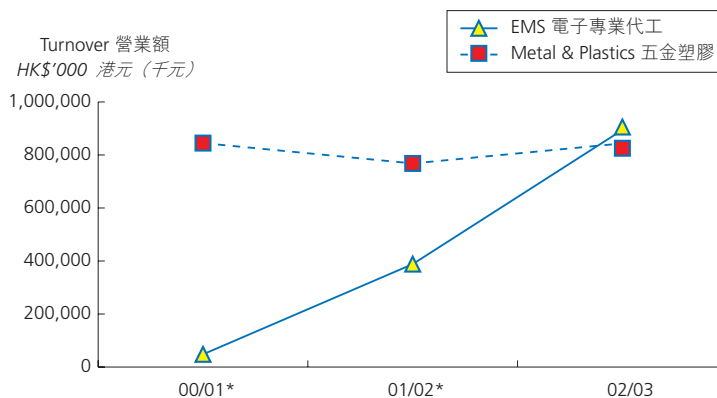
1. 化解一九九八年之金融風暴中遇到資金週轉問題
 - (a) 因大部份銀行收縮貸款，及其中一名主要客戶遇到財政困難，而產生嚴重資金週轉問題；及
 - (b) 從一九九八年三月三十一日之淨銀行借貸為66,000,000港元，到二零零四年三月三十一日止之淨負債為6,000,000港元，期間已派發超過270,000,000港元作為股息（未計算二零零三／零四年度之末期股息）

2. 解決二零零零年之存貨過多問題



3. Starting the EMS business from zero in 2001

3. 電子專業代工業務於二零零一年由零開始



* Including moulds sales after reclassification

* 重整業務分類，包括模具銷售在內

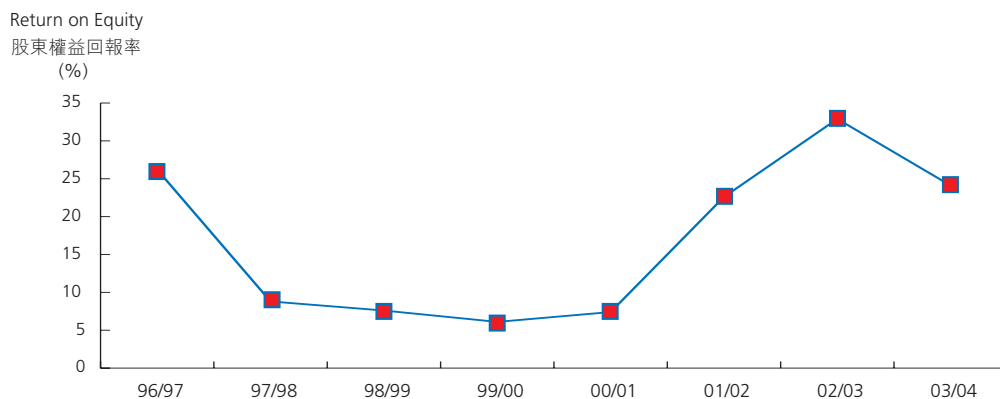
Chairman's Statement 主席報告

APPENDIX 6 (Cont'd)

附錄六 (續)

4. Efficient deployment of capital with Group's Target ROE at 20% or above

4. 有效地運用集團資金，而集團之股東權益回報率目標釐定於20%或以上



HK\$ (m)
港元 (百萬)

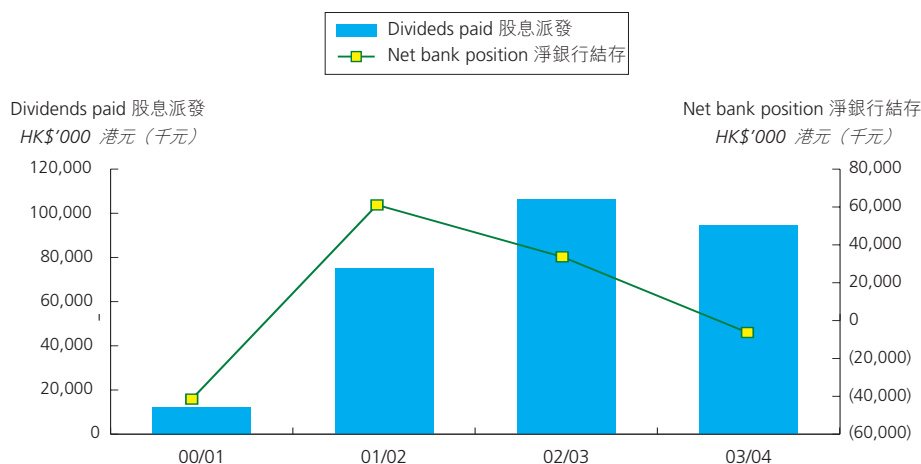
	96/97	97/98	98/99	99/00	00/01	01/02*	02/03*	03/04
Profit attributable to Shareholders 股東應佔溢利	81	28	25	21	26	78	120	90
Shareholders' Equity 股東權益	310	318	332	339	356	347	364	375
Return on Equity (%) 股東權益回報率 (%)	26.2	8.8	7.6	6.1	7.4	22.6	32.9	24.1

* As Restated

* 重列

5. Strong recurrent cash flow

5. 強勁現金流量



(HK\$'000) 港元 (千元)

	00/01	01/02	02/03	03/04
Final and special dividends of prior year 去年度之末期及特別股息	8,230	37,429	75,841	62,577
Interim and special dividends of current year 本年度之中期及特別股息	4,112	37,509	30,468	32,020
Dividends Paid 年內派發之股息	12,342	74,938	106,309	94,597
Net bank position 淨銀行結存	(41,474)	61,098	33,690	(6,287)

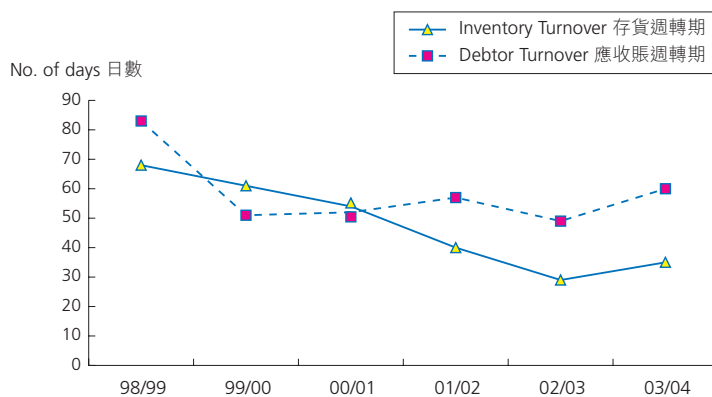
Chairman's Statement 主席報告

APPENDIX 6 (Cont'd)

附錄六 (續)

6. Excellence in Management: Inventory & Debtor Turnover

6. 卓越管理: 存貨及應收賬週轉期



(no. of days) (日數)	98/99	99/00	00/01	01/02	02/03	03/04
Inventory Turnover 存貨週轉期	68	61	54	40	29	35
Debtor Turnover 應收賬週轉期	83	51	52	57	49	60

Notes 註 :

Inventory turnover (Base on average stock value/Sales) X 365 days

Debtor turnover (Base on average debtors/Sales) X 365 days

存貨週轉期 (以平均存貨值/銷售價值) X365 日

應收賬週轉期 (以平均應收賬/銷售價值) X365 日