

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 2005.

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」)截至二零零五年三月三十一日止的年報。

PRINCIPAL ACTIVITIES AND RESULTS

主要業務及業績

The Group is principally engaged in

集團主要從事

- Metal and Plastic Business: 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.

- 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。



2001/02

Rebirth: March Toward Excellence
脫胎換骨·邁向卓越



2002/03

We Promise We Deliver
言而有信·一諾千金



2003/04

Sunset, Sunrise
日出·日落

MOUNTING NEW HEIGHT

In the previous financial year ended 31 March 2004, our turnover and profit attributable to shareholders declined by 3% and 25% respectively. At that time we have assured our shareholders and investors that there was no gloom and doom here. Instead, the Directors

披荊斬棘，再攀高峰

上年度截至二零零四年三月三十一日止，銷售額及股東應佔溢利分別下跌3%及25%，雖然如此，當時我們並未因此變得沮喪，相反，我們肯定地對股東們及投資者作出業績反彈之承諾，再者經過了自二



treasured this golden opportunity to consolidate our operations after a period of rapid growth since 2001. As stated in annual report for the year ended 31 March 2004:

- **we maintained our long-term business goal** made in 2001/02 of doubling our turnover of HK\$1,156,000,000 in three years time;
- **we kept our dividend payment**, providing reasonable yield to our supportive shareholders; and
- **we took the painful but courageous decision of hiring more staff and investing further resources** in the development works for the long-term benefit of the Group.

After 12 months' hard work, now our efforts start to bear fruit: "We Promise. We Deliver" (2002/03 Annual Report main theme). Whilst most manufacturers suffered from problems like rising raw material price, shortage of labour and electricity etc, **the Group's turnover rose to a record high of HK\$2,563,190,000 (2003/04: HK\$1,692,960,000), while profit attributable to shareholders surged to HK\$150,344,000 (2003/04: HK\$90,440,000), representing an increase of 51% and 66% respectively.**

REASONS FOR THE REBOUNCE OF PERFORMANCE

Some of the principal reasons for the rebound of performance were as follows:

- Strong demands for computer and office automation products with **the worldwide recovery of technology spending**;
- According to the special characteristics of our unique business model (see appendix 1 on P.58), the Group is normally the **sole supplier** for the particular projects confirmed with customers. Any increase in demand of our customers' products will be mostly reflected as increase in the business of the Group;
- With the related **engineering and production problems of projects confirmed from customers gradually solved after the SARS** (Severe Acute

零零一年起一段急促增長的日子後，董事會非常珍惜這黃金時機將整體營運重新整頓調節，正如於二零零四年年報中所陳述，我們：

- **繼續維持於二零零一／零二年度所定下的長遠銷售目標**，於三年內將銷售額從1,156,000,000港元倍增；
- **繼續維持派息不變**，為一直支持集團的股東們提供合理的回報；及
- 雖然艱苦，但仍然**堅定不移招聘更多人員及投入額外資源**以配合集團長遠發展的需要。

時至今日，過去一年努力耕耘的日子終於過去，是開始收成的時候了。正所謂「言而有信•一諾千金」(二零零二／零三年度年報主題)，雖然業界普遍受到原料升價、缺電及勞工短缺等問題所困擾，**集團本年度營業額再打破歷年來的新紀錄至2,563,190,000港元(二零零三／零四年度：1,692,960,000港元)**，股東應佔溢利亦躍升至150,344,000港元(二零零三／零四年度：90,440,000港元)，升幅分別達51%及66%。

業績表現重拾升軌的原因

導致業績表現重拾升軌有如下幾個主要原因：

- 隨著全球恢復對資訊科技上的支出，電腦及辦公室文儀產品的需求出現強勁的增長；
- 根據本集團獨特的經營模式(見第五十八頁附錄一)，集團一般為客戶個別產品項目之**唯一供應商**，客戶訂單需求出現上升，將會完全反映於集團的業績表現上；
- 隨著二零零三年非典型肺炎發生期間所引致之工程及生產問題已逐一解決(見二零零三／零四年度年報第十一

Respiratory Syndrome, 2003/04 Annual Report, P.11) period in 2003, shipments surged ahead to catch up with the production vacuum in the previous financial year;

- Under the Group's versatile "Total Transparent Cost Plus Pricing Mechanism" (2004/05 Interim Report, P.24) **most of the raw materials by value other than electro-galvanized steel plates are sourced through the customers or through suppliers designated by the customers.** A rise in raw material price has only a marginal impact on our bottom line (see "Risk Management" on P.35); and
- **While gross profit margin is always under pressure, the rate of decline has slowed down.** With the apparent stabilization of gross profit margin at the moment, profit shot up under the positive impact of strong operating leverage.

THE THREE EQUILIBRIUMS

Our moderate success, however, is not achieved without sweat and hard work. We have to weigh and evaluate the cost/benefits/risk of various alternatives. In charting the course for 2004/05, the most important decisions we made were the balancing of The Three Equilibriums.

The First Equilibrium: "Risk of Investing" vs "Risk of Not Investing"

Two Fundamental Questions

By mid-2004 we knew that the promised recovery was on track. Customers were pounding our doors demanding more capacities and additional service support. We were faced with two seemingly easy questions:

- Should we invest additional resources to cater for the customers demand for additional support? (why not?); and
- If the answer is yes, how do we actually execute the plan and what budget should apply? (the more the better!)

頁), 令產品付運步伐迅速回復, 修補上一個財政年度的生產真空期;

- 根據集團多變的「全透明成本加利潤報價模式」(二零零四/零五年度中期業績報告第二十四頁), 除鐵料外, 大部份原料均是由客戶負責採購又或是由客戶指定供應商所提供, 故此原料價格上升只會對集團帶來輕微影響(「風險管理」, 見第三十五頁); 及
- 雖然毛利率依然受壓, 但下跌的幅度已放緩, 隨著毛利率漸趨穩定, 因此強勁的正面營運槓桿效應令溢利急升。

「三大平衡」

小成的背後, 是汗與努力交織和小心計算衡量「成本」、「效益」及「風險」三方面而成的。回顧二零零四/零五年度, 最重要的挑戰是如何取得「三大平衡」:

第一平衡: 「投資的風險」與「不作投資的風險」

兩大基本問題

於二零零四年年中, 我們已確定預期的復甦已經出現, 各客戶重新提出更大的產能及服務支援的需求, 我們所面對的是兩個看似簡單的問題:

- 我們是否應為滿足客戶需要提升服務支援而投入額外資源?(有何不可?); 及
- 若然是, 我們應如何落實計劃, 而投入的預算應是多少?(當然越多越好!)



3H

3G

3F



Risk of Not Investing

As a life long industrialist, I never underestimate the risk involved in over-expansion and the problems associated with a yearly growth rate of 30%. Such a rate of growth year after year may not be sustainable as it puts enormous pressure along the production chain. The weak point in the production chain will lose its balance and create a lot of problems affecting the whole chain itself. The ideal growth path is to “grow”, “consolidate” and “grow” again. Unfortunately, theory differs from practice. Here lies the first challenge to find the right equilibrium:

- **If we do not continue to invest and take new projects from customers, they will take the new business elsewhere. Over time our competitors will threaten even our existing level of business.** So we have to continue to expand and to accommodate customers' requests in order to stay in the game. We simply cannot stand still. We have to run as fast as our customers; and
- However, **“over-investment” would put the Group into a precarious financial position** (Rapid Increase in Bank Borrowings on P.43) **should the economy take a sudden turn next year.** Who can speak with absolute certainty on the future state of the world economy given a backdrop of rising oil price and interest rate in the US?

Customers Come First

The answer lies in our guiding principle: **servicing our customers is the principal reason for our continued survival and prosperity.** We would therefore disregard any short-term concerns over our bottom line or our financial position and decide to:

- **Increase our headcounts** to recruit more engineers, procurement officers and marketing, production and other related personnel; and
- **Raise our capital expenditure** (“Capex”) budget to a record level of HK\$90,000,000 (2004/05: HK\$62,236,000) including the construction of Phase 1 of the new Yu Quan Plant.

不作投資的風險

作為一位終生以廠為家的管理者，我從未低估過度擴張及年增長率達30%所帶出的問題。要每年維持這增長幅度是不可能的，因為這對於整個生產鏈帶來巨大無比的壓力，生產鏈中最弱之處就會失衡，從而衍生大量問題，影響生產鏈的整體運作。最理想之增長模式為「增長」、「重整」、再「增長」；可是，理論與實際有很大分別。這裏衍生出第一個挑戰，就是如何找到正確的平衡：

- 若我們拒絕客戶的新項目及不作出新的投資，客戶將會另覓夥伴，屆時同業競爭者將會威脅我們現時的業務，因此若要繼續於業內生存，我們別無選擇地必須繼續接下新項目，與此等國際客戶做生意，我們不能固步自封，必須追上他們的步伐；及
- 惟若然明年經濟突然轉壞，「過度投資」會令集團進入一個極不安穩的財務狀況（銀行借貸急促上升見第四十三頁）。在油價與及美國利率上升的大前題下，試問有誰能夠絕對肯定未來全球經濟的走勢？

以客為尊

答案就在我們的第一信條：**服務客戶是我們最重要的企業目標**，亦只有客戶方可讓集團得以生存及延續，因此短期的業績波幅與及對財務狀況的影響變為次要因素。我們將會：

- **招聘更多工程、採購、市務、生產與及相關人員；及**
- **提高固定資產投資的預算至破紀錄的90,000,000港元（二零零四／零五年度：62,236,000港元），包括興建玉泉廠房的第一期建設工程。**



Together with our investment in Capex in 2004/05, the Directors are convinced that we will have sufficient production capacity to cater for the customer's demand in the coming financial year.

Risk of Investing

The consequence can be analysed at two levels:

- **an increase in operating overhead will have a negative impact on our bottom line.** To this end we had largely succeeded in controlling the rate of increase in the distribution and selling expenses & general and administrative expenses at a lower level than the rate of increase in turnover; and
- an increase in the asset side of the balance sheet including:
 - a. **increase in working capital requirements** including trade receivables and inventories; and
 - b. **increase in fixed assets.**

計入二零零四／零五年度已投入的固定資產投資所帶來之新產能後，董事會有信心集團有足夠的生產能力應付來年的發展需要。

投資的風險

可從兩個層面分析：

- **營運開支的增加將對我們的溢利有負面的影響**，但我們於這方面已成功將分銷及銷售費用及一般及行政費用的增長幅度控制得較營業額增長幅度為小；及
- 資產負債表上的資產有所上升：
 - a. **流動資金需求**受到貿易應收帳及存貨上升影響；及
 - b. **固定資產**上升。

This resulted in an increase in the net gearing position to 52% as at 31 March 2005 as compared to 2% as at 31 March 2004. Despite our confidence over the current level of bank borrowings (see P.46), we have decided that **the Capex for the next financial year should be capped at the amount allowed by "free cash flow" provided by profit attributable to shareholders plus depreciation less dividend payment.** So instead of announcing a grandiose multi-year factories building plan, your prudent managers here decided that we should do it in our time-honoured way of building up our ideal yet pragmatic factories step by step.

The Yu Quan Plant

Purchase of the Yu Quan Site

In August 2004, a wholly owned subsidiary of the Group has entered into an agreement with an independent third party for the purchase of a piece of land of **approximately 200,000 square meters (site areas of the existing two factories: approximately 89,000 square meters) situated at Fenggang of Dongguan, Guangdong, China for a consideration of around RMB14,000,000.**

Why Not Finding a Cheaper Place to Expand

The Directors have considered other possibly more remote but cheaper sites for our third plant but finally settled in Yu Quan, Fenggang area because of:

- the pro-business atmosphere in the local Fenggang community;
- its proximity with the existing plants which makes logistic support easier; and
- the nature of the Group's business which focuses on serving customers in niche market rather than mass production.

因而令淨負債比率從二零零四年三月三十一日的2%上升至二零零五年三月三十一日的52%，雖然我們對於現時之借貸水平充滿信心(見第四十六頁)，我們決定將來年度之固定資產投資上限維持於「自由現金流量」之水平，即股東應佔溢利加上折舊再扣減股息支出的餘額。為此，這一群謹慎的管理者寧願捨棄貴麗堂煌的鴻圖大計，踏實地按步就班地建設夢想中實而不華的工廠。

玉泉廠房

購買玉泉廠址

於二零零四年八月，集團透過屬下一間全資附屬公司與一獨立第三者簽訂一份土地買賣協議，以作價約14,000,000人民幣購入一幅位於中國廣東省東莞市鳳崗鎮之土地，面積約為200,000平方米(現有雁田及鳳崗之兩個廠房佔地面積合共約89,000平方米)。

為何不揀選更便宜的地方擴建

董事會亦曾考慮其他較偏遠但便宜的地方作為第三廠址，但最終落實於鳳崗鎮玉泉區發展，因為：

- 於鳳崗社區內已形成了蓬勃的營商風氣；
- 與現有廠房距離接近，方便物流上的支援；及
- 集團之生意模式非針對大批量生產的產品，而是為客戶提供高質素的服務為主。





The Painful Lessons of the Asian Financial Turmoil

The commencement of the construction of the Yu Quan Plant represents an important milestone of the Group after the completion of Yantian Plant (1986) and Fenggang Plant (1999). We have learnt the painful lessons last time during the Asian Financial Turmoil back in 1997 and 1998 when we started to construct the Fenggang Plant. It took us 5 years to complete the construction program as we simultaneously dealt with the most severe credit squeeze from banks in the Group's history.

Phase 1

Hopefully, **the enormous size of the Yu Quan site will be sufficient to cater for the expansion of the Group for the next 5 to 7 years.** Construction of Phase 1 will commence in mid-2005 and is expected to be completed by mid-2006. Upon completion, there will be 4 buildings including a plastic injection moulding shop, an assembly lines building, a dormitory and a power plant with a gross floor area of around 34,700 square meters.



1st Phase construction (Marked in red circle)
第一期工程 (紅圈位置)

亞洲金融風暴帶來沉痛教訓

玉泉廠房的興建標誌著集團繼雁田廠(一九八六年)及鳳崗廠(一九九九)後，另一個重大的里程碑。於一九九七及九八年間為亞洲金融風暴，當時我們開始興建鳳崗廠房，集團正值受到銀行收緊信貸的艱苦時刻，共花費五年時間方能大致完成整體建設。



Yantian Plant
雁田廠房

第一期工程

整個玉泉廠址面積龐大，足以應付集團未來五至七年之發展需要，而第一期建築工程將於二零零五年年中開始，並預計於二零零六年年中竣工。工程完成後將有四座主樓，包括注塑工場、組裝工場、宿舍及配電房，樓面總面積約34,700平方米。



Fenggang Plant
鳳崗廠房

We expect by then we would have sufficient production capacity to cater for the projected increase in shipment volume. Depending on the state of the global economy in mid-2006, we will make the decision on whether to start the construction of Phase 2 of the Yu Quan Plant in due course.

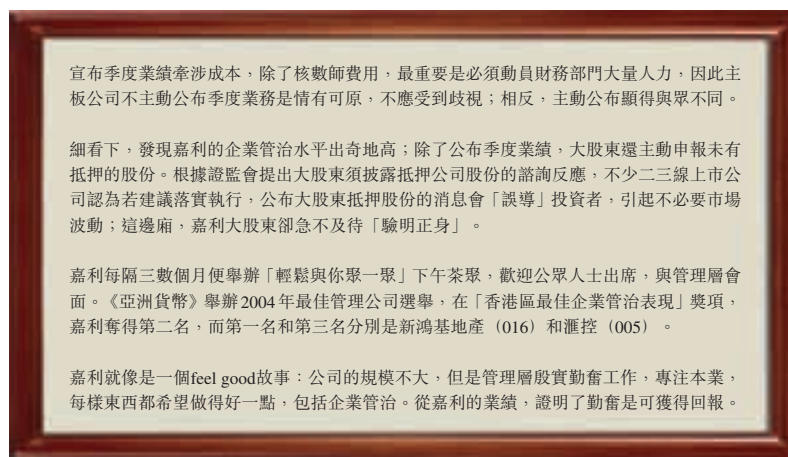
Enterprise Value

From the above discussions on our decision-making process on "customer relationship management" and the "construction of the Yu Quan Plant", we hope that investors would start to appreciate that manufacturing is always a multi-year business. As such, **our focus is always on the long-term interests of the shareholders and stakeholders (including customers, suppliers, bank, employees and others) but not on short-term share price performance.**

我們預期將有足夠生產能力應付客戶的需求，至二零零六年年中時，視乎全球經濟環境的變化，屆時再決定是否興建玉泉廠房第二期。

企業價值

通過上述談論關於我們如何處理「客戶關係管理」及「興建玉泉廠房」等決策理念，希望投資者從中理解到製造業是一門跨年代和具延續性的業務，因此，我們的決策重點集中於股東及相關人仕（包括客戶、供應商、銀行、員工及其他人仕）之長遠利益而非短期之股價表現。



Hung Siu Lam, *The Hong Kong Economic Journal* published on 15 March 2005
孔少林撰於二零零五年三月十五日 <信報>

As custodian of your investment, **we put more emphasis on our business model, organization, people, relationship with customers and suppliers and so on than the bottom line figures in the annual accounts.** Under the existing accounting convention, the historical accounting records cannot capture such enterprise value. This is one of the main reasons why we have been spending so much efforts in raising the corporate transparency. **By going beyond the statutory disclosure requirements under our unique mode of corporate governance, we do hope that some time in the future, the market will duly recognize our enterprise value.**

作為閣下投資的守護者，我們認為經營模式、管理架構、員工、客戶關係、供應商關係等之管理較只著重每年溢利之變化更為重要。受到現有之會計格式所限，傳統之會計賬目難以將企業價值量化表達，這正解釋為何我們要花心思，盡量將企業透明度提高，因而選擇突破慣常的披露手法，去表達企業管治及集團之特色，希望假以時日，市場可認同我們的企業價值。





My Executive Committee: Do you know which Chinese song most aptly describe our feelings?
Tips: lady singer, four words.
我的「執行委員會」：可有想起那首粵語流行曲能貼切地形容我們的感受？
貼士：女歌手，歌名四個字。

Pure Luck?

And it does, to a certain degree and at least by some professionals. For the second consecutive year institutional shareholders and research analysts honoured the Group in the annual poll organized by the Asiamoney magazine. **In the 2004 Asiamoney Poll announced in January 2005, the Group was voted as the first runner-up in both the Overall Regional Best-managed Companies (Small Cap Category) and Overall Best Companies for Corporate Governance in Hong Kong.** The Corporate Governance award is particularly gratifying as the champion and the second runner-up are both blue chips giants which are tens to hundred times bigger than the Group.

Corporate Governance

Why Corporate Governance

Luck is of course important but we cannot run our business based on luck alone. We did not suddenly embrace corporate governance because it is a good public relation gimmick. **One of the reasons of our success is due to a change in the mode of governance since 2001.**

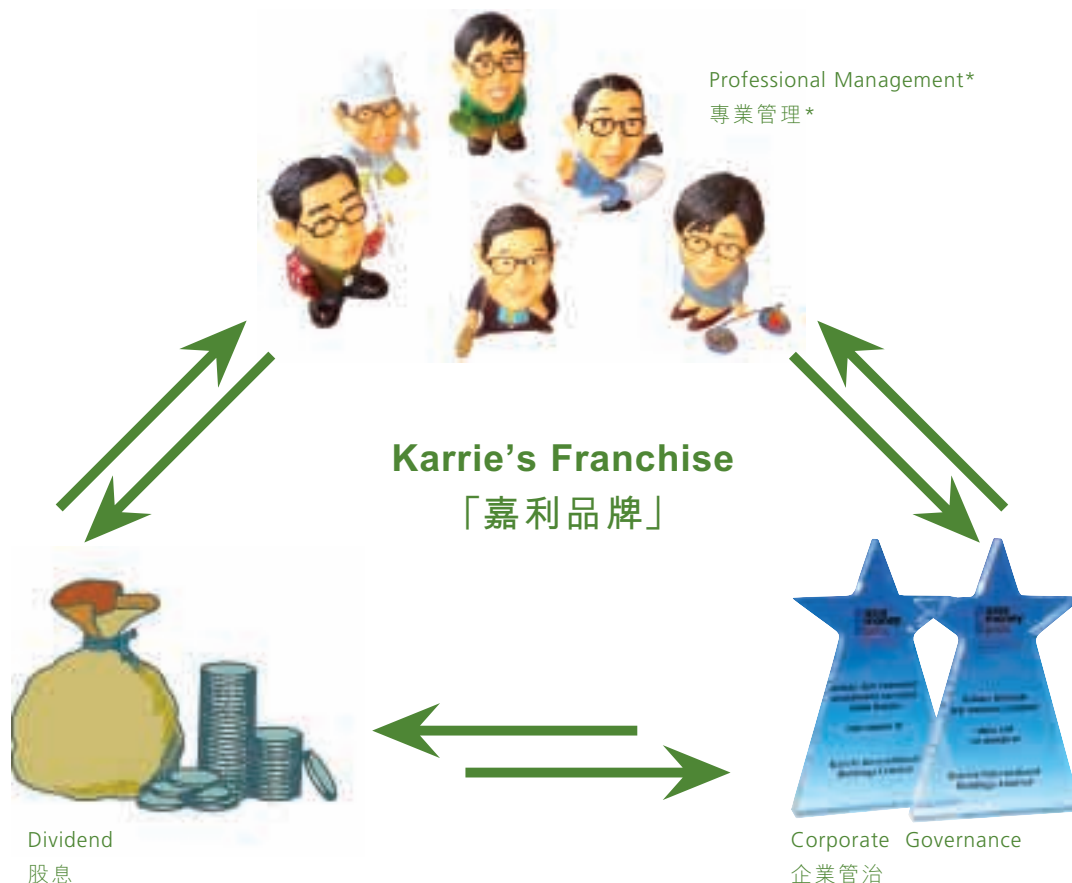
純粹運氣？

某程度上，市場（尤其是一群「專業人士」）開始欣賞我們的企業價值，集團連續兩年於「亞洲貨幣雜誌」選舉中被機構投資者及證券分析員推許為優秀企業，於二零零五年一月份公佈的「二零零四年度選舉」中，集團分別被選為「全亞洲最佳管理公司」（小型企業組）及「香港最佳企業管治表現」第二名，最值得一提的是「香港最佳企業管治表現獎」的第一及第三名得主均為香港的著名藍籌企業，規模比起集團超出數十倍甚至數百倍。

企業管治

為何要落實企業管治

運氣固然重要，但做生意絕不能單靠運氣；集團成功其中一個最主要因素是自二零零一年改變了管理模式，我們並不是從公關的角度而突然擁抱企業管治的。



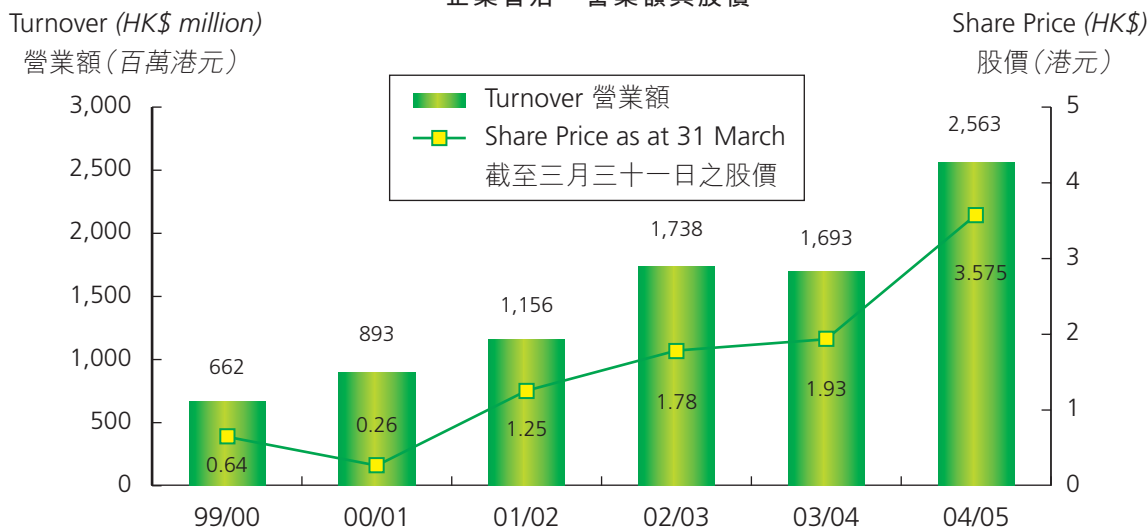
* Details of the function of each refers to Appendix 2 on P.61
* 各人之職責功能請參閱第六十一頁附錄二

Back in 2000 with the burst of the internet bubble, we knew that we could no longer depend on our traditional business for growth. **While the new EMS business goes from zero in 1999/00 to HK\$1,390,384,000 in the current financial year, its complexities and special requirements demand an entirely new mode of governance. So long before the local regulatory requirements demanding the separation of the functions of the chairman and CEO, we established an Executive Committee in 2001** staffed mostly by professional managers running the daily operation of the Company. **While we are still far from perfect, in essence we have transformed the Group from a family-run business to a professionally managed modern enterprise.** (For a more detailed version of the changes, please go to our website for the paper published on 8 March 2005: "Karrie Story: A real life case study on how Corporate Governance improves operating performance").

回想起二零零零年科網股熱潮爆破時，我們意識到不能再依賴傳統的業務以維持增長。雖然電子專業代工業務已自一九九九／零零年度從零起步至本財政年度的營業額1,390,384,000港元，但該業務的複雜性與及獨特的要求需要一個全新的管理模式。事實上，於監管條例提出要求將「主席」及「行政總裁」的職責分開之前，集團已於二零零一年成立執行委員會，並以專業管理人員處理集團的日常營運工作。雖然現時集團距離「完美」尚有一段漫長的道路，但最重要的是我們已漸漸地將一間家族式經營的公司轉變為一間專業管理的現代化企業。(若想了解有關轉變的詳情，可參閱集團網頁於二零零五年三月八日刊出之「嘉利故事：企業管治可改善營運表現之真實個案」)。

Corporate Governance, Turnover & Share Price

企業管治、營業額與股價



"Karrie Story: A real life case study on how Corporate Governance improves operating performance" (a speech delivered in a seminar organized by the Hong Kong Baptist University on 12 March 2005. For speech outline, please refer to our website.)

「嘉利故事：企業管治可改善營運表現之真實個案」（於二零零五年三月十二日香港浸會大學所舉辦之講座主題，有關講義詳情，請參閱集團網頁）。

2001/02:	Executive Committee was established	成立執行委員會
2003/04:	Voluntary quarterly result announcement	自願公佈季度業績
2004/05:	"Tea-break with individual investors"	「與小投資者茶敘」

Enhancing Transparency

Externally, we introduced various measures to enhance our transparency including voluntary quarterly results announcement and publication of detailed and yet easy-to-read annual reports filled with graphs and useful statistics. New initiatives for the current financial year include:

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

The Company was notified by Pearl Court Company Limited ("Pearl Court"), a substantial shareholder of the Company, that it has not pledged any of its interest in ordinary shares of the Company as at 20 June 2005. Pearl Court first made such announcement in the 2004/05 Interim Report in November 2004. It has also undertaken to inform the Board of such pledging status before each annual, half-year or quarterly results announcement, and authorized the Company to publish such information (please refer to the section of "Substantial Shareholders" for details). As at 20 June 2005, Pearl Court held 172,200,000 ordinary shares of HK\$0.1 each or 42.13% of the issued share capital of the Company.

提升透明度

對外方面，我們採納了不同的措施去提升透明度，包括自願性公佈季度業績及制作附以圖表及統計資料等詳盡且簡淺易明的年報，至於本年度的新猷包括：

主要股東就未有抵押股份作出之自願性披露

本公司之主要股東 Pearl Court Company Limited (「Pearl Court」) 通知本公司，對於截至二零零五年六月二十日其擁有本公司普通股之權益，並沒有作為任何股份抵押。Pearl Court 於二零零四年十一月之二零零四／零五年度中期業績報告中首次作有關披露，其亦承諾於本公司未來刊登的年度、半年度或季度業績公佈之前知會本公司其抵押股份情況，並授權本公司公佈這些資料(詳情請參閱「主要股東部份」刊登之內容)。截至二零零五年六月二十日，Pearl Court 持有本公司每股面值 0.10 港元之普通股共 172,200,000 股，佔本公司已發行股本 42.13%。



The Karrie Information Exchange Platform

嘉利訊息交換平台



Tea-break with Individual Investors

Why tea-break?

- Like other listed companies we do have constant dialogues with institutional investors. Our website provides updated information and presentation. But **why are individual shareholders not entitled to the same level of access to the management as institutional investors?** 'Tea-break with individual investors' provides a practical platform for individual investors and the management to share views and exchange information in a cost effective manner;
- With the recovery of the local economy, investors are looking for good investment opportunities. However, **as the Group is only a relatively small company, press coverage is limited.** Without direct access to management, investors may not be able to fully understand the Group before making their decisions; and

與小投資者下午茶敘

為何舉辦茶敘活動？

- 如其他上市公司一樣，我們定期與機構投資者保持溝通，公司網頁內亦不時更新資料及簡報內容。我一直不明白為何小投資者們不能如機構投資者般同等享有接觸管理層的機會？「與小投資者下午茶敘」活動能夠以合理成本，為小投資者們提供了一個有效平台與管理層分享彼此觀點及交換訊息；
- 隨著本港經濟逐漸復甦，投資者開始物色合適的投資機會，但由於集團規模較小，故報章傳媒之報導實在有限，當投資者作出投資選擇時，若然缺乏與管理層直接溝通的渠道，未必能夠對本集團的業務作深入的了解；及

- **The importance of the tea-breaks lies in the symbolic value to those who have not attended the function.** While each tea-break could only accommodate less than 100 shareholders/investors, the willingness of the management team to meet with individual investors conveys a strong positive message of transparency.

1st, 2nd & 3rd tea-breaks

The first tea-break was held in September 2004 after the first quarter results announcement. The number of applicants was so high that we had to resort to drawing lots. Some investors were even willing to come on a 'waiting list basis'. The 2nd and 3rd tea-breaks were held within one month after the interim and the third quarter results announcement respectively. Despite the cooling down of the initial enthusiasm and the imposition of a HK\$30 fee for charity purpose in the 2nd and 3rd tea-breaks, we still had full houses. **Most attendees have done their homework and actively participated in the Q&A session. Actually, the sophisticated issues they raised during the meetings made a big impression on us.**

- 雖然每次茶敘活動只能容納少於一百名股東／投資者，但我們深信茶敘活動之影響不止限於參與者，一些未有參與活動的投資者，對管理層願意直接面對小投資者這份誠意，足以帶出我們致力提高透明度的正面訊息。

第一、二、三次茶敘活動

第一次茶敘活動於二零零四年九月公佈第一季季度業績後舉行。由於報名人數眾多，我們最終採取抽籤形式安排座位，更有投資者願意以「後補」形式出席，其後之茶敘活動亦已分別於中期業績及第三季季度業績公佈後一個月內舉行。縱使第二及第三次茶敘活動沒有第一次般踴躍，加上要收取30港元捐款作慈善用途，但依然座無虛席，而大部份出席人士均事先做足資料準備，更於答問環節積極參與提問，事實上他們所提出的問題之深度實在是我們意料之外。



Let's march together to take the first step in a populist corporate governance movement.
讓我們走入群眾裏，共創企業管治新一頁



Why should individual investors not enjoying the same level of access to management as institutional investors?
為何小投資者不能與機構投資者般同等享有接觸管理層的機會？

Are you going to join us this time?

The next tea-break with individual investors will be held on 16 July 2005 at the Ching Room, 4/F, Sheraton Hotel, 20 Nathan Road, Tsimshatsui. As part of the Group's social responsibility program, participants will be asked to donate HK\$30 directly to charity and we will match the donation dollar for dollar (at a maximum of HK\$10,000 in total). For those who are willing to donate HK\$100 or more, we will:

- arrange for the relevant charity to issue a receipt for tax purpose on a best effort basis; and
- confirm seats availability for those top 10 donors without the need of going through the procedure of drawing lots (if required).

Interested investors are invited to visit our website at www.karrie.com.hk for more details and download the application form. Because of the limited seats available, participation in the 'tea-break' is strictly by confirmed registration only.

你會否也來參加？

接著的「與小投資者下午茶敘」將於二零零五年七月十六日假座尖沙咀彌敦道二十號喜來登酒店四樓清廳舉行，此茶敘亦是集團履行社會責任之一部份，所有到場參與人士均需直接捐助30港元予慈善機構，而集團亦會捐出相同總額（上限為10,000港元）。任何人士願意捐出100港元或以上，我們將會：

- 盡可能向相關慈善機構要求發出收據供退稅用途；及
- 最高捐款之首十名人士可無需通過抽籤程序（如需要），確保座位安排。

如投資者對上述活動有興趣，歡迎瀏覽本集團網頁www.karrie.com.hk索取更詳細資料及下載報名表格。由於場地座位有限，所有出席茶敘之人士必須事先獲確認登記，方可入座。

It is worth!

In reviewing this pioneering mode of communication with investors, we come to the inevitable conclusion that it worths the money/effort we spent on this project, especially when we received positive feedbacks from other non-related parties in social functions. But while we are pleased that senior officials from other listed companies have attended our tea breaks to learn about the operation, we were disappointed that such method has not yet become the norm. **We sincerely hope that individual investors will have more and more opportunities to gain such an important access to the management, through tea breaks or other direct access platforms.**

Encouraging Continuing Professional Education of the INEDs

While our INEDs are successful businessmen and/or professionals themselves, we believe that in this fast-changing world everybody must constantly stay ahead by continuing education. As such, we actively encourage our INEDs:

- To become a member of the Institute of Directors; and
- To log in at least 10 hours of continuing professional education through the Group's sponsorship.

The Second Equilibrium: Dividend vs Capex and Working Capital Requirements

Dividend for 2004/05

- **The Directors have recommended a final dividend of HK12.5 cents per share;**
- **Together with the interim dividend of HK8.5 cents per share, total dividends for the year amounts to HK21 cents (2003/04: HK20 cents);** and
- The final dividend will be payable on or about 11 August 2005. This dividend payment is in line with our policy of paying out 50% or more of the profit attributable to shareholders of the year.

這是值得的！

回顧這個與投資者的創新溝通模式，所得出的結論是為這個活動所付出的金錢與努力是值得的，事實上我們從一般社交場合當中亦得到外間人仕的正面回應。我們感到欣喜的是其他上市公司的高級人員亦來臨出席，從中交流意見，但遺憾的是至今這方法仍未普遍被其他上市公司所採納。我們衷心希望小投資者逐漸有更多機會透過茶敘活動或其他直接渠道，能夠直接與上市公司管理層接觸溝通。

鼓勵獨立非執行董事作持續專業進修學習

雖然本集團之獨立非執行董事均是成功的商人及／或專業人仕，但我們深信在這個瞬息萬變的世界裏，每一個人人都必須持續進修學習，以保競爭力。因此，我們積極鼓勵獨立非執行董事：

- 加入董事學會成為會員；及
- 於集團贊助下，撥出不少於十小時作持續進行專業進修學習。

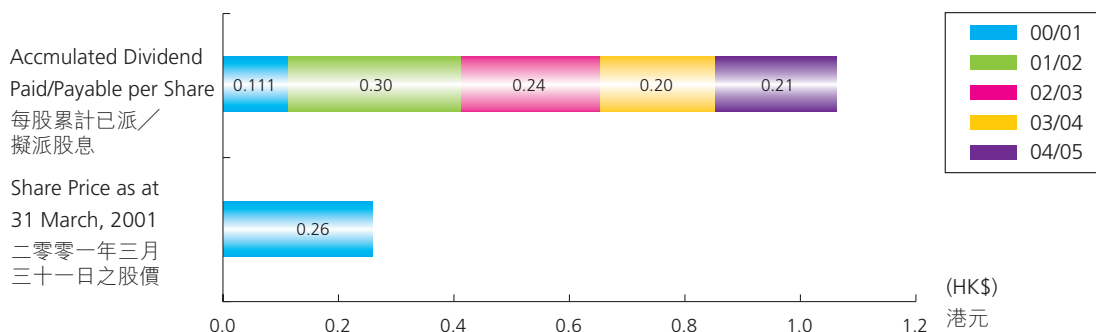
第二平衡：「股息」與「固定資產投資及流動資金需求」

二零零四／零五年度股息

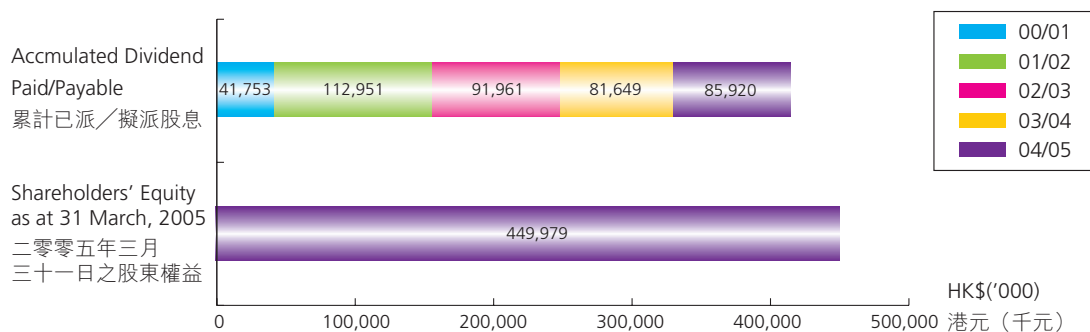
- **董事會已建議派發末期股息每股12.5港仙；**
- 連同中期股息每股8.5港仙，全年股息共達每股21港仙（二零零三／零四年度：20港仙）；及
- 末期股息將於或接近於二零零五年八月十一日派發。這股息派發比率與集團將股東應佔溢利之50%或以上分發給股東的政策相符。



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



Dividend Paid/Payable 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

Sharing Wealth with our Shareholders

We always believe that our willingness to share with the shareholders the wealth created through distribution of dividend is the greatest and most direct manifestation of our corporate governance achievement. **Since 2000/01, the Group's accumulated dividends paid/payable is around HK\$414,234,000 or 92% of the shareholders' fund.** Shareholders starting to invest in Karrie in 2000/01 should have received a total dividend of HK106.1 cents per share (including the proposed final dividend of 2004/05) by now.

還富予股東

我們始終相信透過派發股息與股東們分享財富，是最合理和最直接邁向企業管治的方法。自二零零零／零一年度開始，集團合共已派發／擬派發之現金股息約414,234,000港元，佔股東資金92%。如於二零零零／零一年開始投資於嘉利股票，至今所收取之累計股息合共106.1港仙（二零零四／零五年度建議派發末期股息包括在內）。

No Change in Dividend Policy

In our continuous dialogues with institutional investors and in meetings with individual investors in tea-breaks, we have been urged to raise the dividend level in view of the substantial increase in profit attributable to shareholders. As the largest shareholder of the Group, personally I will not object to putting more cash in my own pockets. However, **our existing dividend policy was formulated during a period of low Capex** (2003/04 Annual Report, appendix 4, assumption 1). **With the commencement of the Phase 1 of the huge Yu Quan Plant, a new Capex cycle has begun. We can no longer rely on our free cash flow (defined as profit attributable to shareholders plus depreciation) to finance the dividend and working capital requirements and the Capex.** The shortfalls would have to be financed by net bank borrowings, which increased from HK\$6,287,000 to HK\$233,630,000 or a net gearing of 2% as at 31 March 2004 and 52% as at 31 March 2005 respectively.

As such, it would be unrealistic to expect us to raise the absolute amount of dividend substantially in coming years in light of both the increasing cash requirement from Capex cycle and working capital. So the real question is whether we should cut, rather than to raise, the dividend. After careful deliberation in balancing the requirements of the shareholders and the capital requirement of the Group, **we are not yet convinced that we should change our dividend policy at the moment because:**

- **The amount of cash flow saved** through a low double digits change of dividend payment **would not be significant** as compared to the overall bank borrowings of the Group (more detailed discussion on the Financial Resources on P.43); and
- On the other end of the spectrum, we object to any drastic cut in the dividend level as we fully recognize **the value of a constant stream of dividend to our existing shareholders.**

維持股息政策不變

過往與機構投資者會面及與小投資者召開茶敘活動當中，不時就股息政策展開討論，他們因應集團股東應佔溢利大幅上升而紛紛敦促我們將股息提高，作為集團之最大股東，個人而言我當然不會反對收取更多現金股息，但現時採用之股息政策乃於低投資週期時所制定的(二零零三／零四年度年報附錄四，假設1)。隨著面積浩大的玉泉廠房開展第一期建築工程，新的投資週期正式啟動。我們無法單靠自由現金流量(定義為股東應佔溢利加上折舊)去支付「股息」、「流動資金需求」及「固定資產投資」，當中的差額就必須以銀行借貸形式作填補，因而令淨銀行借貸從二零零四年三月三十一日的6,287,000港元上升至二零零五年三月三十一日之233,630,000港元，或淨負債比率從2%上升至現時52%之水平。

因此，在投資週期重新啟動與及流動資金需求增加的前題下，若然期望未來將派發股息實際金額提升似乎已變得不設實際，最迫切要討論的問題並不是增加股息，反而是需否削減股息，但經過仔細考慮股東的訴求與及集團資金需求方面的平衡，**我們認為現階段無需改變股息政策：**

- 對比集團現時之整體銀行借貸，股息作低雙位數字下調對於現金流量之改變並不明顯(第四十三頁「財務資源」部份將有更深入之討論)；及
- 從另一層面而言，我們反對將股息作大幅度削減，因為我們明白到**穩定的股息對於現有股東而言非常重要。**



In summary, barring any unforeseeable change of business situation:

- **We will adhere to our existing policy of paying out 50% or more of the profit attributable to shareholders as dividend;** and
- We will maintain our pledge to our shareholders made in 2003/04 (2003/04 Annual Report, P.35 and the 3 general criteria on possible changes in dividend policy) that **should the Directors decide to change the existing dividend policy, we would provide an advance notice in the immediate preceding interim or annual result announcements.**

Risk Management

Other than normal operating and financial risks arising out of the ordinary course of business, the following factors deserve special attention (the problem of gross profit margin decline is dealt with in the Prospect Section on P.41).



Fire Drill: Prevention better than damage control
火警演習：預防勝於補救

總括來說，除出現不可預知的轉變外：

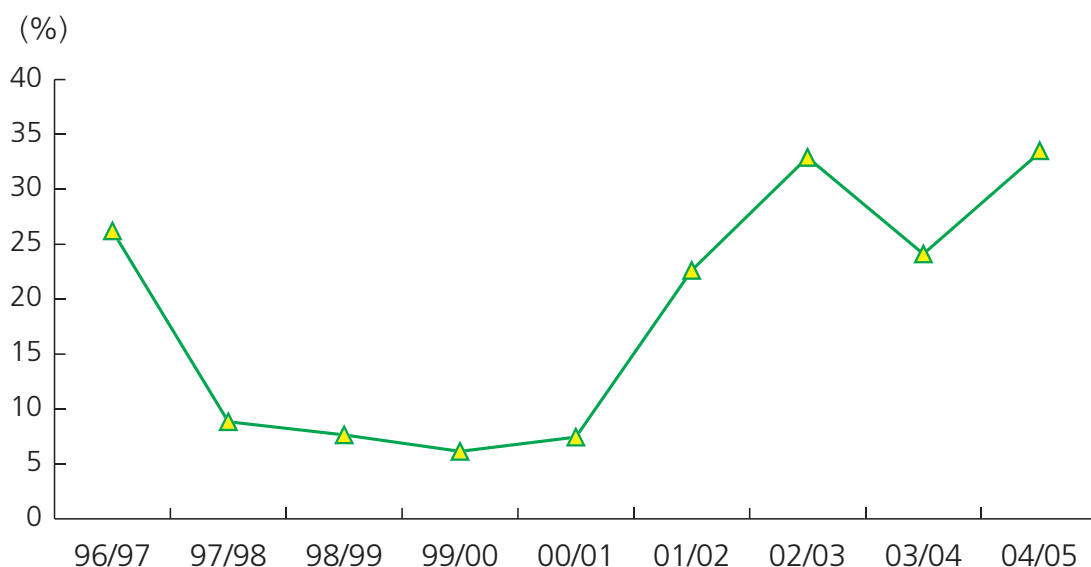
- 我們仍然維持現有股息政策，將股東應佔溢利50%或以上作為股息；及
- 如二零零三／零四年度對股東所作之承諾（二零零三／零四年度年報第三十五頁詳列關於股息政策如作改變需符合之三大原則），**董事會倘若對現行股息政策有任何改變，必會於前一次之中期／全年業績公佈時提前通知公眾。**

風險管理

於日常營運過程中，除了一般營運及財務風險要注意外，尚有以下情況需加留意。（關於毛利率下跌的憂慮於第四十一頁「展望」部份再作討論）

Group's Target ROE at 20% or above
集團之股東權益回報率目標釐定於20%或以上

Return on Equity
 股東權益回報率



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)	HK\$(m)
	百萬港幣	百萬港幣	百萬港幣	百萬港幣	百萬港幣	百萬港幣	百萬港幣	百萬港幣	百萬港幣
Profit attributable to shareholders 股東應佔溢利	81	28	25	21	26	78	120	90	150
Shareholders' Equity 股東權益	310	318	332	339	356	347	364	375	450
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	33.4

RMB Appreciation

As the Group's production base is in China, an appreciation of the RMB will definitely have an impact on the Group's performance. However, investors should note that:

- the impact is mostly limited to the overhead portion as under the Group's business model, most of the materials by value (other than steel) are either purchased through the customers or designated vendors (see P.39). For 2004/05, RMB payments represented around 10% of our total cost of sales;

人民幣匯價

由於集團生產基地位於國內，故此倘若人民幣升值，集團之業績表現必然會受到影響，惟投資者需留意如下：

- 參照集團之經營模式，由於大部份之原料(鐵料除外)均是從客戶或其指定供應商所提供(見第三十九頁)，故相對之影響一般只局限於營運開支上，而於二零零四／零五年度中，採用人民幣找結的總額佔整體銷售成本約10%；



- the Group always maintains a surplus of its RMB assets over its RMB liabilities. An appreciation of the RMB would create a one-time capital gains that may offset partly or wholly the short term negative impact on the profit and loss account; and
- **as most of the Group's competitors are also based in China, in theory over the long run, we could raise price to cover the increase in costs provided that the customers stick to their present sourcing pattern.**

Electricity Supply

We do not expect much improvement this summer. However,

- **the Group has sufficient alternative electricity supply to ensure uninterrupted production;** and
- while the cost of generating own electricity is much more expensive, the overall impact on the Group's performance is not material. Electricity charges represented less than 2% of the total cost of sales of the Group.

Labour

We have not experienced any serious trouble on this front and **the labour turnover ratio is consistent with the past pattern.** We speculate that this may be due to the following reasons:

- our strong reputation in the local community (introduction of such new features to attract workers like the "culture workshop", 2003/04 Annual Report, P.38);
- the capital-intensive nature of the business requires far less workers than other light industries given the size of our turnover; and
- the heavy-duty nature of some parts of the operation like metal stamping requires a substantial number of male workers.

- 集團向來維持人民幣資產高於人民幣負債，故人民幣升值會同時令國內資產升值獲益，或會部份或完全抵銷對損益表的短期負面影響；及

- 由於集團大部份之競爭對手之生產基地亦設於中國，理論上長遠而言，基於客戶仍會按照現有之採購模式，相信大家都會一致向客戶要求加價，以彌補成本上升的。

電力供應

我們預計電力供應於今年夏季不會有太大改善，惟：

- 集團有充份的後備電源以確保生產不受影響；及
- 雖然後備發電的成本較為昂貴，但其對集團之整體影響輕微，而電力開支佔集團整體銷售成本少於2%。

勞工

我們於勞工問題方面並未遇到重大的煩惱，而員工流失率與過往相比依然保持平穩，我們估計是如下原因：

- 集團於當地社區有良好的聲譽(二零零三／零四年度年報第三十八頁，透過組織「文化沙龍」等活動吸引人才)；
- 以營業額規模而言，可見集團採用資本密集的業務形式，故此對比其他輕工業對勞工的需求較少；及
- 針對一些體力勞動的工種如五金沖壓，對男性工人的需求較大。

Middle Management

While we do not have a serious problem with labour, we do have a problem of shortage of middle management as a result of the rapidly expanding business. We need more engineers, procurement officers, marketing executives, production and other management personnel to maintain our services to our customers. **We have granted share options, organized brainstorming sessions and other measures to recruit, retain and motivate our middle management ranks** (for details please refer to the Employment and Remuneration Policy section on P.49).

Inventories

The increase of inventories level from HK\$166,474,000 to HK\$440,013,000 is a serious concern. Here comes the **Third Equilibrium: how to balance the customers' requirements of additional inventory vs the risk profile of the Group**. This goes beyond the question of financing as certainly we do not want to enter into a period of business downturn with a high inventory level. Unfortunately, as our business continues to expand, we need to stock up more raw materials to ensure uninterrupted production. Beside, some of our customers also require an increase in the cushion level of inventory in the just-in-time ("JIT") inventory warehouse to ensure their own uninterrupted production.

As the sole supplier of the customers for particular projects, we have no option but to comply with their request. Under our existing business model, the customer and its suppliers have to build up a mutual trust under a "business partnership" both in name and in substance: 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 the large amount of components (2003/04 Annual Report, P.15).

中層管理人員

雖然於勞工問題上我們並未遇到困擾，然而因為業務快速擴張卻帶來中層管理人員短缺的問題，我們需要更多的工程師、採購員、市務主任、生產及其他人事管理等人員以維持對客戶服務應有的水平。因此，我們授出購股權、組織集思會與其他措施以招攬、挽留及推動中層管理人員的梯隊(詳情請參閱第四十九頁「僱員及薪酬政策」部份)。

存貨管理

存貨水平從166,474,000港元上升至440,013,000港元已成為了我們關注的重點，這引伸出第三平衡：如何於客戶要求提升存貨與集團風險評估之間取得平衡。這已不僅是財務負擔能力的問題，因為我們不希望於進入下一個經濟衰退週期時持有高存貨水平，但無奈地由於業務持續增長，迫使我們補充更多原料以確保生產不受影響，與此同時，部份客戶亦要求提升「即時付運」倉庫的安全存貨水平，以確保他們的生產不受影響。

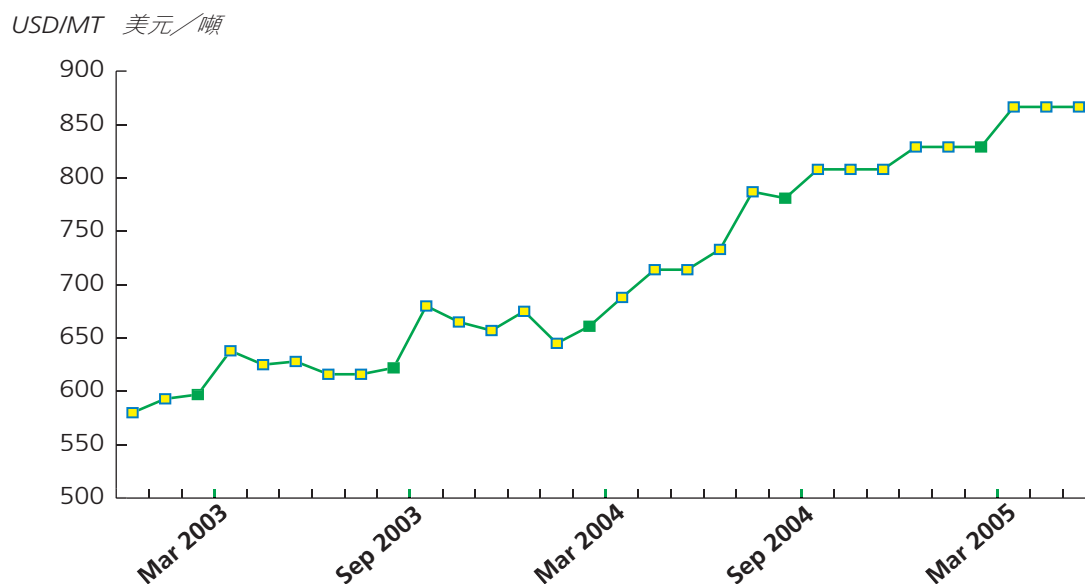
作為客戶個別項目之唯一供應商，我們別無選擇地只能順應他們的要求。於現有之業務經營模式下，無論與客戶或供應商，基於彼此無論名義上或實際上均是以「業務夥伴」相稱，故必須要建立互相信任的態度：客戶必須要信任其唯一供應商可如期付運；同時供應商亦要信任客戶，因為存於「即時付運」倉庫等貨品及／或支付購買零部件等皆承受著不少風險(二零零三／零四年度年報第十五頁)。





Generalised Price Movement Graph of Electro-Galvanised Steel Coil

電解片鐵料概括價格走勢圖



* Latest quotation for delivery in June 2005 is around US\$870/MT.

二零零五年六月份交貨鐵料報價約每公噸870美元

Steel Price

While our unique business model has shielded the Group from the uncertainty of the fluctuating raw material price in general, steel price fluctuation is another matter. As steel price is mostly fixed at the time of the confirmation of project, the rising steel price in the last two years had a negative impact on the Group. However,

- Since 2003/04 we have raised our inventory level to allow sufficient time for the Group to re-open negotiation with customers should there be any sudden drastic price increase. While there is no guarantee that the customer would eventually accept any price increase, it should be noted that steel price increase is an industry problem, not problem peculiar to Karrie; and
- **The cost of steel represented less than 10% of the total cost of sales.**

鐵料價格

雖然集團之獨特業務經營模式可保障免受一般原料價格波動的風險，但鐵料價格則是例外。鐵料之定價一般於產品項目得到落實後確定，而最近兩年鐵料價格大幅上升，對集團產生負面影響，惟：

- 從二零零三／零四年度我們將鐵料存貨水平調升，倘若鐵料價格突然暴漲，集團亦有足夠時間與客戶商討差額補貼，雖然我們無法保證客戶最後會否接納我們提價的訴求，但相信大家明白鐵料價格上升乃整個製造業所遇到的難題，而非只是本集團獨有的；及
- 鐵料成本僅佔總銷售成本少於10%。

BUSINESS REVIEW

Metal & Plastic Business

The Metal & Plastic Business grew by 22% from HK\$963,002,000 in 2003/04 to HK\$1,172,806,000 due to the gradual worldwide resumption of technological spending.

EMS Business

Sales attributable to this division previously suffered a 18% decline in 2003/04 due 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 products as a result of the occurrence of SARS in 2003. In 2004/05, such production problems were subsequently solved in due course and new products were launched according to schedule. As a result the growth of the EMS Division resumed, with turnover showing a strong 90% increase from HK\$729,958,000 in 2003/04 to HK\$1,390,384,000. However, due to its low gross profit margin, the profit contribution from this Division of HK\$46,268,000 (2003/04: HK\$19,351,000) was still much less than the Metal & Plastic Division of HK\$123,922,000 (2003/04: HK\$80,591,000).

Geographical Distribution

Asia (excluding Japan) was still the largest market of the Group with HK\$1,096,507,000 in turnover (2003/04: HK\$781,751,000). Western Europe came in a close second with sales of HK\$808,937,000 (2003/04: HK\$496,501,000) while shipment to North America only ranked third with HK\$429,867,000 (2003/04: HK\$254,981,000). The shipment pattern of Group continues to adhere to our usual practice of geographical diversification.

業務回顧

五金塑膠業務

由於全球逐步恢復對科技產品的支出，帶動五金塑膠業務銷售從二零零三／零四年度之963,002,000港元上升至1,172,806,000港元，幅度達22%。

電子專業代工業務

本業務於二零零三／零四年度時因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，因而生產出現了真空期現象，令營業額受挫下跌18%。隨著二零零四／零五年度已將該些生產問題逐一解決，新產品相繼按原來計劃推出，電子專業代工業務回復增長步伐，營業額錄得強勁升幅達90%，營業額從二零零三／零四年度之729,958,000港元上升至1,390,384,000港元。但由於此業務毛利率一向偏低，因而經營溢利僅為46,268,000港元（二零零三／零四年度：19,351,000港元），仍較五金塑膠業務的123,922,000港元（二零零三／零四年度：80,591,000港元）為低。

地域分佈

亞洲區（日本除外）營業額為1,096,507,000港元（二零零三／零四年度：781,751,000港元），仍然為本集團之主要市場，西歐則緊貼其後錄得營業額808,937,000港元（二零零三／零四年度：496,501,000港元），而北美之付運排行第三位，錄得營業額429,867,000港元（二零零三／零四年度：254,981,000港元），集團之付運模式會繼續維持多元化方針。



PROSPECT

2005/06: Maintaining the Growth Momentum

We have a relatively "long-term business visibility" because of the project-oriented nature of our business (2003/04 Annual Report, P.14). **With the engineering works completed for the projects confirmed and as in most cases the Group is the sole supplier for those particular projects, our problem is therefore one of production and not of marketing.** In particular:

- **We have revised upward the turnover growth rate for 2005/06 from 20% to 30%;**
- Despite the expected solid performance of the server casings business in 2005/06, **the Metal and Plastic Division will be mainly flat in 2005/06** because of the projected turnover decline in the personal computer casings and plastic sides. However, we are still open to the possibility of a slight rebound in this Division in the second half of the 2005/06 after a period of consolidation in the first half of the financial year;
- Once again **the low-margin EMS Business will be the growth driver** for the coming financial year as we expect strong growth in the shipment of laser printers, digital photo printers and fax machines; and
- **The unaudited turnover of the Group for two months ended 31 May 2005 was HK\$510,000,000 (2004/05: HK\$350,000,000).** As the unaudited turnover for these two months may not represent the final result for the year ending 31 March 2006, investors and shareholders are advised to exercise extreme caution when dealing in the shares of the Company.

展望

二零零五／零六年度：維持增長動力

由於我們的業務模式一般是以產品項目形式進行的，因而令我們對生意前景會有較「長線洞悉力」(二零零三／零四年度年報第十四頁)。由於大部份項目集團皆為客戶個別產品項目之唯一供應商且前期工程之準備已完成，因而我們需關注的問題並不是市務，反而是生產。尤其如下：

- 我們將二零零五／零六年度之營業額增長從20%調升至30%；
- **整體五金塑膠業務將於二零零五／零六年度保持平穩**，雖然預期伺服器機箱業務有優越表現，但預計個人電腦機箱與及塑膠部件銷售出現倒退。雖然如此，若把二零零五／零六年度之上半年度當作整固適應期，或許下半年度此業務表現有機會輕微回彈，故此我們仍然抱開放之態度；
- **低毛利之電子專業代工業務再度成為集團來年度之增長動力**，我們預計鐳射打印機、數碼照片打印機及傳真機等之付運將有強勁增長；及
- **集團截至二零零五年五月三十一日止兩個月未經審核之營業額為510,000,000港元(二零零四／零五年度：350,000,000港元)。**因這兩個月之未經審核營業額未必能反映截至二零零六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。

2006/07: Cautiously Optimistic

While it may be unrealistic to project into the distant future, we decide to provide our sales target guidance for 2006/07 in the name of transparency. At this stage we think it is much better for us to set **a more cautious turnover target of 10% revenue growth**.

Not Worried over Expected Decline of the Overall Gross Profit Margin

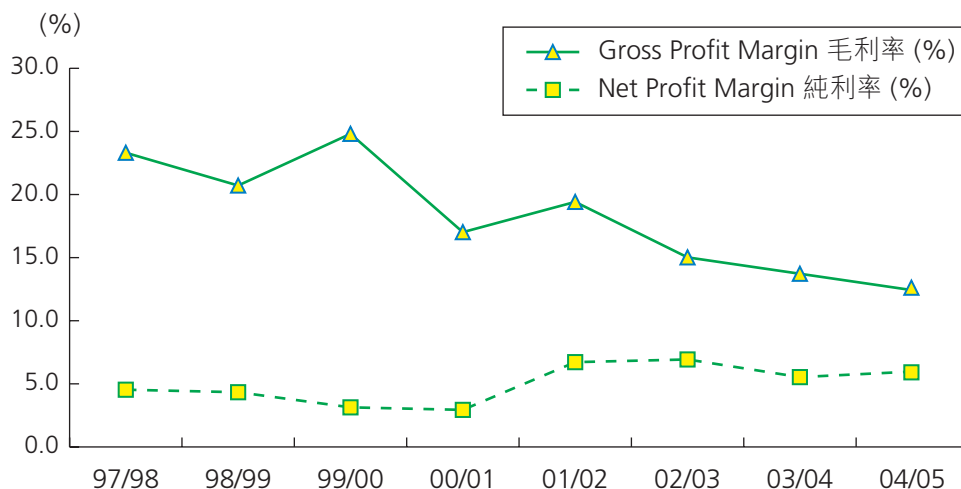
二零零六／零七年度：審慎樂觀

雖然現時對於仍然遙遠的將來作營業推測似乎有點不設實際，我們決定提供二零零六／零七年度營業預測指引是基於貫徹提高透明度之政策，現階段我們認為將營業增長目標設於10%是較為謹慎和洽當。

無懼預期整體毛利率下跌之困擾

Gross Profit Margin & Net Profit Margin

毛利率與純利率走勢圖



(%)	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
Gross Profit Margin 毛利率	23.3	20.7	24.8	17.0	19.4	15.0	13.7	12.4
Net Profit Margin 純利率	4.5	4.3	3.1	2.9	6.8	6.9	5.3	5.9
<i>HK\$(million) (百萬港元)</i>								
Turnover 營業額	619	592	662	893	1,156	1,738	1,693	2,563
Profit attributable to Shareholder 股東應佔溢利	28	25	21	26	78	120	90	150

As the sources of growth momentum will mainly come from the EMS Business rather than the Metal and Plastic business, **the overall gross profit margin will decline due to the lower gross profit margin of the EMS Business.**

由於集團增長動力主要來自電子專業代工業務多於五金塑膠業務，受到電子專業代工業務的較低毛利率影響，整體毛利率將會有所下調。



While the projected performance of individual quarters may vary, we expect that on a whole year basis the increase in turnover should be faster than the rise in manufacturing overhead and other operating expenses, thereby making a positive impact to the bottom line. However, it would not be possible to maintain the current year superb rate of growth because of the relative low base of Y2003/04 and the possible impact of other negative factors in the coming financial year (P.35 Risk Management). In summary, given the strength of the Group's business model, support of its customers and suppliers and zeal of its dedicated staff and management team, the Directors are still optimistic for the performance of the coming year.

FINANCIAL RESOURCES

Rapid Increase in Bank Borrowings

As correctly projected previously (2003/04 Annual Report, the 1st quarter and interim results announcements), **net gearing ratio increased substantially from 2% on 31 March 2004 to 52% as at 31 March 2005.** With the February/March 2005 combined turnover figures of HK\$475,532,000 and an average 60 days collection period, it is inevitable that the goods shipped have not been paid as at 31 March 2005. These shipments contributed to a HK\$268,338,000 increase in the trade receivables which roughly explains the increase in net bank borrowings of HK\$227,343,000 over the year.

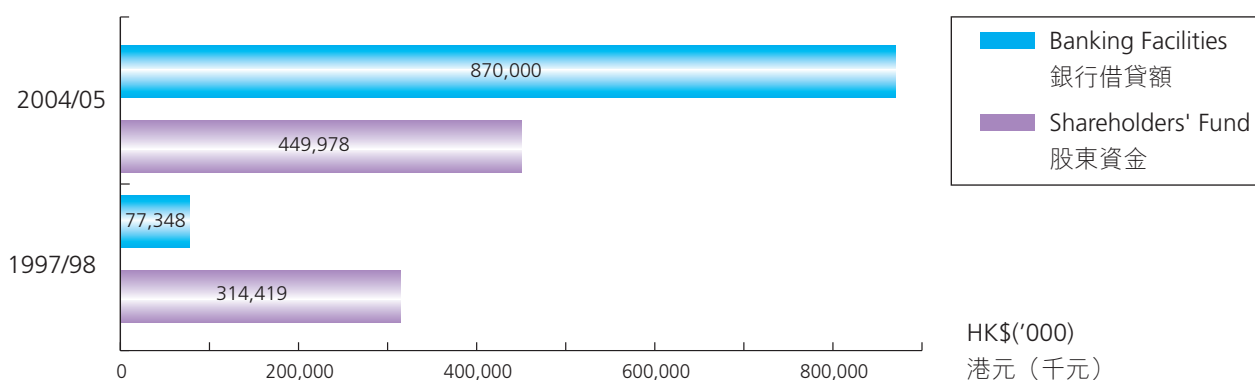
雖然預期個別季度的業績表現均有差異，但全年整體而言營業額的上升速度應會較營運成本上升為快，故此對溢利帶來正面影響。由於二零零三／零四年度營業額基數較小，加上其他負面因素影響（見第三十五頁風險管理），故來年的業績增長將無法維持如本年般大幅增長。總括而言，由於集團之業務經營模式具備優勢、客戶與供應商給予支持與及員工至管理層對工作的熱誠，董事會對於來年的業績表現仍是感到樂觀的。

財務資源

銀行借貸急促上升

如早前之正確預測（二零零三／零四年年報、二零零四／零五年度第一季度及中期業績報告），淨借貸比率明顯地從二零零四年三月三十一日之2%上升至二零零五年三月三十一日之52%。以二零零五年二月及三月之營業額合計475,532,000港元，加以平均六十天放賬期，故此截至二零零五年三月三十一日此等已付運的貨品仍未收回貨款是可以理解的，這些貨款令貿易應收帳數字上升268,338,000港元，大約可解釋到本年度淨銀行借貸亦有227,343,000港元之升幅。

Shareholders Fund and Banking Facilities 股東資金與銀行借貸額



Why our banks place so much confidence in Karrie's Team?

A drink at 5:30 p.m. on 6 June 2005 and a speedy approval by one of our principal bankers at 8:35 a.m. the following day on a temporary 2-months HK\$40,000,000 loan facility to assist the Group Hong Kong dollars funding requirements because of our unwillingness to sell down the US dollar holdings at the then foreign exchange rate.

為何銀行對嘉利團隊如此充滿信心？

於二零零五年六月六日的下午五時三十分與其中一間主要銀行茶敘後，次日的早上八時三十五分他們即時批核臨時的40,000,000港元兩個月短期貸款額，因應我們不希望以當時之滙價賣掉手持之美元存款，供集團應付港元資金週轉需要。

Non-current Assets to Shareholders' Fund Ratio Staying Below 1

Despite the huge increase in bank borrowings, there is no cause for alarm. The Non-current Assets to Shareholders' Fund ratio continues to stay below 1, meaning that the **non-current assets of the Group were being financed by stable long-term shareholders' fund with no mismatching of financing.**

非流動資產與股東資金比率維持於1以下

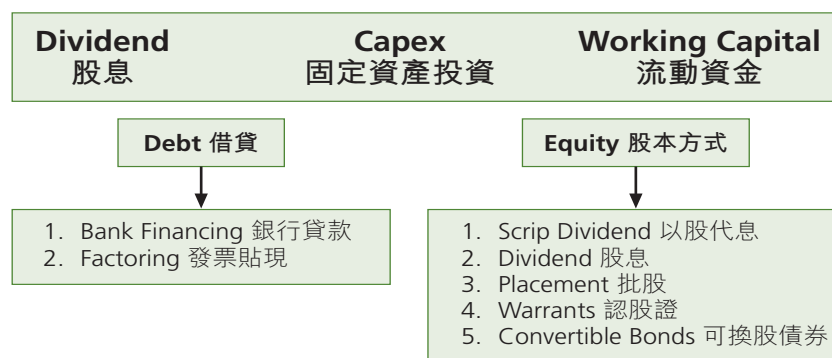
雖然銀行借貸不斷上升，但無需過份緊張，非流動資產與股東資金比率繼續低於1，代表集團之非流動資產由穩定之長期股東資金所支持，並無出現資金錯配的情況。





Financing Options

融資方案



Financing for Growth

For 2005/06, we face 3 principal tasks for financing:

- Investors' expectation of dividend payment;
- Commencement of the new Capex cycle; and
- Rising working capital requirements because of the targeted 30% increase in turnover.

The choice is between debt and equity. We have mentioned earlier that we are not going to change our dividend policy. Under the existing circumstances, **we still do not prefer non-debt method because of its potential dilutive impact on earnings per share.** Even taking into account of rising interest rate in the coming months, we still believe that the debt alternative is the cheapest and the most optimal way of financing for growth under the following guiding principles:

- Profit after tax plus depreciation should be equal to or greater than the Capex plus dividend;
- If this is the case, then our Non-current Assets to Shareholders' Fund ratio should stay below one. Short term bank borrowing will rise to fill in the financing gap where increase in trade payables not able to match the increase in inventories and trade receivables; and
- Interest coverage (EBITDA/interest expenses) to stay above 5.

為增長提供資金週轉

於二零零五／零六年度，於資金週轉方面我們面對三大任務：

- 投資者對派發股息的期望；
- 新投資週期開始；及
- 預計營業額上升30%令流動資金需求相應增加。

我們有兩個選擇：銀行借貸或股本市場，我們較早前提及過我們不打算改變股息政策，在目前情況下，我們仍然不希望採用非借貸形式，因這模式有可能使每股溢利攤薄。縱使考慮到未來數月或有加息的可能性，我們仍然認為銀行借貸是資金週轉上最便宜和最有效的方法，主要基於以下原則：

- 除稅後溢利與折舊之總和，應等同或大於資本性開支與股息之總和；
- 倘若如此，非流動資產與股東資金比率應低於1，由於貿易應付帳上升未能等同存貨及貿易應收帳之上升，故需以短期銀行借貸填補資金週轉上的需要；及
- 利息涵蓋率（(扣除利息支出、稅項、折舊及攤銷前溢利) ÷ 利息支出）應保持於5倍或以上。

Bank Borrowings 銀行借貸

Three Principles

1. Profit Attributable to Shareholders + Depreciation = Capex + Dividend
2. Non-Current Assets to Shareholders Fund Ratio <1
3. Interest Coverage > 5

三大原則

1. 股東應佔溢利 + 折舊 = 固定資產投資 + 股息
2. 非流動資產與股東資金比率 <1
3. 利息涵蓋率 >5

Net Gearing Ratio Rising to 90%

With the 30% projected increase in turnover, we project that the net gearing ratio will rise further from the current 52% level to around 90% towards the end of the next financial year. **Given our committed dividend policy and the rising Capex, the net gearing ratio will only fall if we are not able to achieve the sales target in 2005/06.**

Additional Bank Financing Arranged

To cater for such working capital requirements, we have further arranged sufficient short term banking facilities with our bankers. As an additional precaution, **we have also secured 5-year medium term loan facilities of HK\$100,000,000 (HSBC, HK\$70,000,000 and Standard Chartered, HK\$30,000,000).** These medium term loan facilities remained undrawn on 24 June 2005.

Resources Available

The Directors are confident that with the cash holdings of HK\$352,665,000 and banking facilities of HK\$870,000,000, the Group is able to meet its current and operational and capital expenditure requirements.

As at 31 March 2005, 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\$16,424,000 (2003/04: HK\$16,825,000).

淨負債比率上升至90%

隨著營業額預測增長為30%，我們預計淨負債比率會從目前之52%水平，到下一個財政年度結束時進一步上升至90%之水平。基於我們已承諾之股息政策及資本性開支增加，若然未能達到二零零五／零六年度之營業額目標時，屆時淨負債比率才有機會下跌。

安排額外銀行借貸

為了應付流動資金需求，我們已與銀行安排了足夠的短期貸款額。作為額外保障，我們亦已落實了合共100,000,000港元之五年期之中期貸款額（包括滙豐銀行70,000,000港元及渣打銀行30,000,000港元），截至二零零五年六月二十四日，該筆中期貸款額尚未動用。

可動用資源

以集團現時分別擁有手頭現金352,665,000港元與及銀行借貸額870,000,000港元，董事會有信心集團能夠應付現時營運與及資本性開支的需要。

截至二零零五年三月三十一日，集團部份銀行借貸額是以集團於國內樓房資產作為抵押的，而有關資產淨賬面值約16,424,000港元（二零零三／零四年度：16,825,000港元）。



EXCHANGE RATE EXPOSURE

Most of the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, US dollar or Reminbi. As the exchange rate of the Hong Kong dollar, US dollar and Reminbi were relatively stable during the year, the Group was not exposed to material exchange risk at the moment (please refer to "Risk Management" on P. 35).

CONTINGENT LIABILITIES

As at 31 March 2005, the Group had no significant contingent liabilities.

CORPORATE SOCIAL RESPONSIBILITIES

Community Interest

As a responsible corporate citizen, we continue to promote social responsibilities program. We have made donation to charities in both Hong Kong and China. Our staff in China had also actively participated in a number of activities including visiting senior citizens, students of School of Hope (donated by the Group and its employees) in remote areas,

匯兌風險

集團大部份的資產、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。(請參閱第三十五頁「風險管理」)

或然負債

截至二零零五年三月三十一日止，集團並無重大或然負債。

企業社會責任

社會公益

嘉利作為一個負責任之企業公民，我們持續推行企業社會責任運動，並於香港及國內作慈善捐款，而國內員工亦積極參與不少活動，其中包括探訪老人院及設於偏遠地區之希望小學(由集團及員工一同捐建)、植樹活動等。於二零零五年五月，香



Is profit the only objective for an enterprise?
盈利是否企業的唯一目標？

planting of trees etc. In May 2005, our colleagues in Hong Kong have formed a new volunteer group for charitable works. We will continue to encourage our colleagues to actively participate in community works.

Environmental Affairs

In 2001, the Group obtained the ISO 14001 Environmental Management System accreditation. In 2006, electronics products entering the European market will have to comply with strict environmental guidelines (e.g. RoHS). A few years ago, we have started working together with our multi-national customers to ensure that our products will be in compliance with such new regulations. We will continue our best effort in using environmental-friendly raw materials in products design, improving polluted air filtering system, speeding up responses to customers' queries on environmental concerns in our products, reusing recycle water in toilets etc.

Education

To promote the implementation of corporate governance among small and medium sized enterprises in Hong Kong, we have donated HK\$270,000 to the Hong Kong Baptist University ("HKBU") for the funding of its Centre of Corporate Governance and Financial Policy, School of Business, Hong Kong Baptist University and the provision of three scholarships for students studying for the Master Degree in Science of Corporate Governance and Directorship Program. Our colleagues have also participated in the seminars/discussions organized by the School of Business of HKBU.

港職員亦組織義工隊伍參與慈善活動。我們會繼續鼓勵員工積極參與公益活動。

環保工作

集團於二零零一年已獲頒ISO14001環境管理體系認證，惟二零零六年開始所有電子類產品必須符合嚴格環保要求(例如：RoHS)方可進入歐洲市場，而我們於數年前開始已逐步分階段跟進符合國際級客戶及其產品之有關規格要求。我們會盡力響應採用環保物料進行產品設計、改善廢氣過濾裝置、加快回應客戶對我們的產品在符合環保要求上的查詢、將經過處理的廢水回用於洗手間等。

教育

為支持香港中小企積極推行企業管治，我們已向香港浸會大學捐款270,000港元用於資助「香港浸會大學商學院企業管治及財務政策研究中心」及香港浸會大學商學院舉辦的獎學金計劃，受惠人仕為正在攻讀「公司管治與董事學理學碩士」課程的學生，而本集團員工亦參與由香港浸會大學商學院所舉辦之講座／討論。

嘉利搞獎學金 助修公司管治

工業股嘉利國際舊年奪得Asiamoney香港區最佳企業管治獎第二名，雖然係屈居新地之後，但打低第三名的匯控呢隻超級大藍籌，風頭一時無兩。自此嘉利成為商場學界研究對象，前排浸會大學商學院搞咗個嘉利故事講座，分享企業管治可改善營運表現的心得，現在再順水推舟，掉轉頭由嘉利出錢搞咗個名為「公司管治與董事學理學碩士」的獎學金，05/06年度開始，三個名額每人有兩萬蚊獎學金，大家有興趣進修就不妨留意一下。

Extracted from *Wen Wei Po* published on 18 May 2005
原文載於 <文匯報> 二零零五年五月十八日

EMPLOYMENT AND REMUNERATION POLICIES

Our Staff is Our Greatest Assets

We have been asked several times why the Group is able to beat out our competitors many times of our size to secure new projects. The principal reason lies in the offering of superb services to our customers. To maintain such premium service, we must continue to recruit, motivate and retain talented staff. This task is rendered more difficult with:

僱員及薪酬政策

以人為本

我們曾多次被問及集團憑甚麼能夠擊敗規模比我們大很多倍之競爭者而取得客戶之新項目，最關鍵的原因是我們為客戶提供優質的服務。為確保維持優質服務，我們繼續招聘、推動及挽留具有才能的員工，而這任務因以下原因變得艱巨：



With healthy and happy staff, we will have productivity.

健康快樂的員工，才是有生產力的員工

- the recovery of the economy and the end of deflation in Hong Kong; and
- the rapid expansion of the Group's turnover.

- 香港經濟復甦及通縮情況消退；及
- 集團營業額急速增長。

Since 2001, we have implemented a number of measures:

集團自二零零一年開始落實多項措施，包括：

Rewarding for Performance

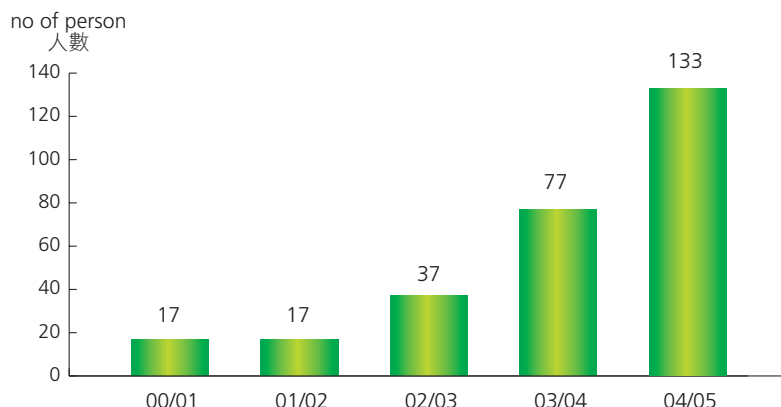
The standard 13th month pay was abolished. A new performance based bonus system and a more objective system of performance evaluation system were introduced. Employees with superior performance now received higher bonus than under the previous system.

多勞多得

取消固有的第十三個月薪金，取而代之推出與表現掛鈎的獎金制及較客觀的表現評估，有超卓表現的員工則現獲發比以往更為可觀的獎金。

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 share 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

The Case for Staff Share Options

I fully understand that issuing share options is no longer fashionable in HK and elsewhere. I am also aware that the Company has to treat share option as an expense item in the next financial year. (We have not charged share option cost to the profit and loss account for the current financial year. Had we done so, our profit would have been reduced by approximately HK\$4,718,000 and the profit attributable to shareholders would have been reduced to HK\$145,626,000. See P. 89).

員工購股權

我完全明白今時今日於香港或其他地方授出購股權已不合時宜，我們意識到集團於下個會計年度需要將購股權列作支出（目前並未有將購股權的成本列入損益表內。但若然將有關成本計算在內，溢利將減少約4,718,000港元，而股東應佔溢利則下降至145,626,000港元，見第八十九頁）。





But critics should appreciate that **there are still no other alternatives available which are better than share options:**

- When the Group expands rapidly and recruits new managers, **how do you ensure that they maintain the same entrepreneur spirit?** Now with the issue of share options, we have a group of owners/managers who really care about the interest of the Group;

提出質疑的人仕亦要明白到目前為止，並沒有其他比授出購股權更合適的選擇：

- 正當集團急速增長而需招聘管理人員，試問如何保證他們能夠以心為心地替企業拼搏？當授出購股權後，我們擁有一班真心關注以集團利益為本的股東／管理者：



Will there be the day when all our staff are shareholders?

會否有一天所有員工都成為我們的股東？

- **When we use performance-based bonus system, it is inevitable that people will focus on their best short-term performance in order to get the largest amount of bonus immediately.** This is human nature. But their individual achievement may not be necessarily good for the overall long-term interest of the Group. A share option scheme will force our managers to think of the long term interest from the Group's perspective. Although it will not entirely eliminate shortsighted decisions or departmental conflicts, it will help; and
- **While the accounting treatment may treat issue of share options as an expense, no actual cash flow is involved.** This is especially important given the high net gearing ratio of the Group. As such share options are issued to staff at the market price at the date of grant with no discount, our staff will have to work hard to benefit along with other existing shareholders.
- 當我們採用以表現掛鈎的獎金制後，有些人可能會盡快爭取表現以求即時取得最多獎金，此乃人性表現，是無可避免的。但他們個人的出色表現未必對集團長遠利益有利，授出購股權則可以迫使管理人員以集團長遠利益去思考問題，雖然授出購股權仍然無法完全制止一些短視的決定或部門的紛爭，但始終此制度比其他的制度更為有效；及
- 雖然會計制度視購股權為一項開支，但實際並無牽涉真正現金交易。這點對於集團現時高淨負債比率的處境尤其重要，由於購股權是按發出當天之市場價格授出予員工的，並無給予任何折讓，因此員工們必須要加倍努力，方可與現有股東們同享成果。

Potential Dilutive Effect of Share Options

Share options are of course a "cost" as it dilutes the earning per share. As the majority shareholder myself, of course I would take the interest of the shareholders into account. **Our staff share options are granted over a long vesting period to ensure that the dilutive impact is kept to a minimum.**



Dropping a stone on my foot: Why should I agree to issue more share options to dilute the shareholdings of the majority shareholder?

搬石頭擲腳：為何我同意派發更多的認股權証，這樣不是將主要股東的股份攤薄嗎？

購股權潛在之攤薄效應

由於購股權會將每股溢利攤薄，故會視作「成本」之一，本人作為集團之主要股東，當然亦會從股東的利益角度考慮，因而董事需將已授出之購股權之行使期分一段長時間行使，以確保攤薄效應減至最低。



(As at 15 June 2005, total number of issued share capital is 408,764,000 shares)
(截至二零零五年六月十五日已發行股本總數為408,764,000股)

**Number of exercisable
outstanding share options**
未行使購股權數目

Exercisable during or after the period 於期內或之後可行使之年度	Number of exercisable outstanding share options		Total 總數	Percentage over total number of issued share capital 佔已發行股本 之百分比
	Directors 董事	Other Participants 其他參與者		
01/04/2005 - 31/03/2006	4,820,000	14,520,000	19,340,000	4.73%
01/04/2006 - 31/03/2007	1,680,000	7,824,000	9,504,000	2.33%
01/04/2007 - 31/03/2008	1,760,000	3,900,000	5,660,000	1.38%
01/04/2008 - 31/03/2009	1,760,000	1,760,000	3,520,000	0.86%
Cumulative total 累計	10,020,000	28,004,000	38,024,000	9.30%



United we stand
團結就是力量

Building up the New Corporate Culture

Monetary reward alone cannot buy you performance or loyalty. We need to build up a new corporate culture. Since the establishment of the Executive Committee and its staffing by professional managers in 2001, we have actively encouraged our staff to:

- make decision instead of the "passing the buck";
- focus on benefits generated instead of cost saved;
- share information to reduce departmental conflicts and to minimize risk; and

建立「新企業文化」

單靠金錢獎勵並不能完全保證員工的表現與忠誠，我們必須努力建立「新企業文化」，自專業管理隊伍組織而成之執行委員會於二零零一年成立以來，我們積極推動員工：

- 勇於決策取代過往推卸責任的陋習；
- 不應計較節省成本，專注所得效益；
- 一同分享資訊以減少部門爭拗和風險；及



致：中、港各部門

“凡事皆可能”比賽

相信大家不時於工作上遇到挫折，甚至要在限定時間內完成一些本來看似不可能的事情，又或者因為種種技術困難或絆腳石，而被他人撥冷水，說這說那不可能，慫恿你放棄罷了！

試問你會怎樣辦呢？

1. 是的，這樣困難的事情怎有可能完成，退而求其次做另一項容易點的事情替代或放棄亦沒甚麼大不了！
2. 未試過又怎知沒可能呢？我不服氣！好醜也應盡各樣可能方法去試試看！

你屬於前者抑或後者？若你是前者，肯定你的工作沒有甚麼滿足感。但若是後者，就如「長今」一樣擁有不屈不撓的精神，凡事都不輕言放棄……甚至憑你的堅毅完成了“不可能”的任務！那麼你應好好與大家一起分享這些經驗，讓大家一起感染這份可敬的精神！

如果你曾經完成一些別人認為“不可能”的任務，快些行動參加比賽！

報名詳情：

截止報名日期：	2005年5月14日（六）	
公佈首輪入圍名單：	2005年5月25日（三）	
公佈結果日期：	2005年6月3日（五）	
組別：	頭獎（各1名）	優異獎（各5名）
「個人組」	港幣3,000元	港幣1,000元
「團體組」	港幣5,000元	港幣2,000元
	「個人組」及「團體組」頭獎提名人各得港幣1,000元	

重要聲明：

“凡事皆可能”的宗旨為推廣一種積極信念，

- 只在乎大家有否作出嘗試克服困難，若最終未能完成亦不會影響原來結果的。例如說客戶要求於30天內完成付運，而大家都同意是不可能達到的，若承諾去試就只會令公司的信用受損；
- 作出嘗試是無需額外付出資源的。如同上述例子，若所有生產能力都轉移去完成該任務，最終顧此失彼，反而得不償失；
- 不可使用不正確手段將任務完成或作出虛假報告

希望大家引以為戒，不可胡亂曲解這信念之原意，更不希望上司曲解這信念作為壓迫下屬的手段去做完成一些不可能完成之任務。

評審團：

共計9名成員，包括：

- | | |
|---------------------|--------------|
| — 內部審計部黃福全先生（評審團主席） | — 助理部曾佩瑩小姐 |
| — 會計部劉思然先生 | — 塑膠部陳炳培先生 |
| — 電子代工部研發組夏漢良先生 | — 機箱裝配部林日新先生 |
| — 廠務部項目組黃連禧律師 | — 人力資源部黃駿朝先生 |
| — 醫療室陳曉清醫生 | |

主辦單位
助理部－曾佩瑩

評審團主席
內部審計部－黃福全

二零零五年四月三十日

- change from "do nothing to avoid mistake" to "more attempts even at the cost of making mistakes".



"Corporate Day" on 3 February 2005
二零零五年二月三日舉行之「企業日」

In February 2005, we hosted our first brainstorming session with around 100 mid-level managers whereby the Directors outlined the future strategic direction and listened to feedbacks.

A THOUSAND-MILE JOURNEY STARTS WITH A FIRST STEP

We are not Perfect

We have run into a number of problems in staging such an event. We had failed to ask all qualified mid-level managers to attend, the feedback time was not sufficient, some of the important topics were not covered and so on..... But this is the first time a small company like us to take such a first step. **We are not perfect nor are we the best. But by taking such important first step, we will one day finish our "thousand-mile journey".**

A Clear Objective, but No More 3-Year Plan

With the successful completion of the 3-year plan to double the turnover first announced in 2001/02, we have been urged to announce a new 3-year plan to provide more concrete guidance for the future. Tempting as it may be, we reiterate that we are not in the game of short-term glory:



Impersonating the God of Fortune: working hard for the benefit of shareholders.

努力扮財神：辛苦也是為股東

- 鼓勵「多做多錯」，取代過往「少做少錯」的心態。

於二零零五年二月，集團首次召集近百位中層管理人員舉行集思會，席間董事會成員介紹集團未來的發展策略及聽取各員工的意見。

千里之行，始於足下

我們並不是完美的

我們舉辦上述集思會時遇到不少問題，包括我們未有安排所有合資格之管理人員出席、發表意見的時間不足、個別的重要話題未有討論……等等，但以我們一間規模細小的企業而言，舉辦此類活動的經驗只屬初哥，錯失難免。我們明白到集團絕非完美或最好，最重要的是我們已經踏出了關鍵的第一步，終有一天我們會走畢這個「千里之行」。

雖無三年大計，但有明確目標

二零零一／零二年度所訂下於三年內將營業額倍增的目標才剛完成，投資者便開始催促本集團公佈未來三年發展的明確指引。雖然提出新三年計劃的誘惑很大，但我們反對以短暫的光輝去換取掌聲。

- Firstly, with the increased size of the denominator, a doubling of turnover will be an Herculean task within the same time span from the production standpoint; and
- Secondly, pushing the Group too fast will run against my own prudent instinct in view of the various uncertainties like production bottlenecks, high interest rate, high oil price and so on.
- 首先隨著營業額之基數擴大，從生產的角度考慮，若沒有充份時間作產能準備，將營業額倍增，將是一件艱巨之任務；及
- 另外集團增長步伐過急有違我一向審慎處事的習慣，尤其觀乎現時仍然存在生產樽頸、高利率走勢及高原油價格等等的不穩定因素。

Rather, we will aim at doubling our size without specifying the timeframe. While it may be disappointing to some, our management team here thinks that this is the best for the long-term interest of all the stakeholders. After all, if we are to take a one thousand-miles journey, we have to take the first step. **We would not be burdened by the worry over the market reaction to our short-term performance. Nor will we cut back our investment in Capex and human resources, despite the possible investors' concern over the revenue growth by the low margin EMS Business.** We will keep on building up our infrastructure in both hardware and software. They will provide the solid foundation upon which the Group will march toward its next target, eventually.

Let's Take the First Step Together

There will always be concerns over rising cost of raw materials, the appreciation of RMB, production bottlenecks, rising interest rate, insufficient mid-level managers and the apparent stagnation of the higher-profit margin Metal and Plastic Business. **Yes they are serious business problems. But like sunset and sunrise** (2003/04 Annual Report, P. 26) **they are also essential parts of our life. We will not be afraid of any setbacks. We may be down one day (like the drop of profit in 2003/04). But very quickly we will stand up again. With the support of customers, suppliers, staff, bankers and others, we know that we will continue our march toward excellence. One day we will finish our "thousand-mile journey". And then another "thousand-mile journey". But let's take our first step here. Today.**

我們不希望為營業額倍增的目標定下一個特別的期限，雖然有人會反對，但管理層卻認為這是為整體長遠利益的最佳選擇。總括來說，正所謂「千里之行，始於足下」，我們不會被市場對我們短期表現的反應成為我們的包袱；雖然部份投資者非常關注我們現時的業務增長只集中於低毛利的電子專業代工業務，我們決不會因而縮減對固定資產及人力資源方面的投資。我們會繼續於「硬件」和「軟件」方面打穩根基，屆時必可慢慢引導集團邁向下一個新里程碑。

讓我們攜手舉步

原料價格上升、人民幣升值、生產樽頸、息率上升、中層管理人員不足與及較高毛利的五金塑膠業務停滯不前等等都是每天困擾我們的問題，雖然這些都是嚴重的營商難題，但有如日出日落的定律（二零零三／零四年度年報第二十六頁），它們是生命循環中基本的環節。縱然有時我們或會受到挫折而倒下（如二零零三／零四年度之溢利倒退），但我們是不會被這些障礙所嚇怕的，很快便可以再重新上路。在客戶、供應商、員工、銀行家及其他人仕等支持下，我們必會朝著既定目標，披荊斬棘，再攀高峰，終有一天可完成這「千里之行」的任務……，然後再定下另一個新目標，繼續下一個「千里之行」。但最重要的是：從今天起，我們一同踏出這新的一步！

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. I would like to express our special thanks to Mr Leung Wai Ho, who resigned as an independent non-executive director ("INED") of the Company in January 2005, for his contribution in the past 7 years. I also take the opportunity to welcome Mr Fong Hoi Shing, who joined us as an INED in December 2004.

Ho Cheuk Fai

Chairman

感謝

本人謹向一直鼎力支持集團的所有客戶、供應商、銀行家、股東、以及所有給予本集團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。在此亦特別鳴謝於二零零五年一月辭任獨立非執行董事的梁偉浩先生於過去七年來一直對集團所作出之貢獻，同時藉此機會歡迎於二零零四年十二月獲委任為獨立非執行董事的方海城先生加入。

主席

何焯輝

APPENDIX 1

Special Characteristics of Our Business Model

A Hypothetical Example
(Simplified and generalized for
easy understanding)

1. Quotation Phase

- 12 months prior to shipment, Customer A sends out Request for Quotation (RFQ) for a project to all “qualified suppliers”.

2. Project Confirmation Phase

- Customer A confirms the placement of the project to us;
- Customer A also provides shipment forecast for the next 18 to 24 months, which is the normal life cycle of a project.

3. Moulds and Prototype Making Phase

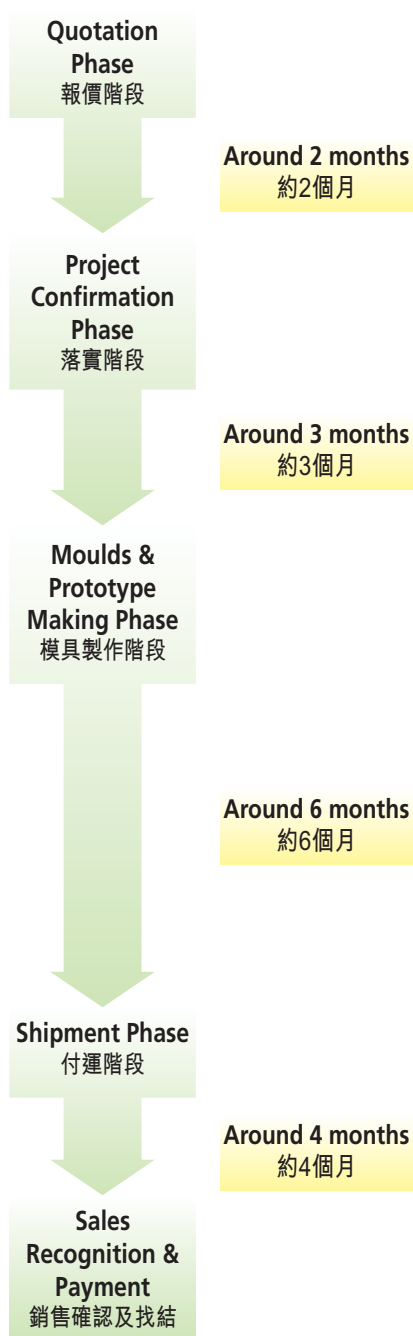
- According to Customer A specification, we start to perform the design works, make the moulds and prototype;
- This process would take around 6 to 12 months;
- Customer A would also work with our purchasing department on electronics components and the list of qualified suppliers for such components.

4. Shipment Phase

- Customer A finalizes and revises the final shipment schedule;
- We start manufacturing and ship goods to just-in-time (JIT) inventory warehouses.

5. Sales Recognition and Payment

- Customer A takes goods from JIT warehouses;
- We get paid after the normal credit period (generally 60 days).



附錄一

經營模式之特色

假設舉例(為方便大家容易理解，下列之過程以簡化形式表達)

1. 報價階段

- A客戶就某一產品之項目，於付運前約12至15個月向所有「合格供應商」要求報價，包括集團在內。

2. 落實階段

- A客戶確認將有關產品項目交予集團負責；
- 我們得到該產品未來18至24個月的落貨預測，此亦是一般產品壽命週期。

3. 模具製作階段

- 集團按照客戶所提供的規格要求進行設計工作，並製作生產模具及首辦；
- 此工序大概需時6至12個月；
- A客戶亦會就產品所需之電子零件，與採購部門商討指定供應商及相關審批程序。

4. 付運階段

- A客戶發出修訂付運時間表；
- 完成生產及將成品付運至「即時供貨」系統中轉貨倉。

5. 銷售確認及找結

- A客戶從「即時供貨」系統中轉貨倉提取成品；
- 客戶按照相關找結方式(一般為60天)付款。

APPENDIX 1 (Cont'd)

Special Characteristics of Our Business Model
(Cont'd)

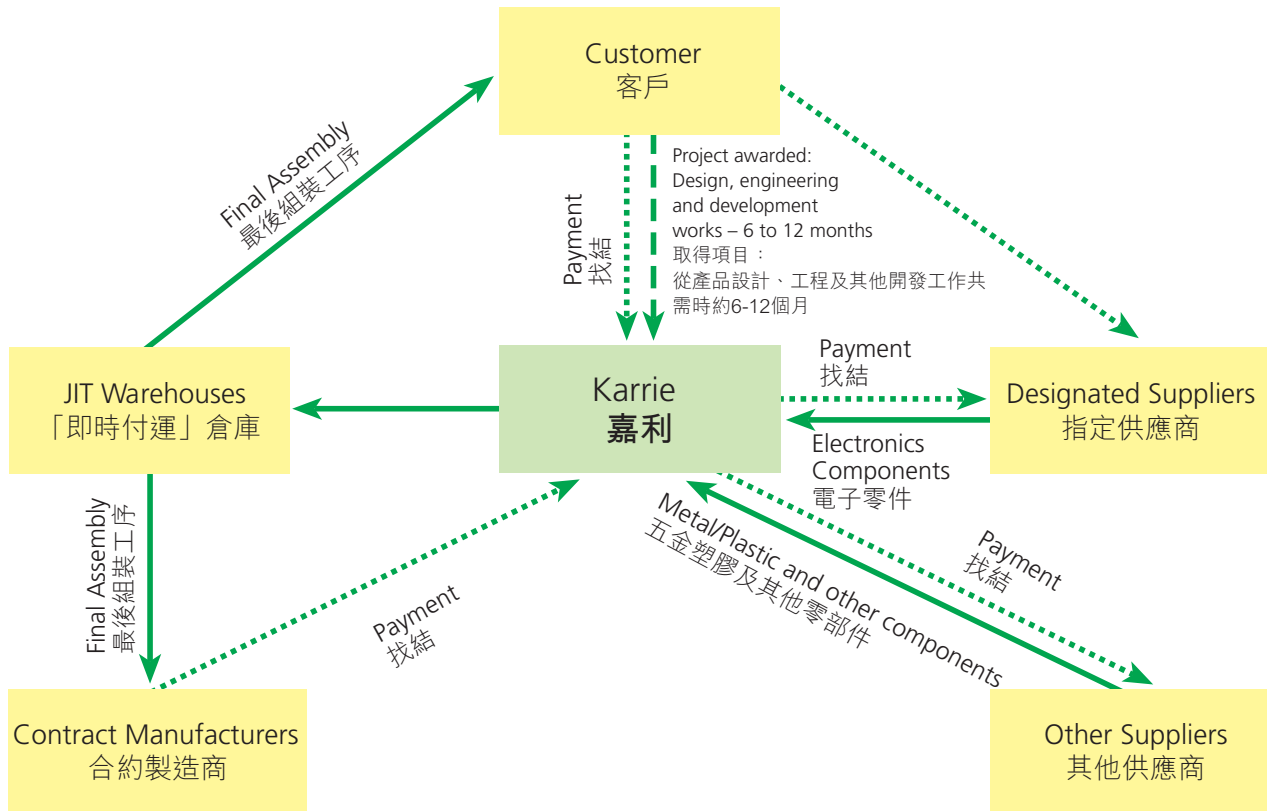
As the related engineering works have largely been completed and in most cases the Group is the sole supplier for the confirmed project, our problem is therefore one of production, and not of marketing (2003/04 Annual Report, P.26).

附錄一 (續)

經營模式之特色 (續)

由於嘉利通常是客戶個別產品項目之唯一供應商，而有關項目經已與新舊客戶取得落實，相關之工程準備工作亦大致完成，故現時所要關注的是如何完成生產任務，而非訂單(二零零三／零四年度年報第二十六頁)。

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



APPENDIX 1 (Cont'd)

Special Characteristics of Our Business Model

Some or all of the following characteristics apply in our dealing with customers. Such characteristics have been generalized/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 18 to 24 months.
2. We do not normally have a large orders backlog because the customers' adoption of either the just-in-time inventory (JIT), rolling forecast, Electronic Data Interexchange (EDI) or a combination of the above methods.
3. Usually we are the sole supplier 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 electronic 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 situation likes 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 (續)

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18至24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)，滾動式的預算表又或以電子信息交換系統(EDI)進行。
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。

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. The Group is now being run on an operational basis by a group of professional managers;

附錄二

企業管治

1. 九名董事局成員中，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，日常營運交由一群專業管理人員處理；



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



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



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



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

APPENDIX 2 (Cont'd)

Corporate Governance (Cont'd)

3. Efforts to improve transparency
 - in annual report, made detailed explanation of corporate strategies and the rationale behind;
 - meeting with individual shareholders periodically through a new “tea-break” program. The “tea-breaks” were held on 25 September, 18 December 2004 and 2 April 2005 respectively;
4. Clearly defined dividend policy of payment of 50% or more of the profit attributable to shareholders;
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 1st 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;
12. Enhancing stock market liquidity with the major shareholder's placement of 60,000,000 shares to institutional shareholders in May 2003; and
13. Willingness to share wealth created with all shareholders through dividend. Since 2000/01, the Group's accumulated dividends paid/payable is around HK\$414,234,000 or around 92% of the shareholders' fund.

附錄二 (續)

企業管治 (續)

3. 致力提高透明度
 - 於年報中詳細解釋集團策略與其背後之理念；
 - 透過定期舉行「茶敘」活動與小投資者會面，過去三次茶敘活動已分別於二零零四年九月二十五日、十二月十八日及二零零五年四月二日舉行；
4. 將股東應佔溢利之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%)……即使我們未能按承諾實踐。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4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；
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；及
13. 願意透過派發股息與各股東一同分享財富；自二零零零／零一年度開始，集團已派發／擬派發現金股息約414,234,000港元，或約佔股東資金92%。

APPENDIX 3

附錄三

Dividend and Dividend Policy:

股息及股息政策：

An unbroken 8 years record of dividend payment

8年以來派息從未間斷

Group's policy to distribute 50% or more of its profits attributable to shareholders as dividend

集團既定股息政策為股東應佔溢利50%或以上用作派息

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 股息 派發比率	
				Special 中期 特別股息	Special 末期 特別股息	Special 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
2004/05	8.50	12.50	21.00	Nil 無	Nil 無	Nil 無	21.00	57%	N/A 不適用

Remarks: * Excluding special dividend

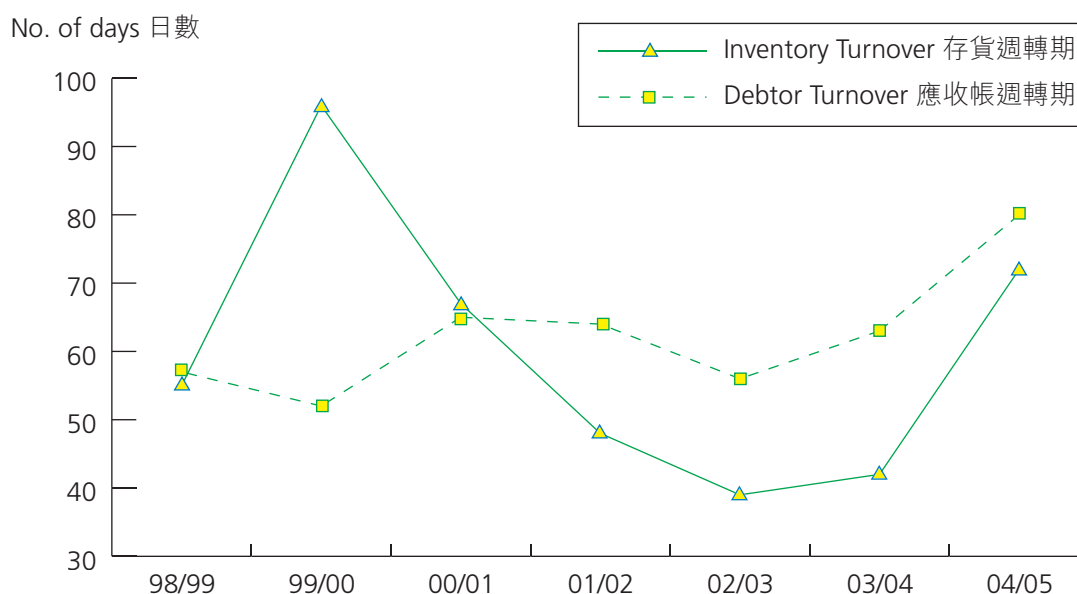
備註：*不包括特別股息

Including special dividend

#包括特別股息

APPENDIX 4

附錄四

Inventory & Debtor Turnover
存貨及應收帳週轉期

(no. of days)(日數)	98/99	99/00	00/01	01/02	02/03	03/04	04/05
Inventory Turnover 存貨週轉期	55	96	67	48	39	42	72
Debtor Turnover 應收帳週轉期	57	52	65	64	56	63	80

Inventory turnover (Base on year end stock value/Cost of Sales) x 365 days
Debtor turnover (Base on year end debtors/Turnover) x 365 days

存貨週轉期(以年終存貨值/銷售成本)x 365日
應收帳週轉期(以年終應收帳/營業額)x 365日

Inventory Turnover Days 存貨週轉期

(no. of days)(日數)	03/04	04/05	Change 變幅
Raw Material 原料	21	33	+12
WIP 半製品	6	5	-1
Finished Goods 成品	15	34	+19
Total 合計	42	72	+30