

## **BUSINESS REVIEW**

During the year ended 31st December, 2003, the Group had a consolidated turnover of HK\$283,800,000. This represented a substantial increase of 20%, compared to the figure of HK\$236,878,000 for the previous year.

The net profit attributable to shareholders grew by 38% to HK\$50,580,000, compared to HK\$36,640,000 in the previous year. This represents a net profit per share of HK20.2 cents (2002: HK15.5 cents).

## **REVIEW OF OPERATIONS**

The first half of 2003 was a difficult time for the global economy. This created an adverse economic environment for the Group, due to severe competition, pressure on selling prices that affected our profit margins, and the costs of raw materials have remained at high levels since the second half of 2002 .

Moreover, the outbreak of Severe Acute Respiratory Syndrome (SARS) affected the Hong Kong economy. Many business activities were suspended because of the outbreak.

Even so, the Group recorded encouraging growth in profit of 38% during the year. This was due to the outstanding performance of its major business segments. The broadening of the customer base and launch of new products increased the turnover for liquid coatings before elimination of inter segment sales by 17%, from HK\$255,432,000 to HK\$299,410,000, thus raising the profit from this sector to HK\$43,107,000, a substantial increase of 50%. The turnover for solvents also recorded an increase of 8%. However, due to tighter importing measures imposed by the PRC government during the year, operating costs for this segment increased, hence, it recorded only a slight increase in profit of 3%. As for powder coatings, turnover increased by 4%, while profit decreased by 5%, because of the declining selling price due to keen competition in this field.

We achieved these satisfactory results by continuously monitoring the market situation, implementing cost-control measures and improving our management skills. It was also made possible by cooperation between employees at all levels.

Furthermore, the impact of SARS was of short duration. Economic conditions improved substantially during the second half, as orders delayed by the outbreak of SARS resumed, thus boosting our sales and turnover.

Other measures we took to meet intense competition in the market during the past year included focusing on and consolidating our core business activities. We strived for continuous improvement in both the quality of our products and our customer service.

## **REVIEW OF OPERATIONS** *(continued)*

A Total Quality Management (TQM) scheme was introduced to align us more closely with the needs of our customers, so as to provide more efficient and high-quality services. We also made further progress in implementing our ERP system during the past year. This enables companies within the Group to exchange data and information, thus enhancing real-time communication between them.

We employed additional technical staff to strengthen and elevate our research and development capability. In fact, during the year under review, we successfully introduced 13 new product lines.

In addition, we set up a special sales team to explore new business opportunities, with a view to increasing our market share and diversifying our range of products.

During the year under review, the Group entered into an agreement to acquire the 8.4% interest in Shenzhen Pinefield Chemical Enterprises Co., Ltd. ("Pinefield") that was previously held by our PRC partner, thus making it a wholly owned subsidiary of the Group. Pinefield acquired new machinery, technology and technical know how, which enabled it to increase its production capacity by 20%.

The Group also established a new factory in Guangzhou, mainly to manufacture products to satisfy domestic demand within China. This factory is eligible for tax benefits being offered by the PRC Government. With the commencement of operations at this factory, the Group recorded a remarkable growth in sales in China during the year.

The excellence of our products and services were also reflected in the numerous accolades we received in the course of last year. They included a Certificate of Merit in the Hong Kong Management Association's Quality Awards and a Certificate of Encouragement in the China Quality Management Awards organised by the China Quality Management Association. We also upgraded our existing certification from ISO 9001:1994 to ISO 9001:2000, as well as gaining ISO 14001 certification for the first time.

## **OUTLOOK**

Looking ahead, we foresee continuing economic recovery during the coming months.

However, there will still be strong competition within the industry. In response to this, we will further consolidate our existing production base. We will continuously improve the quality of our products, customer service and technical support by implementing additional improvement measures. We will maintain our drive to identify and explore new business opportunities and satisfy the needs of a broader customer base. Also, we will implement more appropriate pricing policies and effective cost-control measures.

We will continue to invest in our people by providing extra training to enhance their capability, technology, knowledge and efficiency.

## **OUTLOOK** *(continued)*

To enable us to provide better service and more prompt deliveries, we intend to seek a suitable location to set up another factory, as well as an office on the Mainland. We have acquired a piece of land with a gross area of approximately 10,000 sq. m. adjacent to our existing Pinefield factory. This will be used for future expansion. All these measures indicate our confidence in the future prospects for our business in the PRC.

Finally, we will continue to implement the Group's corporate philosophy of "prompt and reliable service", with a view to benefiting our shareholders, customers, employees and the community as a whole.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st December, 2003, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance its operations from internally generated cashflow. The Group maintains a satisfactory financial position derived from the steady growth of its business. As at 31st December, 2003, the Group had cash on hand of HK\$71,666,000 (2002: HK\$67,992,000).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st December, 2003, the Group had a workforce of approximately 900 full-time employees, including management and administrative staff and production workers. Most of them were stationed in Mainland China, while the rest were in Hong Kong. The remuneration, promotion and salary increments of employees are assessed according to the individual's performance, as well as professional and working experience, and in accordance with prevailing industry practices.