

# Report of the Directors

The Directors submit their first annual report together with the audited accounts for the year ended 31st March 2003.

## **GROUP REORGANISATION**

The Company was incorporated in the Cayman Islands on 30th April 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Companies Law”).

Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire share capital of Wing Shing Group Limited and became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 31st October 2002 (the “Prospectus”). The Company’s shares were listed on the Stock Exchange on 13th November 2002.

The Reorganisation has been reflected in the accounts by regarding the Company as the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 3 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 20.

The Directors do not recommend the payment of a dividend.

## **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out in note 22 to the accounts.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in note 21 to the accounts.

### **DISTRIBUTABLE RESERVES**

Distributable reserves, including share premium, of the Company at 31st March 2003, amounted to approximately HK\$76,163,000. Under Section 34 of the Cayman Companies Law and the provisions of the Articles of Association of the Company, the share premium is available for distribution to shareholders when the Company shall be able to pay its debts as they fall due in the ordinary course of business.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 62.

### **PURCHASES, SALE OR REDEMPTION OF SECURITIES**

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

### **SHARE OPTIONS AND WARRANTS**

Share options are granted to Directors, executives and employees under the Share Option Scheme approved by shareholders at an Extraordinary General Meeting on 21st October 2002. A summary of the principal terms of the Share Option Scheme was disclosed in the Prospectus. No share options have been granted under the Share Option Scheme up to the date of this report.

On 11th November 2002, warrants to subscribe for a total of 77,714,281 shares of the Company at subscription price of HK\$0.70 per share (subject to adjustment) before 31st October 2007 were issued to the Company's shareholders at nil consideration. No warrants have been exercised since the date of issue and up to the date of this report.

# Report of the Directors

## DIRECTORS

The Directors during the year and up to the date of this report were:

Mr. Poon Sum	(appointed on 14th May 2002)
Mr. Mok Yu Kong	(appointed on 21st October 2002)
Mr. Wong Kwok Leung	(appointed on 21st October 2002)
Mr. Kwok Kwai Sum	(appointed on 21st October 2002)
Mr. Chan Shu Kin *	(appointed on 21st October 2002)
Mr. Chan Kam Ching, Paul *	(appointed on 21st October 2002)

\* Independent non-executive Directors

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Mok Yu Kong retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

Mr. Chan Shu Kin and Mr. Chan Kam Ching, Paul are independent non-executive Directors and were appointed for a three-year term expiring on 20th October 2005.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Poon Sum, Mr. Mok Yu Kong, Mr. Wong Kwok Leung and Mr. Kwok Kwai Sum has entered into a service contract with the Company for an initial term of three years commencing from 21st October 2002, and which may be terminated by either party thereto giving to the other not less than six months' prior notice in writing, which notice period shall not expire at any time during the first year.

Under the above service contracts, the remuneration payable to each of the executive Directors may, subject to the discretion of the Directors, be increased by not more than 10% per annum and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the Directors for such year shall not exceed 15% of the audited consolidated net profit of the Group after tax and minority interests but before extraordinary and exceptional items of the Group. Each executive Director will abstain from voting and not be counted in the quorum in respect of any resolution proposed at any meeting of the Directors regarding the amount of annual salary, discretionary bonus and other allowance available to himself. Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses. During the year, total emoluments paid and payable to the executive Directors amounted to approximately HK\$3,193,000.

Mr. Mok Yu Kong has a service contract with the Company with a remaining unexpired period of 2.5 years which is not determinable within one year without payment of compensation.

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group.

### DIRECTORS' INTEREST IN CONTRACTS

Apart from those disclosed in note 29 to the accounts, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### Executive Directors

*Mr. Poon Sum*, aged 39, is chairman of the Company and one of the co-founders of the Group. Throughout the year, he has been, and still is, primarily responsible for the overall strategic planning, business development, marketing and formulation of overall corporate policies of the Group. He has over 15 years of experience in the paints and coatings industry and the trading of chemicals in Hong Kong and the PRC.

*Mr. Mok Yu Kong*, aged 37, is an executive Director. He joined the Group in September 1998. He is currently responsible for overseeing the administration and operations of the Group's paints and coatings production. He graduated from the Hong Kong Polytechnics in 1988 with a bachelor's degree in Civil Engineering. Prior to joining the Group, he had over 10 years of experience in the field of sales and marketing and worked for several multinational corporations.

*Mr. Wong Kwok Leung*, aged 45, is an executive Director. He joined the Group in September 1997. He is currently responsible for overseeing the Group's finance and accounting affairs. In 1982, he obtained the qualification of LCC - Higher Accounting from London Chamber of Commerce and diploma of supervisory studies from Hong Kong Productivity Council. Prior to joining the Group, he worked in the field of finance and accounting for over ten years and has obtained extensive knowledge therein.

*Mr. Kwok Kwai Sum*, aged 54, is an executive Director and company secretary of the Company. He joined the Group in November 2001. He is responsible for finance and company secretarial matters of the Group. He graduated from the University of Hong Kong in 1971 with a bachelor's degree in Arts and obtained qualification of P.C.L.L. - postgraduate certificate in laws, in 1996. He has over 28 years of experience in the areas of finance and accounting. Prior to joining the Group, he was the company secretary and financial controller of S. Megga International Holdings Limited (currently known as Wireless InterNetworks Limited), a company listed in the Stock Exchange.

Each of the executive Directors has entered into a service contract with the Company. Details of such service contracts are set out in the section headed "Directors' service contracts" in the Report of the Directors.

## Report of the Directors

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

#### Independent Non-Executive Directors

*Mr. Chan Shu Kin*, aged 48, is an independent non-executive Director. He was appointed on 21st October 2002. He is a certified public accountant and is a partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. He has over 26 years of experience in field of auditing, accounting as well as financial management. Currently, he is the Vice President of the Society of Chinese Accountants and Auditors. He is also an independent non-executive director of Rosedale Hotel Group Limited which is a listed company on the Main Board of the Stock Exchange.

*Mr. Chan Kam Ching*, Paul, aged 48, is an independent non-executive Director. He was appointed on 21st October 2002. He is the senior partner of Paul K.C. Chan, Danny K.H. Yu & Co. Solicitors & Notaries, and has been practising laws in Hong Kong for over 19 years. He obtained a Juris Doctor degree from the University of Toronto in 1979. He has been admitted as a barrister and a solicitor in Ontario, Canada and as a barrister and a solicitor in the Australian Capital Territory, as a solicitor in Hong Kong and in England and Wales, and as an advocate and solicitor in Singapore. He became a China-Appointed Attesting Officer in 1995, a member of Chartered Institute of Arbitrators in 1996, a Notary Public in Hong Kong in 1997, and HKIAC Accredited Mediator in 1999.

#### Senior Management

*Mr. Chan Chung Yuk*, aged 51, is technical manager of the Group. He joined the Group in April 2001. He is responsible for the product research and development and quality control of the Group. He graduated from the Hong Kong Polytechnic in 1975 with a higher certificate in Chemical Technology. With more than 30 years of work experience in several big paints companies in Hong Kong, he has extensive knowledge in the paints industry and is well versed in related product research and development.

*Mr. Yiu Po Wah*, aged 48, is production manager of the paints and coatings division of the Group. He joined the Group in April 1993 and is responsible for production management of the paints and coatings. He has over 30 years of experience in the paints industry. Prior to joining the Group, he worked for a big paints company in Hong Kong.

*Mr. Tong Chung*, aged 49, is a Director of Hai Yue Chemicals Company Limited, a non-wholly owned subsidiary of the Group. He joined the Group in September 1998 and currently holds 25% interest in Hai Yue Chemicals Company Limited.

*Mr. Lok Wai Man*, Joe, aged 44, is a Director of Wing Shing Colours Limited, a non-wholly owned subsidiary of the Group. He joined the Group in April 1998 and currently holds 30% interest in Wing Shing Colours Limited.

*Mr. Wan Wai Shing*, aged 43, is a Director of Wing Shing Chemical Company Limited and Wing Shing Chemical International Limited, wholly owned subsidiaries of the Group, and a Director of Wing Shing Colours Limited and Hai Yue Chemicals Company Limited, non-wholly owned subsidiary of the Group. He was appointed on 31st October 2002. He joined the Group in January 1994 and is responsible for the sales and marketing of the Group's paints and coatings products. Prior to joining the Group, he worked in the field of commercial banking for more than 15 years.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2003, the interests of the Directors and chief executive in the shares, warrants and options of the Company, and any associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors were as follows:

Name of Director	Interest in shares		Interest in warrants	
	Personal interest	Corporate interest	Personal interest	Corporate interest
Mr. Poon Sum	26,698,265	216,749,686	3,814,037	30,964,240
		<i>(Note)</i>		<i>(Note)</i>
Mr. Mok Yu Kong	10,404,000	—	1,486,285	—
Mr. Wong Kwok Leung	6,936,000	—	990,857	—
Mr. Kwok Kwai Sum	—	—	—	—

*Note:*

These shares are held by Ever Source Enterprises Limited ("Ever Source"). The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord Limited, a company incorporated in the British Virgin Islands ("BVI") and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance Investments Limited, a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin, the elder brother of Mr. Poon Sum. Accordingly, Mr. Poon Sum will be deemed to be interested in 216,749,686 shares, representing approximately 53.12% of the Company's shares in issue as at 31st March 2003, through his shareholding in Ever Source.

### SUBSTANTIAL SHAREHOLDERS

As at 31st March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interest, being 10% or more of the Company's issued share capital, other than those held by Ever Source as disclosed above.

### MANAGEMENT CONTRACTS

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

## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods from its 5 largest suppliers and sold less than 30% of its goods to its 5 largest customers.

### CONNECTED TRANSACTIONS

During the year, the Group entered into transactions with certain Directors or companies related to them. Details of the significant related party transactions and the Directors' interests therein are set out in note 29 to the accounts. The rental expenses of approximately HK\$290,000 payable to Luen Yat Enterprises Company Limited, and approximately HK\$160,000 payable to Mr. Poon Sum, Mr. Poon Sau Tin and Wing Shing Company, after the listing of the Company's shares on the Stock Exchange as disclosed in notes 29(a) and 29(d) respectively, also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules"). The Directors confirm that save as aforesaid, the other related party transactions disclosed under note 29 have not continued after the listing of the Company's shares on the Stock Exchange.

In addition, the Group also granted financial assistance to non-wholly owned subsidiaries as follows:

- (i) On 18th July 2002, Wing Shing Chemical Company Limited and Wing Shing Group Limited provided corporate guarantees to a bank in respect of general banking facilities for an amount up to HK\$3.0 million, granted to Wing Shing Colours Limited. As at 31st March 2003, approximately HK\$214,000 of these facilities had been utilised. Subsequent to the year end, these banking facilities were replaced by general banking facilities for an amount up to HK\$1.0 million and secured by a corporate guarantee executed by the Company;
- (ii) On 24th December 2002, the Company provided corporate guarantees to a bank in respect of general banking facilities for an amount up to HK\$4.3 million, granted to Hai Yue Chemicals Company Limited. As at 31st March 2003, approximately HK\$883,000 of these facilities had been utilised; and
- (iii) On 18th March 2003, the Company provided corporate guarantees to a bank in respect of general banking facilities for an amount up to HK\$1.0 million, granted to Wing Shing Colours Limited. As at 31st March 2003, approximately HK\$420,000 of these facilities had been utilised.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Since 13th November 2002 (date of listing) and up to 31st March 2003, the Company was in compliance with the Code of Best Practice as set out in appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by HKSA.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely Mr. Chan Shu Kin and Mr. Chan Kam Ching, Paul.

The Audit Committee reviewed and commented on the Group’s annual report and interim report and provided advice and comments thereon to the Board. Two meetings were held up to the date of this report.

### DIRECTORS’ INTEREST IN COMPETING BUSINESS

None of the Directors has an interest in a business which compete or may compete with the business of the Group.

### PENSION SCHEMES

The Group operated a defined contribution retirement scheme for qualified employees in Hong Kong prior to 30th November 2000. The cost charged to the consolidated profit and loss account represents contributions payable or paid to the funds by the Group at rates ranging from 5% to 12% of the salary. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of forfeited contributions is utilised to reduce the contributions payable by the Group.

With effect from 1st December 2000, a Mandatory Provident Fund scheme (the “MPF scheme”) has also been set up for certain employees in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance. Under the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

Employees in the PRC subsidiary of the Group are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiary contributes 2% to 4% of the employee payroll to the scheme to fund the retirement benefits of the employees.



## Report of the Directors

### USE OF PROCEEDS

During the period from 13th November 2002 to 31st March 2003, the Group has applied the net proceeds received from the initial public offering to achieve the business objectives as set out in the Prospectus:

	<b>As stated in the Prospectus</b> <i>HK\$' million</i>	<b>Actual</b> <i>HK\$' million</i>
— acquisition of additional machinery and equipment and upgrading the Group's existing production facilities in order to increase the range of products and to enhance its production efficiency and productivity;	5.7	5.7
— financing the construction of new factories and staff quarters in Chang An, Dongguan, the PRC;	4.4	4.4
— research and development of paints and related products;	3.2	0.5
— investment in Kansai Chemicals to engage in the manufacture and distribution of solvents for use in automotive repair paints and related products;	1.0	—
— marketing and promotional activities such as formulating advertising plans and promotional campaigns in Hong Kong and the PRC; and	1.5	—
— additional working capital for the Group.	7.3	7.3
	<u>23.1</u>	<u>17.9</u>

The remaining net proceeds of approximately 5.2 million were placed in short-term deposits with licensed banks in Hong Kong for future use as identified by the Group's business plans.

## Report of the Directors

### AUDITORS

The accounts have been jointly audited by PricewaterhouseCoopers and Lau & Au Yeung C.P.A. Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Poon Sum**

*Chairman*

Hong Kong, 28th July 2003