

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in (i) manufacture and sale of paints and blended solvents; (ii) manufacture and sale of plastic colorants; and (iii) trading of chemical materials. For the year ended 31st March 2004, the Group recorded turnover of HK\$291,598,000, up 9.7% compared to the previous financial year. Profit attributable to shareholders was HK\$15,029,000.

Paints and blended solvents

This division sustained strong growth. Its turnover reached HK\$264,309,000, an increase of 12.2% compared to last financial year. Gross profit (“GP”) margin slightly dropped for 1.2% to 21.3%. The increase in the turnover was mainly attributable to (i) the steady sale of toy paints and metal paints; (ii) growth in cabinet and UV cured plastic paints business; (iii) better sales performance brought by more sophisticated research and development technologies for new products; and (iv) higher utilization of expanded facilities and plants.

Last year, certain clients temporarily suspended business activities due to SARS, which led to a decrease in overall demand in paints. Moreover, the cost of secondary products of petroleum, such as solvents and resins and additives increased persistently as the international crude oil price maintained at a level between US\$38 and US\$40 per barrel. As a result of the decrease in demand and the upsurge of operation costs, the sales performance in the overall industry was not satisfactory. Fortunately, the new commission scheme and newly developed products demonstrated their effectiveness and facilitated the continuous business growth under the tough circumstances.

However, performance of profit from this division was below expectation. There was an increase in distribution costs when compared to last year for reasons outlined above. To maintain the growth in sales, the Group had to pay higher commission fees to salespersons to boost the turnover, together with costs for establishing sales outlets and the increasing transportation cost. These were major factors posing the modest level of profit.

Plastic colorants

This division contributed a turnover of HK\$8,478,000, down 25.3% compared to the previous financial year. However, the GP margin augmented 5.7% to 46.7%, attributable to the effective cost control policy and the new commission scheme encouraging the sale of products with high GP margin.

Chemical trading

The turnover of this division slightly decreased from HK\$18,957,000 last financial year to HK\$18,811,000 this year, with the GP margin nearly doubled from 8.7% to 16.9%. This was attributable to the continual rise in raw material prices, which resulted in a larger price difference between the demand and supply side.

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FUTURE PROSPECTS

Looking forward, crude oil prices are expected to fluctuate due to the unstable condition in the Middle East. Therefore, operating costs of the Group may also fluctuate. Effectiveness of the macroeconomic control measures implemented by the PRC government remains unknown, and economic development may not be clearly predicted. However, in the long run, economic growth in the PRC is expected to continue and domestic demand will also increase. It is important that the Group prepares itself for this by enhancing the sale of its core businesses, production facilities and capacity. At the same time, excellent management system and advancement in technological level will be equally emphasized. The management will also grasp various business opportunities ahead for the Group's flourish development.

To achieve this goal, the Group will industriously explore multifarious markets, expand customer base by establishing more sales outlets and strengthen the sales network in Yangtze and Pearl River Deltas.

Furthermore, to perfect the management system, an Enterprise Resource Planning (ERP) system will be introduced to the Group. Besides, the Group's technical centre, equipped with a series of research and examination facilities has also been established early this year. This is to ensure enhancement in technological capabilities for existing products, and research and development of new products can be achieved simultaneously.

Recently, the Group has established a joint venture with a European paints company to expand business into the non-stick coatings market in the PRC. In future, the management will collaborate with various foreign and local institutions to explore different markets and seize opportunities for the Group.

DIVIDENDS

The interim dividend of HK\$0.005 per share was paid on 15th January 2004. The Directors recommend the payment of a final dividend of HK\$0.005 per share which, together with the interim dividends, make total dividends for the year ended 31st March 2004 of HK\$0.01 per share, representing a total distribution of approximately HK\$4.16 million for the year. The Directors also recommend that such final dividend be satisfied in cash, with a scrip option to receive shares in lieu of cash. The market value of the shares to be issued under the scrip dividend scheme will be fixed by reference to the average closing price of the Company's shares on the Stock Exchange for the five consecutive trading days ending 17th September 2004. A circular giving details of the scrip dividend scheme and a form of election will be sent to shareholders on or around 1st September 2004. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on or around 6th October 2004 to shareholders registered on 26th August 2004.

CLOSURE OF REGISTERS OF MEMBERS AND WARRANTHOLDERS

The registers of members and warrantholders of the Company will be closed from Monday, 23rd August 2004 to Thursday, 26th August 2004, both days inclusive, during which period no transfer of shares will be effected and no transfer or exercise of warrants will be effected. In order to qualify for the final dividend to be approved at this meeting, all transfers accompanied by the relevant share certificates or all completed subscription forms in relation to the exercise of the warrants accompanied by the appropriate subscription monies and the relevant warrant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 20th August 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March 2004, the Group had total outstanding borrowings of approximately HK\$62,033,000 (2003: HK\$53,177,000), cash and bank balances of approximately HK\$17,868,000 (2003: HK\$26,504,000) and assets of approximately HK\$192,343,000 (2003: HK\$167,753,000). Current assets of the Group on the same date amounted to approximately HK\$132,939,000 (2003: HK\$122,082,000) whilst current liabilities were approximately HK\$91,124,000 (2003: HK\$77,987,000). The gearing ratio, calculated by dividing the total borrowings by the total assets, was equaled to 0.32 as at 31st March 2004 (2003: 0.32).

The Group has minimal currency exposure as the majority of its transactions are denominated in Hong Kong dollars and Renminbi.

The Group generally finances its operations with internally generated cash flow and loan facilities from banks. Through proper management of its treasury functions, the Group will continue to maintain sufficient funds to meet its operational requirements as well as future development needs.

PLEDGE OF ASSETS

As at 31st March 2004, the Group has pledged certain assets with a net book value of approximately HK\$6,512,000 (2003: HK\$5,295,000 and pledged bank deposits HK\$9,049,000) to secure bank facilities granted to the Group.

CAPITAL STRUCTURE

As at 31st March 2004, the Group had cash holding of approximately HK\$17,868,000 (2003: HK\$26,504,000) and bank facilities of approximately HK\$132,960,000 (2003: HK\$117,000,000) provided by various banks at prevailing commercial interest rates. The Directors are confident that the Group is able to meet its operational and capital expenditure requirements.

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CONTINGENT LIABILITIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	<u>132,960</u>	<u>117,000</u>

As at 31st March 2004, save as disclosed above, the Group had no other material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2004, the Group had 662 (2003: 640) employees of which about 633 (2003: 610) operated in the PRC while the rest were based in Hong Kong and Macau. The employees' remuneration package includes salary, bonus and share options. Under the Group's remuneration policy, employees are rewarded on the basis of merit and job market conditions, and in accordance with the statutory requirements of the respective jurisdiction where the employees are engaged.