

# Report of the Directors

The Directors submit their annual report together with the audited accounts of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st March 2004.

## **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 13 to the accounts.

An analysis of the Group’s performance for the year by business and geographical segment is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st March 2004 are set out in the consolidated profit and loss account on page 24.

The Directors have declared an interim dividend of HK\$0.005 per ordinary share, totalling HK\$2,080,000 which was paid on 15th January 2004.

The Directors recommend the payment of a final dividend of HK\$0.005 per ordinary share, totalling HK\$2,080,000. The Directors also recommend that such final dividend be satisfied in cash, with a scrip option to receive shares in lieu of cash. 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.

## **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out in note 23 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 share capital of the Company are set out in note 22 to the accounts.

## **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company at 31st March 2004, amounted to HK\$95,056,000, comprising share premium and retained earnings. Under section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the articles of association of the Company (the “Articles of Association”), and no distribution may be paid to shareholders out of the Company’s share premium unless the Company shall be able to pay its debt as they fall due in the ordinary course of business.

## **Report of the Directors**

### **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 64.

### **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**

On 11th November 2002, warrants to subscribe for a total of 77,714,281 shares of the Company at a 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.

A share option scheme (the "Share Option Scheme") was approved and adopted by shareholders of the Company at an Extraordinary General Meeting on 21st October 2002.

The purpose of the Share Option Scheme is to acknowledge the contributions made or to be made by the participants to the Group and to motivate the participants to optimise their performance and efficiency and attract and retain the participants whose contributions are important to the long-term growth and profitability of the Group. The participants are employees, executive and non-executive Directors, officers, advisers and consultants of the Group who satisfy the eligibility requirements set out in the Share Option Scheme. The Share Option Scheme will, unless otherwise cancelled or amended, remain in force for 10 years from 21st October 2002, the date on which it became effective.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (excluding option lapsed in accordance with the Share Option Scheme and any other share option schemes of the Company) must not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Share Option Scheme unless the Company obtains a fresh approval from its shareholders. Securities available for issue under the Share Option Scheme as at 31st March 2004 were 32,800,000 shares (including options for 9,500,000 shares that have been granted but not yet lapsed) which represented 7.88% of the issued share capital of the Company as at 31st March 2004.

## Report of the Directors

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme in any 12-month period must not exceed 1% of the shares in issue.

The Directors will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised. The period within which the shares must be taken up under an option shall not be later than 10 years from the date on which the option is granted.

The amount payable on acceptance of an option is HK\$1.00. An offer of the grant of an option must be accepted within 3 business days commencing from the date on which an option is offered to a participant.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Directors in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the nominal value of the shares, (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive trading days immediately preceding the date of offer of the option and (iii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option.

Details of the options outstanding at 31st March 2004 which have been granted under the Share Option Scheme are as follows:

	Number of options			Outstanding at 31st March 2004	Exercise price per share HK\$	Grant date	Exercise period
	Outstanding at 1st April 2003	(Note 1) Granted during the year	(Note 2) Exercised during the year				
Continuous contract employees	—	17,500,000	8,000,000	9,500,000	0.301	24th November 2003	From 24th November 2003 to 23rd November 2008

*Notes:*

1. The closing price of the shares immediately before the date of grant was HK\$0.285.
2. These options were exercised on 5th January 2004. At the date before the options were exercised, the weighted average closing price of the shares was HK\$0.365.
3. The Directors consider it inappropriate to value the share options as a number of factors crucial for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.
4. No share options were lapsed and cancelled during the year.

## Report of the Directors

### DIRECTORS

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

Mr. Poon Sum

Mr. Mok Yu Kong

Mr. Wong Kwok Leung

Mr. Kwok Kwai Sum (resigned on 1st December 2003)

Mr. Chan Shu Kin <sup>(1)</sup>

Mr. Chan Kam Ching, Paul <sup>(1)</sup>

<sup>(1)</sup> Independent non-executive Directors

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Wong Kwok Leung 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 and Mr. Wong Kwok Leung 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 (the "Profit"). 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, no discretionary bonus was paid and payable while total emoluments paid and payable to the executive Directors amounted to approximately HK\$3,534,000.

Mr. Wong Kwok Leung has a service contract with the Company with a remaining unexpired period of 1.5 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 30 to the accounts, no contract of significance in relation to the Group's business to which the Company or its subsidiaries 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 40, is the 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 16 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 38, 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 46, 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 11 years and has obtained extensive knowledge therein.

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.

#### Independent Non-executive Directors

*Mr. Chan Shu Kin*, aged 49, 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 27 years of experience in field of auditing, accounting as well as financial management. Currently, he is the president of the Society of Chinese Accountants and Auditors.

## Report of the Directors

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

#### Independent Non-executive Directors *(continued)*

*Mr. Chan Kam Ching*, Paul, aged 49, is an independent non-executive Director. He was appointed on 21st October 2002. He is the senior partner of Paul K.C. Chan & Partners Solicitors & Notaries, and has been practising laws in Hong Kong for over 20 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 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 52, is the 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 Polytechnics in 1975 with a higher certificate in Chemical Technology. With more than 31 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 49, is the 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 31 years of experience in the paints industry. Prior to joining the Group, he worked for a big paints company in Hong Kong.

*Mr. Wan Wai Shing*, aged 44, is the sales manager and responsible for the sales and marketing of the Group's paints and coatings products. He joined the Group in January 1994. Prior to joining the Group, he worked in the field of commercial banking for more than 15 years.

## Report of the Directors

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2004, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the “SFO”) or as otherwise notified to the Company and the Stock Exchange pursuant to the Model code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as Percentage of Issued Shares
Mr. Poon Sum	Beneficial Owner	Personal Interest (Note 1)	26,698,265	3,814,037	278,226,228	66.88%
	Founder of a Discretionary Trust	Other Interest (Notes 1 & 2)	216,749,686	30,964,240		
Mr. Mok Yu Kong	Beneficial Owner	Personal Interest (Note 1)	10,404,000	1,486,285	11,890,285	2.86%
Mr. Wong Kwok Leung	Beneficial Owner	Personal Interest (Note 1)	6,936,000	990,857	7,926,857	1.91%

*Notes:*

- All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives of the Company are interests in warrants of the Company (“warrants”) which conferred rights to subscribe for shares at an initial subscription price of HK\$0.70 per share (subject to adjustment) exercisable during the period from 13th November, 2002 to 31st October 2007.
- These shares and warrants 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 (“Time Concord”), 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 (“Guidance”), 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 52.10% of the Company’s shares in issue as at 31st March 2004 through his shareholding in Ever Source.

Save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporation (as defined in Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March 2004, the interests of the shareholders, not being a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as Percentage of Issued Shares
BNP Paribas Jersey Trust Corporation Limited ("BNP Paribas Jersey")	Trustee	Other Interest (Notes 1, 2 & 3)	216,749,686	30,964,240	247,713,926	59.55%
Ground Point Limited ("Ground Point")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	216,749,686	30,964,240	247,713,926	59.55%
Red Tiles Limited ("Red Tiles")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	216,749,686	30,964,240	247,713,926	59.55%
Guidance	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	216,749,686	30,964,240	247,713,926	59.55%
Time Concord	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	216,749,686	30,964,240	247,713,926	59.55%
Ever Source	Beneficial Owner	Corporate Interest (Notes 1, 2, 3 & 4)	216,749,686	30,964,240	247,713,926	59.55%
Mr. Poon Sau Tin	Beneficial Owner	Registered Owner (Note 1)	26,698,265	3,814,037	278,226,228	66.88%
	Founder of a Discretionary Trust	Other Interest (Notes 1, 2, 3 & 4)	216,749,686	30,964,240		



## SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes:

- All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives of the Company are interests in warrants.
- All interests of BNP Paribas Jersey, Ground Point, Red Tiles, Guidance, Time Concord and Ever Source and the other interest of Mr. Poon Sau Tin were duplicated.
- BNP Paribas Jersey is deemed to be interested in the shares and warrants in the capacity of a trust through interests of corporations controlled by it as follows:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage Control
Ground Point	BNP Paribas Jersey	100%
Red Tiles	BNP Paribas Jersey	100%
Guidance	Ground Point	100%
Time Concord	Red Tiles	100%
Ever Source	Guidance	50%
Ever Source	Time Concord	50%

- These shares and warrants are held by Ever Source. The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord, a company incorporated in the 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, 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, each of Mr. Poon Sum and Mr. Poon Sau Tin will be deemed to be interested in 216,749,686 shares, representing approximately 52.10% of the Company's shares in issue as at 31st March 2004, through his shareholding in Ever Source.

Save as disclosed above, the Directors are not aware of any persons, other than a Director of the Company, who as at 31st March 2004 had an interest or a short position in the shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

## 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.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31st March 2004, 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.

## **Report of the Directors**

### **CONNECTED TRANSACTIONS**

During the year, the Group had entered into certain transactions with the Directors or companies related to them. Details of the connected transactions for the year ended 31st March 2004 are set out in note 30 to the accounts.

In addition, on 31st October 2003, the Group granted financial assistance to a non-wholly owned subsidiary, Hai Yue Chemicals Co. Limited, by providing a corporate guarantee in respect of general banking facilities for an amount up to HK\$5.0 million. As at 31st March 2004, an amount of approximately HK\$1,986,000 of facility has been utilised.

Save as disclosed above, there were no other transactions, which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

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

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to 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 Effective Audit Committee” published by the Hong Kong Society of Accountants in February 2002.

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.

During the last 12 months, two meetings of the Audit Committee were held to review and comment on the Group’s interim report and annual report and provide advice and comments thereon.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

### **PENSION SCHEME**

The Group operated one 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 were employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group were reduced by the amount of forfeited contributions. This scheme has been terminated and transferred to Mandatory Provident Fund scheme (the "MPF scheme") in July 2003.

With effect from 1st December 2000, the MPF scheme was set up for certain employees in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"). Under the rules of 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 under the MPF scheme in future years.

Employees in the Group's PRC subsidiary 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

The net proceeds to the Group from the initial public offering, after deduction of related expenses payable by the Company, were approximately HK\$23.1 million.

During the period from 13th November 2002 (date of listing) to 31st March 2004, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus of the Company dated 31st October 2002:

	<b>As stated in the Prospectus HK\$' million</b>	<b>Actual HK\$' million</b>
— 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	1.5
— investment in Kansai Chemicals to engage in the manufacture and distribution of solvents for use in automotive repair paints and related products; <i>(Note)</i>	1.0	—
— marketing and promotional activities such as formulating advertising plans and promotional campaigns in Hong Kong and the PRC;	1.5	0.5
— additional working capital of the Group; and	7.3	7.3
— investment in a company to engage in the manufacture and distribution of building chemicals related products	—	1.0
	<u>23.1</u>	<u>20.4</u>

*Note:* Over the past two years, the crude oil price has continued to rise due to instability in the Middle East and increase in demand for fuel in the PRC. As a result, price of solvents has also gone up, inducing sharp rises in the production cost of automotive repair paint used solvents. Not only is the profitability of this business affected, but the return period of the cooperation also becomes longer and more uncertainties may emerge. In view of this, the Group and its collaborating party agreed to suspend the investment in Kansai Chemicals. The corresponding portion of proceeds will be allocated to the investment of a building chemical project which has more stable return.

The remaining net proceeds of approximately HK\$2.7 million were placed in short term deposits with licensed banks in Hong Kong and commercial banks in the PRC 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 jointly, offer themselves for re-appointment.

On behalf of the Board

**Poon Sum**

*Chairman*

Hong Kong, 26th July 2004