

# Management Discussion and Analysis

## - Report of the Directors

The Directors are pleased to present the annual report together with the audited financial statements of the Group for the Year.

### PRINCIPAL ACTIVITIES

The Company is a holding company. Its subsidiaries are principally engaged in the subcontracting, manufacturing and trading of precious metal electroplating chemicals (namely gold salt, silver salt, palladium salt and rodium sulphate) in the PRC and Hong Kong. The production bases are located in Zhuhai City, the PRC, and Hung Hom, Hong Kong.

Segmental information of the Group's turnover and contribution to profit from operations for the year ended 31 March 2005 is set out in note 28 to the financial statements.

### FINANCIAL REVIEW

#### Liquidity, Financial Resources and Capital Structure

As at 31 March 2005, the net current assets of the Group were HK\$283,700,000 (2004: HK\$276,297,000). HK\$224,191,000 (2004: HK\$83,014,000), with 42% (2004: 19%) of the total current assets being free cash and cash equivalent. The current ratio of the Group as at 31 March 2005 was 212% (2004: 280%).

During the financial year ended 31 March 2005, the Group generally financed its operations with internally generated resources and banking facilities. As at 31 March 2005, shareholders' fund of the Group was HK\$299,610,000 (2004: HK\$252,114,000), while aggregate composite banking facilities (in US\$, HK\$ and RMB) was approximately HK\$365,561,000 (2004: HK\$357,058,000), of which approximately HK\$270,408,000 (2004: HK\$216,030,000) had been utilised. This gave rise to a net debt gearing (i.e. total borrowings less free cash/net tangible assets) of 16.1% (2004: 54.3%).

The Company issued 4,700,000 new shares during the Year due to the exercise of option pursuant to the share option scheme of the Company.

On 3 June 2005, the Company issued 7,300,000 new shares due to the exercise of options pursuant to the share option scheme of the Company.

#### Foreign Exchange Risk and Interest Rate Risk

The majority of the transactions of the Group is denominated in HK\$ and RMB. All bank borrowings of the Group are on a floating rate basis. In the opinion of the management, the Group's exposure to foreign exchange risk and interest rate risk are insignificant. Hence, hedging for these risks by means of derivative instruments is considered unnecessary.

# Management Discussion and Analysis

## - Report of the Directors

### **CAPITAL EXPENDITURE PLAN**

In the coming year, the Group is planning to invest around HK\$80 million to HK\$100 million in the setting up of new production lines for existing and new products, which are scheduled to be operational before the end of 2005. The Group has already secured bank financing for such capital expenditure.

The management is confident that the new production facilities will provide momentum to the expansion of our product and service range, which will enable the Group to consolidate its leading position in the industry.

### **CUSTOMERS AND SUPPLIERS**

For the financial year ended 31 March 2005, the five largest customers of the Group accounted for approximately 25% of the Group's turnover (i.e. below the 30% level as referred in Rule 31(7) of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")), while the five largest suppliers accounted for approximately 89% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 6% of the Group's sales revenue and the largest supplier of the Group accounted for approximately 37% of the Group's purchases.

None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

### **RESULTS AND APPROPRIATIONS**

Details of the Company's and the Group's results for the year ended 31 March 2005 are set out on pages 28 to 64 to this 2005 annual report.

The Directors recommend the payment of a final dividend of HK\$0.03 per share (*2004: HK\$0.04 per share*) totalling approximately HK\$14,610,000 to the shareholders registered in the Company's register of members as at the close of business on 24 August 2005. An interim dividend of HK\$0.03 per share was declared by the Company during the Year (*2004: HK\$0.02 per share*), the total dividend per share for the year ended 31 March 2005 is HK\$0.06 (*2004: HK\$0.06 per share*). Subject to the approval of shareholders at the forthcoming Annual General Meeting (the "AGM") of the Company, the dividend warrants are expected to be despatched on or before 5 October 2005 to shareholders whose names appear on the Register of Members of the Company on 24 August 2005.

# Management Discussion and Analysis

## - Report of the Directors

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 19 August 2005 to 24 August 2005, both days inclusive in order to determine those shareholders entitled to the proposed final dividend, during which period no transfer of shares shall be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch registrar of the Company, Tengis Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on 18 August 2005.

### **SHARE CAPITAL AND SHARE OPTIONS**

Movements in share capital of the Company and details of share option scheme of the Company are set out in notes 19 and 20 to the financial statements.

### **RESERVES**

Movements in reserves of the Group and the Company during the Year are set out in note 21 to the financial statements.

### **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 4 to this 2005 annual report.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares on the Stock Exchange during the year ended 31 March 2005 (2004: Nil).

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws and the laws of Bermuda.

# Management Discussion and Analysis

## - Report of the Directors

### **PUBLIC FLOAT**

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the issue of this 2005 annual report.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

### **DONATIONS**

Donations made by the Group during the Year amounted to HK\$1,245,000.

### **FIXED ASSETS**

Movements of fixed assets during the Year are set out in notes 10 and 11 to the financial statements.

### **BANK LOANS**

Particulars of bank loans as at 31 March 2005 are set out in note 17 to the financial statements.

### **PLEDGE OF ASSETS**

Details of pledge of assets are disclosed in note 27 to the financial statements.

### **CONTINGENT LIABILITIES**

Details of the contingent liabilities are set out in note 26 to the financial statements.

### **PENSION SCHEMES**

Details of the pension schemes are set out in note 23 to the financial statements.

# Management Discussion and Analysis

## - Report of the Directors

### **STAFF POLICY**

Staff costs are disclosed in note 4 to this 2005 annual report.

The management firmly believes that an organisation's most precious asset is its staff. The Group offers competitive remuneration packages at market level to staff members who render satisfactory performance. Top performers might receive further incentives at the absolute discretion of the management. Adequate and in-depth on-the-job training is provided to all employees to facilitate the performance of their duties. As at 31 March 2005, the Group had approximately 100 (2004: *approximately 100*) full-time employees.

In determining the emolument payable to the Directors, factors such as market competitiveness, job responsibilities, performance of the Company and the individuals will be taken into consideration.

### **RELATED PARTY TRANSACTIONS**

Details of related party transactions of the Group are set out in note 24 to the financial statements.

### **INFORMATION ON SHARE OPTION SCHEME**

At the AGM of the Company held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme (the "Share Option Scheme") which complied with Chapter 17 of the Listing Rules of the Stock Exchange. At the AGM of the Company held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme's mandate limit.

Summary of the terms and particulars of outstanding options of the Share Option Scheme is set below pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

#### (a) Purpose

To enable the Group to grant options to selected eligible participants as incentives or rewards for their contribution to the Group.

# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTION SCHEME (continued)

#### (b) Eligible Participants

(i) any Director, employee or any business associates including but not limited to the customer, distributor, supplier, agent, consultant, business partner or advisor of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee or any business associates including but not limited to the customer, distributor, supplier, agent, consultant, business partner, or advisor of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any Director, employee or any business associates including but not limited to the customer, distributor, supplier, agent, consultant, business partner or advisor of or contractor to the Group or an Affiliate.

#### (c) Total number of shares available for issuance

11,500,000 shares (approximately 2.36% of the issued share capital as at the date of this 2005 annual report).

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company and/or its subsidiary must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company or its subsidiary if this would result in the 30% limit being exceeded.

#### (d) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the options granted to each eligible participant (including exercised, cancelled and outstanding options) within any twelve-month period under the Share Option Scheme and any other share option scheme(s) of the Company and/or any subsidiary must not exceed 1% of the number of shares in issue.

# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTION SCHEME (continued)

(e) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each eligible participant at the time of offer of the grant of the option, which must not be more than 10 years from the date of offer of grant of the option.

(f) Payment on acceptance of option

HK\$1.00 in cash is payable by the eligible participant of the option to the Company on acceptance of the offer.

(g) The basis of determining the exercise price

The subscription price for the shares in relation to the options to be granted under the Share Option Scheme will be a price determined by the Board and notified to each eligible participant at the time of offer of grant of the option and will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the grant of the option; and (iii) the nominal value of the shares.

(h) Remaining life of scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date (i.e. 4 September 2003).

# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTIONS

Movement of share options during the year ended 31 March 2005:

Eligible Participant	Date of grant	Outstanding at 1 April 2004	Number of share options to subscribe for shares				Outstanding at 31 March 2005	Subscription price per share	Exercise period*
			Granted	Exercised	Cancelled	Lapsed			
Employees:									
Employees	9 February 2004	37,600,000	-	-	(28,200,000) (Note a)	(4,700,000) (Note b)	4,700,000	HK\$1.38	9 February 2004 – 3 September 2013
Employees	21 July 2004	-	9,400,000 (Note c)	(4,700,000) (Note d)	(4,700,000) (Note e)	-	-	HK\$0.97	21 July 2004 – 3 September 2013
Employees	17 February 2005	-	9,400,000 (Note f)	-	-	-	9,400,000 (Note g)	HK\$1.10	17 February 2005 – 3 September 2013
						Total: 14,100,000			
Others:									
Business Associates	9 February 2004	9,400,000	-	-	-	(9,400,000) (Note h)	-	HK\$1.38	9 February 2004 – 3 September 2013
Business Associate	21 July 2004	-	4,700,000 (Note c)	-	-	-	4,700,000	HK\$0.97	21 July 2004 – 3 September 2013
						Total: 4,700,000			

Notes:

- \* Share options are vested from date of issue.
- a. Options granted to six employees were cancelled on 28 September 2004.
- b. An option granted to an employee was lapsed on 21 July 2004.
- c. The closing price per share immediately before 21 July 2004 on which the options were granted was HK\$0.96.



# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTIONS (continued)

Notes: (continued)

- d. Weighted average closing price of shares immediately before the date of which the option was exercised was HK\$1.06.
- e. An option granted to an employee was cancelled on 28 September 2004.
- f. The closing price per share immediately before 17 February 2005 on which the options were granted was HK\$1.11.
- g. On 3 June 2005, an employee exercised option to subscribe for 4,700,000 shares and another employee exercised option to subscribe for 2,600,000 shares.
- h. Options granted to two business associates were lapsed on 21 July 2004.

Options were granted for a consideration of HK\$1.00 per grant during the year ended 31 March 2005.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year ended 31 March 2005 because the Directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the Year and up to the date of this 2005 annual report were:

Mr Yip Kim Po, Chairman  
Mr Hui Ho Ming, Herbert, JP, Deputy Chairman  
The Honourable Cheung Yu-yan, Tommy, JP\* (appointed w.e.f. 8 September 2004)  
Mr Kwan Yan (appointed w.e.f. 14 July 2005)  
Mr Lau Ping (resigned w.e.f. 12 May 2005)  
Mr Lin Jianping  
Dr Lo Wing Yan, William, JP\*  
Mr Wan Ngar Yin, David\* (appointed w.e.f. 8 September 2004)  
Mr Yeh V-nee#

\* Independent Non-Executive Director

# Formerly, an Independent Non-Executive Director. Re-designated as a Non-Executive Director w.e.f. 8 September 2004.

# Management Discussion and Analysis

## - Report of the Directors

### **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)**

In accordance with the bye-law nos. 86(2), 87(1) and 87(2) of the Company, The Honourable Cheung Yu-yan, Tommy, Mr Kwan Yan, Mr Lin Jianping, Mr Wan Ngar Yin, David and Mr Yeh V-nee will retire at the forthcoming AGM and, being eligible, offer themselves for re-election. Each of The Honourable Cheung Yu-yan, Tommy, Mr Kwan Yan, Mr Lin Jianping, Mr Wan Ngar Yin, David, and Mr Yeh V-nee, who is being proposed for re-election at the forthcoming AGM, does not has a service contract which is not terminable by the Company within one year without payment of compensation (other than statutory compensation) with the Company.

The Honourable Cheung Yu-yan, Tommy, Dr Lo Wing Yan, William, and Mr Wan Ngar Yin, David (all Independent Non-Executive Directors) and Mr Yeh V-nee (a Non-Executive Director), were appointed for a term of two years, subject to rotation as stipulated in the Company's bye-laws.

The Company has received from each Independent Non-Executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange, and the Company considers such Directors to be independent.

### **DETAILS OF DIRECTORS**

Brief details of Directors are set out on pages 24 to 26 to this 2005 annual report.

# Management Discussion and Analysis

## - Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2005, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept 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 were as follows:

#### Long positions

Name	Type of interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the Company's issued share capital
Mr Yip Kim Po	Others	Note	Note	-	Note	Note
Mr Hui Ho Ming, Herbert	Beneficial owner Others	100% Note	4,000,000 Note	- -	4,000,000 Note	0.83 Note
The Honourable Cheung Yu-yan, Tommy	-	-	-	-	-	-
Mr Lau Ping	-	-	-	-	-	-
Mr Lin Jianping	-	-	-	-	-	-
Dr Lo Wing Yan, William	-	-	-	-	-	-
Mr Wan Ngar Yin, David	-	-	-	-	-	-
Mr Yeh V-nee	-	-	-	-	-	-

# Management Discussion and Analysis

## - Report of the Directors

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**

#### Long positions (continued)

##### *Note:*

*Successful Gold Profits Limited is a holder of 355,196,000 shares in the Company. Successful Gold Profits Limited is a wholly-owned subsidiary of Ocean Grand Holdings Limited. Ocean Grand Holdings Limited, by virtue of the SFO, is deemed to be interested in all the shares in which Successful Gold Profits Limited is interested.*

*The securities of Ocean Grand Holdings Limited are listed on the Main Board of the Stock Exchange. As at 31 March 2005, Mr Yip Kim Po and Mr Hui Ho Ming, Herbert directly and indirectly held 130,000,000 shares and 8,316,000 shares respectively (approximately 30.67% and 1.96% respectively) of the issued share capital of Ocean Grand Holdings Limited.*

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as at 31 March 2005 were recorded in the register required to be kept under Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 31 March 2005.

On 6 June 2005, Mr Hui Ho Ming, Herbert acquired 5,500,000 shares at HK\$1.18 each in the Company. As at the date of this 2005 annual report, Mr Hui Ho Ming, Herbert has an interest for 9,500,000 shares in the Company.

On 14 July 2005, Mr Kwan Yan was appointed as a Director of the Company. As at 14 July 2005 and the date of this 2005 annual report, Mr Kwan Yan has an interest for 148,000 shares in the Company.

### **DIRECTORS' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES**

Save as disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, none of the Directors or chief executive or their spouses or children under 18 years of age were granted or exercised any right to subscribe for equity or debt securities of the Company.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in the preceding paragraphs and note 24 to the financial statements, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Management Discussion and Analysis

## - Report of the Directors

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 31 March 2005, the interests or short positions of the substantial shareholders and other person (other than those Directors or chief executives of the Company disclosed above) 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:

#### Long positions – Substantial Shareholders

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Ocean Grand Holdings Limited	Indirectly through Successful Gold Profits Limited	355,196,000	74.05%
Successful Gold Profits Limited	Directly	355,196,000	74.05%

#### Long position – Other Person

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Martin Currie Inc.	Directly	40,160,000	8.37%

Save as disclosed above, as at 31 March 2005, there was no person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Group has complied with the Code of Best Practice as set out in the old Appendix 14 of the Listing Rules of the Stock Exchange throughout the Year under review.

# Management Discussion and Analysis

## - Report of the Directors

### **MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS**

The Company has adopted "Securities Dealing Code" regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquiry of all the Directors of the Company, all the Directors have confirmed that they had complied with the required standard set out in the "Securities Dealing Code" during the Year.

### **AUDIT COMMITTEE**

The terms of reference based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants (former name "Hong Kong Society of Accountants") in February 2002 was adopted by the Board to deal clearly with the authority and duties of the Audit Committee. The Audit Committee's principal duty is to review and supervise the Group's financial reporting process and internal controls.

On 8 September 2004: (1) Mr Yeh V-nee was re-designated as a Non-Executive Director of the Company and he resigned as the chairman of the Audit Committee accordingly; (2) Mr Wan Ngar Yin, David was appointed as the chairman and a member of the Audit Committee; and (3) The Honourable Cheung Yu-yan, Tommy was appointed as a member of the Audit Committee.

Currently, the Audit Committee comprised Mr Wan Ngar Yin, David (the chairman), The Honourable Cheung Yu-yan, Tommy, Dr Lo Wing Yan, William and Mr Yeh V-nee.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2005.

### **REMUNERATION COMMITTEE**

The Board has established a Remuneration Committee, comprising the Independent Non-Executive Directors, The Honourable Cheung Yu-yan, Tommy (chairman), Dr Lo Wing Yan, William and Mr Wan Ngar Yin, David, and an Executive Director, namely Mr Yip Kim Po.

The principal responsibilities of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

# Management Discussion and Analysis

## - Report of the Directors

### ATTENDANCE AT FULL BOARD/COMMITTEE MEETINGS FROM APRIL 2004 TO MARCH 2005

	<b>Board</b>	<b>Audit Committee</b>
	(Attendance in person/number of meetings)	
<b>Number of meetings</b>	2	3
<b>Executive Directors:</b>		
Mr Yip Kim Po	2/2	–
Mr Hui Ho Ming, Herbert	2/2	–
Mr Lau Ping	1/2	–
Mr Lin Jianping	0/2	–
<b>Independent Non-Executive Directors:</b>		
The Honourable Cheung Yu-yan, Tommy	1/1	2/2
Dr Lo Wing Yan, William	1/2	3/3
Mr Wan Ngar Yin, David	1/1	2/2
<b>Non-Executive Director:</b>		
Mr Yeh V-nee	1/2	3/3

### AUDITORS

The financial statements were audited by Messrs Moores Rowland Mazars, *Chartered Accountants, Certified Public Accountants*. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

### **Yip Kim Po**

Chairman

Hong Kong, 14 July 2005