

# Report of the Directors

The directors submit their annual report together with the audited accounts for the year ended 31st March 2005.

## **CHANGE OF NAME**

Pursuant to a special resolution passed by the shareholders of the Company on 26th August 2004, the Company's name was changed from Wing Shing Chemical Holdings Limited to Wing Shing International Holdings Limited.

## **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 segments is set out in note 2 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 24.

No interim dividend was paid or declared in respect of the year ended 31st March 2005 (2004: HK\$0.005 per ordinary share).

The directors do not recommend the payment of a final dividend in respect of the year ended 31st March 2005 (2004: HK\$0.005 per ordinary share).

## **RESERVES**

Movements in the reserves of the Group and of the Company during the year are set out in note 25 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 24 to the accounts.

## Report of the Directors

### **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company at 31st March 2005 amounted to HK\$81,860,000, 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, 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.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's by-laws 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 66.

### **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.

## Report of the Directors

### 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 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.

Share options are granted to directors, executives and employees under a share option scheme (the "Share Option Scheme") approved by shareholders at an Extraordinary General Meeting on 21st October 2002.

The Share Option Scheme is a share incentive scheme and is established to acknowledge the contributions made or to be made by participants to the Group. The Board of Directors may, at its discretion, offer employees, executive and non-executive directors, officers, advisers and consultants of the Company and its subsidiaries, the grant of options to subscribe for shares of the Company. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. 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 must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Share Option Scheme.

As at the date of the annual report, the total number of shares available for issue pursuant to the Share Option Scheme was 32,800,000, representing about 7.8% of the issued share capital of the Company. Unless approved by shareholders of the Company, 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) 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, and the performance targets that must be achieved before the options can be exercised upon the grant of an option 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 Board 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 daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 (which must be a trading day).

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of such period to be determined by the Board in its absolute discretion and notified to the grantee. No option may be granted more than 10 years after the date of adoption of the Share Option Scheme.

### SHARE OPTIONS AND WARRANTS *(continued)*

Details of the share option outstanding at 31st March 2005 which have been granted under the scheme are as follows:

Participants	Number of options				Outstanding at 31st March 2005	Exercise price per share HK\$	Grant date	Exercise period
	Outstanding at 1st April 2004	Granted during the year	Exercised during the year	Lapsed during the year				
Directors								
Mr. Mok Yu Kong	—	2,000,000 <i>(Note 2)</i>	—	—	2,000,000	0.29	13/8/2004	From 13/8/2004 to 12/8/2014
Mr. Wong Kwok Leung	—	2,000,000 <i>(Note 2)</i>	—	—	2,000,000	0.29	13/8/2004	From 13/8/2004 to 12/8/2014
Mr. Kwok Kwai Sum	—	4,000,000 <i>(Note 1)</i>	—	—	4,000,000	0.27	9/8/2004	From 9/8/2004 to 8/8/2014
Employees in aggregate	9,500,000	—	—	—	9,500,000	0.301	24/11/2003	From 24/11/2003 to 23/11/2008
	—	6,000,000 <i>(Note 1)</i>	—	6,000,000	—	0.27	9/8/2004	From 9/8/2004 to 8/8/2014
	—	9,000,000 <i>(Note 2)</i>	—	—	9,000,000	0.29	13/8/2004	From 13/8/2004 to 12/8/2014
	<u>9,500,000</u>	<u>15,000,000</u>	<u>—</u>	<u>6,000,000</u>	<u>18,500,000</u>			
	<u>9,500,000</u>	<u>23,000,000</u>	<u>—</u>	<u>6,000,000</u>	<u>26,500,000</u>			

*Notes:*

1. The closing price of the shares immediately before the date of grant was HK\$0.26.
2. The closing price of the shares immediately before the date of grant was HK\$0.26.
3. The Directors consider it is inappropriate to disclose the value of the share options granted during the year as the market price of the shares as at 31st March 2005 was below the exercise price of the options granted during the year and any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain.

## 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 (appointed on 1st November 2004 and resigned on 1st April 2005)

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

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

Mr. Cheung Kwan Hung <sup>(1)</sup> (appointed on 30th September 2004)

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

Mr. Chan Shu Kin and Mr. Chan Kam Ching, Paul were appointed for a three-year term expiring on 20th October 2005. Mr. Cheung Kwan Hung was not appointed on fixed term.

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

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Cheung Kwan Hung shall hold office until the forthcoming annual general meeting and, being eligible, offers himself for re-election.

### 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\$3,592,000.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory 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 Directors' service contracts as described above, no contracts 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 41, 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 17 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 39, 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 47, 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.

*Mr. Kwok Kwai Sum*, aged 56, graduated from the University of Hong Kong with a bachelor's degree in Arts and obtained qualification of P.C.L.L. — Postgraduate Certificate in Laws. He has over 29 years of experience in the areas of finance and accounting. He joined the group in November 2001 as a consultant. He was subsequently appointed as an executive Director on 21st October 2002 until he tendered his resignation on 1st December 2003 due to health reason. However, he remained in the Company in the capacity of consultant from 1st December 2003 to 31st October 2004. He was appointed as executive Director and vice chairman on 1st November 2004 and resigned on 1st April 2005 due to health reason. He remains in the Company in the capacity of consultant.

Except for Mr. Kwok Kwai Sum, 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" on page 12.

## Report of the Directors

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

#### Independent non-executive Directors

*Mr. Chan Shu Kin*, aged 50, 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 Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has over 28 years of experience in field of auditing, accounting as well as financial management. He is the immediate past president of the Society of Chinese Accountants and Auditors (the “Society”) and currently a committee member of the Society. He is also an independent non-executive director of Paul Y. - ITC Construction Holdings Limited which is a listed company on the main board of the Stock Exchange.

*Mr. Chan Kam Ching*, Paul, aged 50, 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 21 years. He obtained a Juris Doctorate degree from 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.

*Mr. Cheung Kwan Hung*, aged 53, is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in accounting, finance and investment banking profession specialising in equity/debt fund raising, mergers and acquisitions and corporate restructuring before working with publicly listed companies undertaking corporate management, planning and strategies development functions. He is a director of New Ocean Green Energy Holdings Limited, Golden Dragon Group (Holdings) Limited and VS International Group Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited.

The Company has received confirmation from each of the independent non-executive Directors as regards their independence from the Company and considers that each of the independent non-executive Directors is independent of the Company.

#### Senior management

*Mr. Chan Chung Yuk*, aged 53, 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 Polytechnic 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.

## Report of the Directors

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

#### Senior management (continued)

Mr. Yiu Po Wah, aged 50, 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 32 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 45, 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. 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.

Mr. Leung Tak Fu, aged 44, is the Accounting Manager of the Group. He is a member of the Association of Chartered Certified Accountants. He joined the Group in January 2005 and has 16 years experience in accounting. He is the qualified accountant of the Group.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2005, the interests of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company, and any of its associated corporations (as defined in 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 notified to the Company and the Stock Exchange pursuant to the Model code for Securities Transactions by Directors 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	282,375,341	67.15%
	Founder of a Discretionary Trust	Other Interest (Notes 1 & 2)	220,898,799	30,964,240		
Mr. Mok Yu Kong	Beneficial Owner	Personal Interest (Note 3)	10,404,000	3,486,285	13,890,285	3.30%
Mr. Wong Kwok Leung	Beneficial Owner	Personal Interest (Note 4)	6,936,000	2,990,857	9,926,857	2.36%
Mr. Kwok Kwai Sum	Beneficial Owner	Personal Interest (Note 5)	—	4,000,000	4,000,000	0.95%

## Report of the Directors

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

*Notes:*

1. 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.
2. 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 220,898,799 shares, representing approximately 52.53% of the Company's shares in issue as at 31st March 2005 through his shareholding in Ever Source.
3. 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 which conferred rights to subscribe for 1,486,285 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 and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 13th August 2004 to 12th August 2014 to subscribe for 2,000,000 shares at an exercise price of HK\$0.29 per share.
4. 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 which conferred rights to subscribe for 990,857 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 and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 13th August 2004 to 12th August 2014 to subscribe for 2,000,000 shares at an exercise price of HK\$0.29 per share.
5. All interests in 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 share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 9th August 2004 to 8th August 2014 to subscribe for 4,000,000 shares at an exercise price of HK\$0.27 per share.

Save as disclosed above, none of the directors of the Company held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (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 2005, 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)	220,898,799	30,964,240	251,863,039	59.90%
Ground Point Limited ("Ground Point")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	220,898,799	30,964,240	251,863,039	59.90%
Red Tiles Limited ("Red Tiles")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	220,898,799	30,964,240	251,863,039	59.90%
Guidance	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	59.90%
Time Concord	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	59.90%
Ever Source	Beneficial Owner	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	59.90%
Mr. Poon Sau Tin	Beneficial Owner	Personal Interest (Note 1)	27,002,265	3,814,037	282,679,341	67.23%
	Founder of a Discretionary Trust	Other Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240		

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes:

- 1 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.
- 2 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.
- 3 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

- 4 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 220,898,799 shares, representing approximately 52.53% of the Company's shares in issue as at 31st March 2005, through his shareholding in Ever Source.

Save as disclosed above, there was no person known to the directors of the Company, other than a director of the Company, who as at 31st March 2005 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, 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 transaction 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 30 to the accounts. The rental expenses of approximately HK\$864,000 payable to Luen Yat Enterprises Company Limited, and approximately HK\$384,000 payable to Mr. Poon Sum, Mr. Poon Sau Tin, also constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange (the "Main Board Listing Rules"). Mr. Poon Sum and Mr. Poon San Tin have beneficial interests in Luen Yat Enterprises Company Limited.

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

## Report of the Directors

### CODE OF BEST PRACTICE

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the then Appendix 14 of the Main Board Listing Rules except that one of the independent non-executive directors of the Company is not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Main Board Listing Rules as the code of conduct regarding securities transactions by the Directors (the "Code"). Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Code.

### 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 the Hong Kong Institute of Certified Public Accountants. On 26th July 2004, the Company had adopted revised terms of reference of the audit committee based on "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. On 21st March 2005, the Company had adopted further revised terms of reference for its audit committee to comply with the requirements of the Code on Corporate Governance Practices set out in Appendix 14 of the Main Board Listing Rules which became effective on 1st January 2005.

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 three independent non-executive Directors, namely Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul and Mr. Cheung Kwan Hung.

During the year, 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 during the year.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

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

## Report of the Directors

### PENSION SCHEME

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 the employees’ 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.

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.

No forfeited contribution is available to reduce the contribution payable under the above schemes.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company’s issued shares as required under the Main Board Listing Rules.

## Report of the Directors

### DISCLOSURE UNDER RULES 13.11 TO 13.22 OF THE MAIN BOARD LISTING RULES

As at 31st March 2005, there were approximately HK\$13,119,000, HK\$17,725,000 and HK\$12,073,000 in amounts due from Dongguan City Gaobu Yongcheng Paint Factory (“Gaobu”), Dongguan City Changan Xinyimei Paint Company Limited (“Xinyimei”), and Guangzhou City Liwan District Jinbao Chemical Products Trading Department (“Jinbao Chemical”) respectively, which exceeded 8% of the market capitalization of the Company.

Receivable from Gaobu, an independent third party, primarily arose from the Group’s provision of raw materials to it for productions of the goods supplied to the Group’s customers. The balance is interest free, secured by the raw materials and packaging materials, fixed assets of Gaobu amounted to RMB2.5 million as well as the accounts receivable in the amount of approximately RMB9.6 million of Gaobu. The balance is fully repayable within the year ending 31st March 2006.

Receivable from Xinyimei, an entity to be acquired by the Group as wholly owned subsidiary, represented advances to Xinyimei for its working capital purposes. Pursuant to the equity transfer agreement dated 1st November 2004, the Group acquired 100% equity interest in Xinyimei. Application has been made to the relevant authorities in the PRC to transfer the title of Xinyimei to the Group, but the application is still in process and not yet approved by the relevant authorities in the PRC. The balance due is interest free, unsecured and repayable on demand.

Receivable from Jinbao Chemical represent trade receivables arising from sales of goods in the ordinary course of business. The balance is interest free, unsecured and repayable after credit period granted.

Save as disclosed above, the directors have confirmed that as at 31st March 2005, they were not aware of any circumstances which would give rise to the disclosure requirements under Rule 13.11 to 13.22 of the Main Board Listing Rules.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers and Lau & Au Yeung C.P.A. Limited.

On behalf of the Board

**Poon Sum**

*Chairman*

Hong Kong, 27th July 2005