

# Directors' Report

The Directors present their first annual report and the audited financial statements of the Company from 15th January, 2001 (date of incorporation) to 31st December, 2002 and of the Group for the year ended 31st December, 2002.

## **REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 15th January, 2001 under the Companies Law of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 9th April, 2002. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 18th April, 2002.

The shares of the Company were listed on the Stock Exchange with effect from 30th April, 2002.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries and associates are set out in notes 28 and 29, respectively, to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 17.

During the year, a subsidiary of the Company paid a dividend with an aggregate amount of HK\$40,000,000 to its then shareholders prior to the Group Reorganisation.

In addition, an interim dividend of HK2 cents per share, amounting to HK\$5,000,000, was paid to the shareholders of the Company during the year.

The Directors recommend the payment of a final dividend of HK2 cents per share and a special dividend of HK3 cents per share, amounting to a total of HK\$12,500,000.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 19 to the financial statements.

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## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 20.

Details of movements in the reserves of the Company during the year are set out in note 20 to the financial statements.

The Company's reserves available for distributions as at 31st December, 2002 represent the share premium, contributed surplus and accumulated profits with an aggregate amount of approximately HK\$123,525,000.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive Directors:

Mr. Yuen Shu Wah	(appointed on 22nd October, 2001)
Mr. Ko Jack Lum	(appointed on 22nd October, 2001)
Mr. Ng Kai On	(appointed on 22nd October, 2001)

### Non-executive Directors:

YBhg. Dato' Wong Peng Chong	(appointed on 22nd October, 2001)
Mr. Low Jau Foo	(appointed on 22nd October, 2001)
Mr. Ng Seng Nam	(appointed on 22nd October, 2001)

### Independent Non-executive Directors:

Mr. Lau Siu Ki, Kevin	(appointed on 9th April, 2002)
Mr. Wu Wing Kit	(appointed on 9th April, 2002)

In accordance with Article 99 of the Company's Articles of Association, Messrs. Lau Siu Ki, Kevin and Wu Wing Kit retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Yuen Shu Wah, being the Managing Director of the Company, is not required to retire by rotation and Mr. Ng Kai On, retires by rotation and, being eligible, offers himself for re-election.

The Non-executive Directors have no set term of office but are subject to retirement by rotation and, being eligible, offer themselves for re-election, in accordance with the Company's Articles of Association.

# Directors' Report

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

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of two years, commencing from 30th April, 2002 and either party thereto may terminate the agreement by giving to the other six months' prior notice in writing upon the terms and conditions as stipulated in the said service agreement.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES

At 31st December, 2002, the interests of the Directors and their associates as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or otherwise were as follows:

		<b>Name of Director</b>	<b>Personal interests</b>	<b>Corporate interests</b>	<b>Total</b>
<b>(1) The Company</b>		Yuen Shu Wah	–	187,500,000 <i>(Note)</i>	187,500,000
		Ko Jack Lum	–	187,500,000 <i>(Note)</i>	187,500,000
<b>(2) Associated corporation</b>					
(a)	Chemfield Trading Company Limited	Yuen Shu Wah	280,000	–	280,000
(b)	Pacific Orchid Investments Limited ("Pacific Orchid")	Yuen Shu Wah Ko Jack Lum	2,865 1,550	– –	2,865 1,550

*Note:* Messrs. Yuen Shu Wah and Ko Jack Lum are beneficially interested in 28.65% and 15.50% respectively, of the equity interest of the Company's immediate holding company, Pacific Orchid, which holds 187,500,000 shares in the Company, representing 75% of the entire issued shares in the Company.

Save as disclosed above, none of the Directors or chief executives, nor their associates, had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

# Directors' Report

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company, fellow subsidiaries, or its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions during the year are set out in note 27 (I) to the financial statements. In the opinion of the Independent Non-executive Directors, such transactions were entered into by the Group:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties.

Save as disclosed above:

- (i) no contracts of significance subsisted at any time during the year to which the Company, its holding companies, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, showed that the following persons, in addition to the Directors as stated under "Directors' Interests in Shares", had an interest of 10% or more of the issued share capital of the Company.

Name	Number of ordinary shares
Mulpha International Bhd. ("Mulpha International") (Note 1)	187,500,000
Mulpha Trading Sdn. Bhd. ("Mulpha Trading") (Note 1)	187,500,000
King's Chemical Products Inc. ("King's Chemical") (Note 1)	187,500,000
Pacific Orchid (Note 2)	187,500,000

### Notes:

1. The 187,500,000 shares were held by Pacific Orchid. King's Chemical, a wholly-owned subsidiary of Mulpha Trading, which in turn is a wholly-owned subsidiary of Mulpha International, holds 51% equity interests in Pacific Orchid. Therefore, each of Mulpha International, Mulpha Trading and King's Chemical is deemed to be interested in the shares held by Pacific Orchid.
2. These shares were shown as the corporate interests of Messrs. Yuen Shu Wah and Ko Jack Lum in the Company as disclosed under the section "Directors' Interests in Shares".

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 39% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 13% of the Group's total purchases.

None of the Directors, their associates or any shareholder of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest suppliers of the Group.

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## RETIREMENT BENEFITS SCHEME

Information on the retirement benefits scheme of the Group is set out in note 26 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## CORPORATE GOVERNANCE

The Company has complied, since the listing of its shares on the Stock Exchange on 30th April, 2002, with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, except that the Independent Non-executive Directors of the Company are not appointed for specific terms but subject to retirement by rotation in accordance with the provisions of the Articles of Association of the Company.

## AUDIT COMMITTEE

In compliance with the Code, the Company established an Audit Committee on 9th April, 2002 comprising Messrs. Lau Siu Ki, Kevin and Wu Wing Kit, the Independent Non-executive Directors of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

## AUDITORS

During the period, Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

**YUEN SHU WAH**

*Managing Director*

Hong Kong, 8th April, 2003