



# r e p o r t o f t h e d i r e c t o r s

11

The directors submit their report together with the audited accounts for the year ended 31 March 2004.

## *Principal activities and geographical analysis of operations*

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the importing and sale of architectural builders hardware and bathroom collections in Hong Kong.

Details of the analysis of the Group's turnover and contribution to operating loss for the year by principal activity and market is set out in note 3 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 21.

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2004.

## *Reserves*

Details of the movements in the reserves of the Group and of the Company during the year are set out in note 19 to the accounts.

## *Fixed assets*

Details of the movements in fixed assets of the Group during the year are set out in note 11 to the accounts.

## *Share capital*

Details of the share capital of the Company are set out in note 17 to the accounts.

## *Distributable reserves*

Distributable reserves of the Company as at 31 March 2004 amounted to HK\$132,478,000. Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders, provided that no distribution shall be paid to shareholders out of the Company's share premium unless the Company shall be able to pay its debts 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 Articles of Association and there is 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 19.

## *Purchase, sale or redemption of shares*

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.



# report of the directors (cont'd)

12

## *Directors*

The directors during the year were:

Mr. TSE Sun Fat, Henry

Mr. TSE Sun Po, Tony

Mr. TSE Sun Lung, Alan

Mr. MAK So (Redesignated as non-executive director on 13 July 2004)

Mr. WONG Tin Cheung, Ricky

Mr. LAU Shiu Sun

Mr. YICK Kai Chung (Appointed on 13 July 2004)

Mr. LEUNG Kwong Kin<sup>1</sup>

Mr. WONG Wah, Dominic<sup>1</sup>

Mr. LEE Chi Wah, Rhodes (Resigned on 17 July 2003)

<sup>1</sup> Independent non-executive directors who entered into contracts with the Company for an initial fixed term of one year and thereafter shall continue for further successive periods of one year, provided that the Company may terminate the contracts at the end of each one year period by giving the other party at least one month's notice in writing thereof.

Mr. WONG Tin Cheung, Ricky, Mr. WONG Wah, Dominic and Mr. YICK Kai Chung shall retire at the forthcoming annual general meeting in accordance with Articles 86(3) and 87 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

## *Directors' service contracts*

Each of Mr. TSE Sun Fat, Henry, Mr. TSE Sun Po, Tony and Mr. TSE Sun Lung, Alan has entered into a service contract with the Company for a term of three years commencing on 1 March 2000 and continuing thereafter unless terminated by either party with at least three months advance notice in writing.

Each of Mr. MAK So, Mr. WONG Tin Cheung, Ricky and Mr. LAU Shiu Sun has entered into a service contract with the Company for a term of three years commencing on 24 April 2001 and 10 December 2001 and will continue thereafter unless terminated by either party by three months prior written notice to other party expiring not earlier than 23 April 2004 and 9 December 2004, respectively.

In addition, Mr. LEE Chi Wah, Rhodes, who had a service contract with the Company for a term of three years commencing on 1 March 2000, resigned on 17 July 2003.

Save as disclosed herein, none of the directors of the Company has entered into any service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### *Directors' interests in contracts*

Save as disclosed under the section "Connected transactions" below, no other contracts of significance in relation to the Group's business to which the Company, its subsidiaries or holding companies 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.

#### *Directors' benefits from rights to acquire shares or debentures*

Under the terms of the Company's share option scheme adopted on 22 March 2000, the board of directors of the Company may, at their discretion, invite any full-time employees or executive directors of the Company or any of its subsidiaries to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company. No options have been granted to the directors since its adoption. The Stock Exchange of Hong Kong Limited (the "Stock Exchange") amended the Listing Rules governing share option schemes. The new requirements have come into effect from 1 September 2001 and render some of the provisions of the existing Share Option Scheme no longer applicable.

Apart from the above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

#### *Directors' interests in shares and underlying shares*

As at 31 March 2004, the interests of the directors and executive in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, to be notified to the Company and the Stock Exchange were as follows:

#### *Long position in shares and underlying shares of the Company*

Director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. TSE Sun Fat, Henry ( <i>Note 1</i> )	—	—	—	140,000,000
Mr. TSE Sun Po, Tony ( <i>Note 1</i> )	—	140,000,000	—	140,000,000

*Note 1:* Bache Hill Group Limited ("BHGL") is holding these shares. BHGL is held as to approximately 60.98 per cent. by Tse Brothers Assets Management Limited which is the trustee of The Tse Brothers Unit Trust (which is in turn held by a discretionary trust, The Tse's Family Trust). Mr. TSE Sun Fat, Henry is one of the objects of The Tse's Family Trust. The interest of Mr. TSE Sun Fat, Henry is accordingly regarded as "other interest" as described in Practice Note 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, as the spouse and other family members of Mr. TSE Sun Po, Tony are objects of The Tse's Family Trust. The interests of Mr. TSE Sun Po, Tony are accordingly regarded as "family interest" and "other interest" as described in Practice Note 5 of the Listing Rules.

# REPORT OF THE DIRECTORS (CONT'D)

14

## Directors' interests in shares and underlying shares (cont'd)

### Long position in shares of associated corporations

#### (i) BHGL

Director	Number of ordinary shares held				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Mr. TSE Sun Fat, Henry ( <i>Note 2</i> )	–	–	–	30,491	30,491
Mr. TSE Sun Po, Tony ( <i>Note 2</i> )	–	30,491	–	30,491	30,491
Mr. TSE Sun Lung, Alan	3,025	–	–	–	3,025
Mr. LEE Chi Wah, Rhodes	965	–	–	–	965
Mr. WONG Tin Cheung, Ricky	1,265	–	–	–	1,265

*Note 2:* These shares are held by Tse Brother Assets Management Limited which is the trustee of The Tse Brothers Unit Trust (which is in turn held by a discretionary trust, The Tse's Family Trust). Mr. TSE Sun Fat, Henry is one of the objects of The Tse's Family Trust. The interest of Mr. TSE Sun Fat, Henry is accordingly regarded as "other interest" as described in Practice Note 5 of the Listing Rules. In addition, as the spouse and other family members of Mr. TSE Sun Po, Tony are objects of The Tse's Family Trust. The interests of Mr. TSE Sun Po, Tony are accordingly regarded as "family interest" and "other interest" as described in Practice Note 5 of the Listing Rules.

#### (ii) Negotiator Consultants Limited ("NCL")

Director	Number of ordinary shares held				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Mr. TSE Sun Fat, Henry ( <i>Note 3</i> )	–	–	–	1	1
Mr. TSE Sun Po, Tony ( <i>Note 3</i> )	–	1	–	1	1

*Note 3:* Such share is held by BHGL. Accordingly, the interest of Mr. TSE Sun Fat, Henry is regarded as "other interest" and the interests of Mr. TSE Sun Po, Tony are regarded as "family interest" and "other interest", respectively as described in Practice Note 5 of the Listing Rules.

Save as disclosed above, none of the directors or their associates had, as at 31 March 2004, any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangement to enable the directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## *Biographical details of directors and senior management*

### *Executive directors*

Mr. TSE Sun Fat, Henry, aged 47, is a founding member of the Group and the Chairman of the Company. Mr. TSE has over 26 years of experience in the trading of building materials. He is responsible for the planning of the Group's overall strategies and the overall management of the Group.

Mr. TSE Sun Po, Tony, aged 45, is the managing director of the Company and joined the Group in 1979. Mr. TSE has over 26 years of experience in the trading of building materials and is responsible for the retail business of the Group. Mr. TSE also assists in the strategic planning and management of the Group. He is a brother of Mr. TSE Sun Fat, Henry, the Chairman of the Group.

Mr. TSE Sun Lung, Alan, aged 37, is an executive director of the Company. He joined the Group in 1990 and is now responsible for project sales and the marketing of products distributed by the Group. Mr. TSE Sun Lung, Alan is a cousin of Mr. TSE Sun Fat, Henry and Mr. TSE Sun Po, Tony.

Mr. WONG Tin Cheung, Ricky, aged 61, joined the Group in 1979. Mr. WONG was appointed as an executive director of the Company on 24 April 2001, and is also a director of two subsidiaries of the Company and is responsible for the operation of the Group in project management. He has over 24 years of experience in selling building materials and was a civil servant before joining the Group.

Mr. LAU Shiu Sun, aged 37, joined the Group in 1994. Mr. LAU was appointed as an executive director of the Company on 10 December 2001, before his appointment, Mr. Lau was a sales manager of the Group and is responsible for project sales. He graduated from Hong Kong Baptist University (formerly Baptist College) in 1992 with a bachelor of science degree.

Mr. YICK Kai Chung, aged 45, joined the Group in 1979. Mr. YICK was appointed as an executive director of the Company on 13 July 2004, and is a director of four subsidiaries of the Company. Mr. YICK has over 26 years of experience in building materials industry and is responsible for overseeing major accounts and wholesale business of the Group and products sourcing and technical support.

Mr. LEE Chi Wah, Rhodes, aged 41, resigned on 17 July 2003, was the deputy managing director of the Company.

### *Non-executive directors*

Mr. LEUNG Kwong Kin, JP., aged 57, was appointed as an independent non-executive director in January 2000. Mr. LEUNG is a senior practising director of Wong Lam Leung & Kwok C.P.A. Ltd.. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Association of International Accountants. Mr. LEUNG is also a member of the Macau Society of Certified Practising Accountants, the Society of Chinese Accountants & Auditors, the Taxation Institute of Hong Kong, the Institute of Management and the International Institute of Management.

Mr. WONG Wah, Dominic, aged 55, was appointed as an independent non-executive director on 19 June 2001. He graduated from the Chinese University of Hong Kong in 1972 with honours bachelor's degree of Social Science in Economics. He was appointed director and general manager of Hongkong Ferry (Holdings) Ltd., formerly The Hongkong & Yau-matei Ferry Co., Ltd. until late 1989. He has been actively involved in China trade and garment industry over the last few years.

# report of the directors (cont'd)

16

## *Biographical details of directors and senior management (cont'd)*

### *Non-executive directors*

Mr. MAK So, aged 64, joined the Group in 1993. Mr. MAK was redesignated as a non-executive director with effect from 13 July 2004. He was an executive director of the Company from 24 April 2001 to 12 July 2004 and was responsible for co-ordinating the sales and marketing activities of the Group. He has over 35 years of experience in the building materials industry. Prior to joining the Group, Mr. MAK worked for Chau, Lee & She, Architects & Engineers, Town Planning Consultants as an office manager for 27 years.

### *Senior management*

Mr. TSE Sun Ming, Almond, aged 44, is a director of three subsidiaries of the Company and a founding member of the Group. Mr. TSE has over 26 years of experience in the building materials industry and is responsible for product sourcing and development. He is a cousin of Mr. TSE Sun Fat, Henry and Mr. TSE Sun Po, Tony and a brother of Mr. TSE Sun Lung, Alan.

Mr. AU Lai Chuen, Hercules, aged 47, joined the Group in 1982 and is a director of one subsidiary of the Company. Mr. AU has over 26 years of experience in the building materials industry and is responsible for project related sales and marketing activities.

Mr. LO Wai Man, aged 50, joined the Group in 1979 and is a director of six subsidiaries of the Company. Mr. LO is a technical director and is responsible for overseeing provision of technical support for bathroom collections. He has over 24 years of experience in selling building materials and is a licensed plumber.

Mr. SHUM Lup Chi, aged 48, joined the Group in 1982. Mr. SHUM is the office manager and is responsible for office internal control and cost analysis. He had worked for various solicitor firms for 7 years before joining the Group.

Mr. CHAN Chiu Keung, aged 56, joined the Group since 1976. Mr. CHAN is the manager of the Mongkok retail shop of the Group and is in charge of overall shop management of that shop. He has over 28 years of experience in retail business.

Mr. CHANG Kai Chuen, aged 30, joined the Group in 1991. Mr. CHANG is a marketing manager of the Group and is responsible for project sales.

### *Substantial shareholders*

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 March 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

### *Long position of substantial shareholders in shares of the Company*

Name of Shareholder	Number of Shares
BHGL	140,000,000
Tse Brothers Assets Management Limited ( <i>Note 4</i> )	140,000,000
Messrs. Kelvin K W Cheung & Chu Hei Chun ( <i>Note 4</i> )	140,000,000

*Note 4:* BHGL is held as to approximately 60.98 per cent. by Tse Brothers Assets Management Limited, the entire issued share capital of which is in turn held by Messrs. Kelvin K W Cheung & Chu Hei Chun (who are the trustee of the Tse's Family Trust). Tse Brothers Assets Management Limited and Messrs. Kelvin K W Cheung & Chu Hei Chun are respectively taken to be interested in these shares 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*

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### *Purchases*

The largest supplier	14%
Five largest suppliers combined	45%

#### *Sales*

The largest customer	9%
Five largest customers combined	22%

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### *Audit committee*

The audit committee comprises two independent non-executive directors, namely Mr. LEUNG Kwong Kin JP., and Mr. WONG Wah, Dominic.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee have been prepared and adopted by the Board of the Company. The principal activities of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

During the year, the audit committee met a few times with management to review the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters (including the interim and annual accounts prior to recommending them to the Board for approval).

### *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 the Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### *Pension scheme arrangements*

With effect from 1 December 2000, the mandatory provident fund scheme (the "MPF Scheme") was made compulsory as enforced by the Mandatory Provident Fund Schemes Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme administered by the independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income of the employee to the MPF Scheme. Contributions from the employer are 100% vested in the employees as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

The aggregate employer's contributions under the above schemes which amounted to approximately HK\$1,161,000 have been dealt with in the profit and loss account of the Group for the year ended 31 March 2004.

## REPORT OF THE DIRECTORS (CONT'D)

18


### *Connected transactions*

The related party transaction as disclosed in note 23 to the accounts for the year ended 31 March 2004 in respect of rental expenses of approximately HK\$2,500,000 paid to Negotiator Consultants Limited ("NCL") also constitutes a connected party transaction. NCL is a fellow subsidiary of the Company in which Mr. TSE Sun Fat, Henry, Mr. TSE Sun Po, Tony, Mr. TSE Sun Lung, Alan, Mr. WONG Tin Cheung, Ricky and a former director namely, Mr. LEE Chi Wah, Rhodes, has beneficial interests. The Stock Exchange has granted conditional waivers to the Company from strict compliance with the requirements of Chapter 14 of the Listing Rules. In the opinion of the directors including the independent non-executive directors of the Company, the transactions were conducted in the ordinary course of the business of the Group and in accordance with the terms of the agreements.

### *Auditors*

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



**TSE Sun Fat, Henry**

*Chairman*

Hong Kong, 13 July 2004