Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31st December, 2004, the Group had a consolidated turnover of HK$369,789,000. This represented a considerable increase of 30.3%, compared to the figure of HK$283,800,000 for the previous year.

The net profit attributable to shareholders during the year amounted to HK$50,821,000, compared to HK$50,580,000 in 2003. This represents a net profit per share of HK 20.3 cents (2003: HK 20.2 cents).

REVIEW OF OPERATIONS

The Hong Kong economy saw a robust recovery during 2004, while Mainland China's economic growth remained strong. The more-positive operating environment that prevailed in all industries on the Mainland increased demand for the Group's products, accounting for the remarkable increase in the total turnover.

However, the net profit of HK$50,821,000 was only comparable to the previous year. This was mainly due to the escalating cost of raw materials, especially the continuous rise in crude oil prices, which pushed up the costs of petroleum-based raw materials, such as solvents and resins. Labour costs on the Mainland also surged, due to an inadequate supply of labour. These factors drastically affected the Group's profit margin.

The Group responded energetically to meet all these challenges and safeguard its profit. It carried out substantial cost-control measures and effective price-management. It also responded flexibly to market conditions. Where possible, the Group passed on part of the increased costs to customers; but it had to absorb the balance itself. Most importantly, the Group strengthened its competitive advantages by upholding its commitment to "quality products and services". By enhancing its management capabilities and adopting flexible logistics methods, it was able to supply products to meet its customers' highest standards, and ensure efficient and effective deliveries.

Increased demand for the paints and coatings used in electronic product casings and toys meant that the Group's core paints and solvents businesses performed especially well in 2004. Even so, market competition remained intense, with many competitive suppliers adopting low-selling-price strategies. This maintained downward pressure on prices and profit margins, particularly in the powder coatings segment. As a result, the profit margin on the Group's products declined from 29.3% to 22.1%.

The Group's associate company, Weilburger Manfield Limited ("Weilburger"), recorded a substantial growth in its sales of mobile phone paints, due to its success in capturing an increased market share.

The Group's new factory in Guangzhou came into full operation during 2004, which increased its overall production capacity, enabling it to satisfy the growing needs of customers, especially those in Southern China. At the same time, the Group purchased additional machinery for its other operations, in order to boost their capacity and enhance their quality standards.

REVIEW OF OPERATIONS *(continued)*

The excellence of the Group's products and services continued to receive recognition in the forms of various accolades during the course of last year. These included the "Award of Guangdong Province Quality Management" presented by Guangdong Province Quality Association, and the "Guangdong Province Customer Satisfaction Service" award presented by Guangdong Province Customers Committee.

OUTLOOK

The continued improvement in the Hong Kong economy and the sustained economic growth of Mainland China are expected to further improve the Group's prospects in the coming year.

Rising consumer spending in Mainland China is set to boost the sales of electronic appliances, and consequently demand for the Group's electronic product casing paints. The market for mobile phone coatings in China is also expected to grow strongly. Meanwhile, demand for the paints used in toy manufacturing is forecast to remain steady, and the Group expects to maintain its profit from this sector.

The upward trend in crude oil prices seems to have levelled off for the moment; but they are likely to remain comparatively high. This will exert pressure on the Group's profit margin during the coming months. Competition in the market place is also likely to be extremely fierce.

The Group will respond to the high cost of raw materials by continuously reviewing its pricing policies. Where market conditions permit, some of the extra costs will be recouped from customers. Due to keen competition, the Group also expects to absorb some of them. On the other hand, the Group will implement effective and responsive cost control policies. It will also source more of its raw materials from suppliers in Mainland China instead of overseas, thus avoiding the need to pay import duties and creating cost-savings that can be passed on in the form of lower prices.

At the same time, the Group will strive to sharpen its competitive edge by strengthening its existing customer relationships. It will continue to work closely with customers to ensure that products meet their highest expectations. It will also adopt unique and flexible logistics methods to guarantee prompt deliveries. This will also enable it to win new business by enhancing its reputation as a reliable supplier.

Further development in the area of human resources will remain another important objective during 2005. In 2004, the Group continued to train employees, both internally and externally, to enable them to enhance their job and management skills thus strengthening the management team.

The Group intends to expand its production capacity further. The new buildings adjacent to the existing Shenzhen factory are scheduled to begin production during the third quarter of 2005.

OUTLOOK *(continued)*

Weilburger will also build two additional new factories: one in Wuxi to expand its market share in Eastern and Northern China; and another in Guangzhou. Between them, the two new factories will boost its total capacity and serve the needs of customers in their respective regions. They will also add to the Group's future profit.

LIQUIDITY AND FINANCIAL RESOURCES

The Group remained in a healthy financial situation during 2004, and it had no outstanding borrowings. The steady growth of its business during the year enabled it to maintain a sufficient cash surplus to finance its operations from internally generated cashflow. As at 31st December, 2004, the Group had cash in hand of HK$58,654,000 (2003: HK$71,666,000).

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2004, the Group had around 1,000 employees. They included management and administrative staff and production workers. Most were stationed in Mainland China, while the rest were in Hong Kong. Their remuneration, promotion and salary increments were assessed according to individual performance, as well as professional and working experience, and in accordance with prevailing industry practices.