

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

#### **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, 2004 are set out in the consolidated income statement on page 19.

An interim dividend of HK3.5 cents per share, amounting to HK\$8,750,000, was paid to the shareholders of the Company during the year. The Directors recommend the payment of a final dividend of HK3 cents per share and a special dividend of HK3.5 cents per share, amounting to a total of HK\$16,250,000 to the shareholders whose names appear on the register of members on 25th May, 2005.

#### **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**

There was no movement in the share capital of the Company during the year.

#### **RESERVES**

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 22 and note 20 to the financial statements, respectively.

The Company's reserves available for distribution as at 31st December, 2004 represent the share premium, contributed surplus and accumulated profits with an aggregate amount of approximately HK\$138,356,000.

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

**Executive Directors:**

Mr. Yuen Shu Wah  
Mr. Ko Jack Lum  
Mr. Ng Kai On

**Non-Executive Directors:**

Mr. Chung Tze Hien  
Mr. Ng Seng Nam  
Mr. Tan Peng Koon

**Independent Non-Executive Directors:**

Mr. Lau Siu Ki, Kevin  
Mr. Wu Wing Kit  
Dr. Chui Hong Sheung (appointed on 23rd August, 2004)

In accordance with Article 99 of the Company's Articles of Association, Dr. Chui Hong Sheung retires at the forthcoming Annual General Meeting and, being eligible, offers himself 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 Messrs. Ng Seng Nam and Lau Siu Ki, Kevin, retire by rotation and, being eligible, offer themselves for re-election.

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

Each of the Executive Directors entered into a service agreement ("service agreement") with the Company for a term of two years which commenced on 30th April, 2002 and expired on 29th April, 2004. The Company did not enter into any new contracts with the Executive Directors after the expiration of the service agreements.

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, UNDERLYING SHARES AND DEBENTURES**

At 31st December, 2004, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

	<b>Associated corporation</b>	<b>Name of Director</b>	<b>Personal interests</b>	<b>Percentage of said class of shares in the associated corporation</b>
(a)	Pacific Orchid Investments Limited ("Pacific Orchid")	Mr. Yuen Shu Wah	2,865 (Ordinary Shares)	28.65%
		Mr. Ko Jack Lum	1,550 (Ordinary Shares)	15.50%
(b)	Manfield Coatings Company Limited ("Manfield Coatings")	Mr. Yuen Shu Wah	9,168,000 (Non-voting Class A Shares)	28.65%
		Mr. Ko Jack Lum	4,960,000 (Non-voting Class A Shares)	15.50%
(c)	Chemfield Trading Company Limited ("Chemfield")	Mr. Yuen Shu Wah	280,000 (Ordinary Shares)	28.00%

*Note:* Messrs. Yuen Shu Wah and Ko Jack Lum are directors of each of Pacific Orchid, Manfield Coatings and Chemfield. Pacific Orchid is the immediate holding company, and holds 75% of issued share capital, of the Company. Manfield Coatings is a wholly owned subsidiary of the Company, which holds 49% of issued share capital of Chemfield.

All the interests stated above represent long positions. Save as disclosed above, none of the Directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31st December, 2004.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no timing during the year was the Company, or any of its holding companies, its subsidiaries and fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses and 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 for 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, or any of its holding companies, subsidiaries and 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 Listing Rules.

**DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES**

In compliance with the requirements of Rule 13.20 of the Listing Rules, details of relevant advances made by the Group to an entity as at 31st December, 2004 were as follows:

As at 31st December, 2004, there were 250,000,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$1.07 as stated in the Stock Exchange's daily quotation sheets for the trading days from 23rd December, 2004 to 30th December, 2004 (both days inclusive), being the five business days immediately preceding 31st December, 2004, the total market capitalisation of the Company was HK\$267,500,000 (the "Total Market Capitalisation").

**DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES** *(continued)*

As at 31st December, 2004, the audited consolidated total assets of the Group were approximately HK\$318,461,000 (the "Total Assets").

The trade receivables (the "Trade Receivables") due from Weilburger Manfield Limited and its subsidiaries, ("Weilburger"), an associate of the Company in which Manfield Chemical Limited (an indirect wholly owned subsidiary of the Company) holds a 45% equity interest, amounted to approximately HK\$43,375,000 which represented more than 8% of each of the Total Market Capitalisation and Total Assets as at 31st December, 2004.

The trade Receivables are unsecured, interest free, with credit terms of 60 days from the invoice date and resulted from sales of products to Weilburger by the Group in the Group's ordinary course of business.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2004, other than the interests disclosed in "Directors' Interests In Shares, Underlying Shares and Debentures", the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued share capital</b>
Mulpha International Bhd ("Mulpha International") <i>(Note)</i>	187,500,000	75%
Mulpha Strategic Limited ("Mulpha Strategic") (formerly King's Chemical Products Inc.) <i>(Note)</i>	187,500,000	75%
Pacific Orchid	187,500,000	75%

*Note:* These shares were held by Pacific Orchid, in which Mulpha Strategic, an indirect wholly-owned subsidiary of Mulpha International, holds 51% equity interests. Therefore, each of Mulpha International and Mulpha Strategic is deemed to be interested in the shares held by Pacific Orchid.

All the interests stated above represent long positions. Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 31st December, 2004 or any other interests representing 5% or more of the issued share capital of the Company as at 31st December, 2004.

**MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 44% of the Group's total sales. Weilburger is the Group's largest customer which accounted for approximately 33% of the Group's total sales. Details of the Group's sales to Weilburger are set out in note 27 (II) to the financial statements.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised of approximately 37% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 20% of the Group's total purchases.

Save as disclosed above, none of the Directors, their associates or any shareholders 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 customers and suppliers of the Group.

**RETIREMENT BENEFITS SCHEMES**

Information on the retirement benefits schemes 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 throughout the year ended 31st December, 2004 with the Code of Best Practice ("Code") as set out in Appendix 14 to the Listing Rules in force prior to 1st January, 2005, except that the 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 Company's Articles of Association.

**AUDIT COMMITTEE**

In compliance with the Code, the Company established an Audit Committee on 9th April, 2002 for the purposes of reviewing and providing supervision over the Group's financial reporting and internal control systems. The Audit Committee comprises Mr. Lau Siu Ki, Kevin, Mr. Wu Wing Kit and Dr. Chui Hong Sheung, the Independent Non-Executive Directors of the Company.

The Audit Committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31st December, 2004.

**AUDITORS**

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Yuen Shu Wah**

*Managing Director*

Hong Kong, 13th April, 2005