

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 32 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 22.

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 now recommend the payment of a final dividend of HK3 cents per share and a special dividend of HK5 cents per share, amounting to HK\$7,500,000 and HK\$12,500,000 respectively to the shareholders on the register of members on 25th May, 2006. The remaining profit for the year of HK\$22,811,000 will be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution as at 31st December, 2005 represent the share premium, contributed surplus and retained profits with an aggregate amount of approximately HK\$147,153,000 (2004: HK\$138,356,000).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated and reclassified as appropriate, is set out on page 54.

DIRECTORS

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 (resigned on 8th March, 2006)

Independent Non-executive Directors:

Mr. Lau Siu Ki, Kevin
Mr. Wu Wing Kit
Dr. Chui Hong Sheung

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 Kai On and Wu Wing Kit, 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.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2005, 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 Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

<u>Associated corporation</u>	<u>Name of Director</u>	<u>Personal interests</u>	<u>Percentage of the said class of shares in the associated corporation</u>
(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 the issued share capital, of the Company. Manfield Coatings is a wholly owned subsidiary of the Company and holds 49% of issued share capital of Chemfield.

All the interests stated above represent long positions. Save as disclosed above, none of the Directors, chief executives 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, 2005.

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.

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Details of the discloseable connected transactions for the year are set out in note 30 (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 and in the interests of the shareholders of the Company as a whole; 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, 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.

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Mulpha International Bhd. ("Mulpha International")	Held by controlled corporation (Note)	187,500,000	75%
Mulpha Strategic Limited ("Mulpha Strategic")	Held by controlled corporation (Note)	187,500,000	75%
Pacific Orchid	Beneficial owner	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.

DIRECTORS' REPORT

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, 2005 or any other interests representing 5% or more of the issued share capital of the Company as at 31st December, 2005.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 39% of the Group's total sales. A Company's associate company is the Group's largest customer which accounted for approximately 27% of the Group's total sales. Details of the Group's sales to the associate company are set out in note 30 (II) to the financial statements.

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of 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, own 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 SCHEME

Information on the retirement benefits schemes of the Group is set out in note 29 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to approximately HK\$3,680,000.

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, 12th April, 2006