1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Mulpha International Bhd., a public company listed on the Main Board of the Bursa Malaysia Securities Berhad. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 32.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of share of tax of associates has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results are prepared and presented.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has no material impact on how financial instruments of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Investment in Securities" ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments", "loans and receivables" or "investments held-to-maturity". "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in profit or loss. "Available-for-sale investments" are carried at cost less impairment, as the equity securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured. "Loans and receivables" and "investments held-to-maturity " are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. Accordingly, "other investments" and "investments in securities" in 2004 were reclassified as investment held for trading under fair value through profit or loss and available-for-sale investments, respectively, on 1st January, 2005 and no prior period adjustments has been required.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated)	Retrospective adjustment	As at 31st December, 2004 (restated)	Prospective adjustment	As at 1st January, 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
On adoption of HKAS 17					
Property, plant and equipment	60,252	(7,676)	52,576	—	52,576
Prepaid lease payments	—	7,676	7,676	—	7,676
On adoption of HKAS 39					
Investment in securities	6,676	—	6,676	(6,676)	—
Available-for-sales investments	—	—	—	10	10
Investments held for trading	—	—	—	6,666	6,666

The application of new HKFRSs has had no material impact to the equity on 1st January, 2004.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress for production and administrative purposes are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

Prepaid lease payment

Prepaid lease payments are up-front payments to lease medium-term leasehold land interests. The premium payments are stated at cost and are charged to the income statement over the period of the lease on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment
At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies
In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs
All borrowing costs are recognised in the income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease team on a straight-line basis.

Retirement benefits costs

Payments to the defined contribution retirement benefits plan, including Occupational Retirement Scheme Ordinance ("the ORSO Scheme"), the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged to the income statement as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables, advances to associates and dividend receivable from an associate

Trade and other receivables, advances to associates and dividend receivable from an associate are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprises short-term bank balances and cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities are set out below.

Trade and other payables and amount due to a related company

Trade and other payables and amount due to a related company are initially measured at their fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have most significantly effect on the amounts recognised in the consolidated financial statements.

Allowance for trade and other receivables
The provision policy for doubtful debts of the Group is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory valuation method
Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Market price is generally the merchandise selling price quoted from the market of similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise, where the Group identified items of inventory have a market price is lower than its carrying amount, the Group estimates the amount of inventory loss as allowance on inventory.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

(a) Credit risk
The Group's maximum exposure to credit risk in the event of the counterparties, failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group does not have any significant credit exposure to any single counterparty or any company of counterparties having similar characteristics.

(b) Liquidity risk
The Group finances its operations by its working capital. Adequate lines of credit are maintained to ensure the necessary liquidity is available when required.

6. TURNOVER AND SEGMENTAL INFORMATION

Business segments

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers during the year.

No business segment information has been presented for the year ended 31st December, 2005 and 31st December, 2004 as the directors reconsidered that the Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and solvents which are subject to the same risks and returns and which accounts for more than 90% of the turnover and trading profits of the Group for the years. Accordingly, no business segment had been presented for both years.

Geographical segments

The Group's activities and operations are based in the PRC and Hong Kong. Accordingly, no geographical analysis is presented.

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' Remuneration

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

2005

	Yuen Shu Wah HK$'000	Ko Jack Lum HK$'000	Ng Kai On HK$'000	Chung Tze Hien HK$'000	Tan Peng Koon HK$'000	Ng Seng Nam HK$'000	Lau Siu Ki, Kevin HK$'000	Wu Wing Kit HK$'000	Chui Hong Sheung HK$'000	Total HK$'000
Fees	—	—	—	—	—	—	100	100	100	300
Other emoluments										
Salaries and other benefits	1,235	4,720	792	—	—	—	—	—	—	6,747
Contributions to retirement benefits schemes	99	99	50	—	—	—	—	—	—	248
Total emoluments	1,334	4,819	842	—	—	—	100	100	100	7,295

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) DIRECTORS' REMUNERATION (Continued)

2004

	Yuen Shu Wah HK$'000	Ko Jack Lum HK$'000	Ng Kai On HK$'000	Chung Tze Hien HK$'000	Tan Peng Koon HK$'000	Ng Seng Nam HK$'000	Lau Siu Ki, Kevin HK$'000	Wu Wing Kit HK$'000	Chui Hong Sheung HK$'000	Total HK$'000
Fees	—	—	—	—	—	—	100	100	—	200
Other emoluments										
Salaries and other benefits	3,897	4,756	782	—	—	—	—	—	—	9,435
Contributions to retirement benefits schemes	96	97	48	—	—	—	—	—	—	241
Total emoluments	3,993	4,853	830	—	—	—	100	100	—	9,876

During the year ended 31st December, 2005, director's emolument of approximately HK$3,680,000 was waived by Mr. Yuen Shu Wah. No directors emoluments was waived in 2004.

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosures in note 7(a) above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**1,699**	1,685
Retirement benefits scheme contribution	**71**	69
	1,770	1,754

Their emoluments were within the following bands:

	2005 Number of employees	2004 Number of employees
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

During the year, no emoluments were paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. INCOME TAX EXPENSE

	2005 HK$'000	2004 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
current year	**3,172**	3,295
under(over)provision in prior year	**64**	(162)
	3,236	3,133
PRC Income Tax		
current year	**1,677**	1,236
underprovision in prior year	**758**	—
	2,435	1,236
Deferred taxation (note 18)	**(43)**	85
	5,628	4,454

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). Certain PRC subsidiaries continue to enjoy their Tax Holiday during the year.

The Hong Kong Inland Revenue Department ("IRD") issued an enquiry letter dated 19 July 2004 to a company's wholly owned subsidiary regarding its offshore claim in respect of its production activities for the year of assessment 2002/03. On 16th March, 2006, the IRD issued an additional assessment for 2002/03 disallowing the offshore claim and the potential additional tax exposure is approximately HK$2,000,000. In the opinion of the Directors, all production activities of the subsidiary are performed in the PRC and such income does not arise in or derived from Hong Kong. Accordingly, the Directors decided to lodge an objection against this additional assessment and to apply for an unconditional holdover of the tax amount in dispute and considered that no tax provision in respect of the assessment is necessary.

8. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000
Profit before taxation	**57,189**	55,275
Less: share of profits of associates	**11,591**	10,490
	45,598	44,785
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	**7,980**	7,837
Tax effect of expenses not deductible for tax purpose	**4,386**	3,912
Tax effect of income not taxable for tax purpose	**(4,078)**	(3,556)
Tax effect of profit not chargeable to tax (note)	**(3,071)**	(2,551)
Effect of tax exemptions granted to PRC subsidiaries	**(792)**	(2,451)
Effect of different tax rates of subsidiaries operating in the PRC	**381**	1,425
Under(over)provision in respect of prior year	**822**	(162)
Tax expense for the year	**5,628**	4,454

Details of deferred taxation are set out in note 18.

Note: The profits of certain subsidiaries are subject to Hong Kong Profits Tax on a 50:50 apportionment basis.

9. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
— fees	**300**	200
— other emoluments	**6,995**	9,676
Other staff costs	**50,257**	42,039
Total staff costs	**57,552**	51,915
Auditors' remuneration	**608**	582
Depreciation and amortisation of property, plant and equipment	**7,010**	6,188
Amortisation of prepaid lease payments	**198**	67
Loss on disposal of property, plant and equipment	**178**	—
Allowance for bad and doubtful debts	**416**	383
and after crediting:		
Bank interest income	**217**	112
Exchange gain	**558**	371
Interest income from advance to associates	**1,081**	114
Interest income from investments held for trading/other investments	**98**	610
Gain on disposal of property, plant and equipment	**—**	355
Gain on disposal of investments held for trading/other investments, listed	**110**	1,451
Dividend income from investments held for trading/other investments, listed	**51**	448
Unrealised holding gain on other investments	**—**	183

10. DIVIDENDS

At a board meeting held on 15th September, 2005, the Directors of the Company declared an interim dividend of HK3.5 cents per share (2004 interim dividend: HK3.5 cents per share) amounting to HK$8,750,000 (2004 interim dividend: HK$8,750,000). The interim dividend was paid on 6th October, 2005 to shareholders whose names appeared on the register of members of the Company on 5th October, 2005.

During the current year, a final dividend of HK3 cents per share and a special dividend of HK3.5 cents per share, amounting to HK$7,500,000 and HK$8,750,000 respectively, were paid to shareholders for the year ended 31st December, 2004.

A final dividend of HK3 cents per share and a special dividend of HK5 cents per share have been proposed by the Directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2005 is based on the profit for the year of HK$51,561,000 (2004: HK$50,821,000) and on 250,000,000 (2004: 250,000,000) shares in issue throughout the year.

No diluted earnings per share figure is presented as the Group did not have any dilutive ordinary shares in issue at any time during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
COST							
At 1st January, 2004 as originally stated	455	29,949	5,745	11,484	6,165	17,668	71,466
Effect of the application of HKAS 17	—	(2,559)	—	—	—	—	(2,559)
At 1st January, 2004 as restated	455	27,390	5,745	11,484	6,165	17,668	68,907
Currency realignment (restated)	1	40	12	18	9	33	113
Additions (restated)	6,582	1,547	849	3,541	2,888	2,618	18,025
Reclassification	(828)	379	—	449	—	—	—
Disposals	—	—	(25)	(418)	(1,684)	(102)	(2,229)
At 31st December, 2004 (restated)	6,210	29,356	6,581	15,074	7,378	20,217	84,816
Currency realignment	312	478	148	313	124	427	1,802
Additions	11,117	1,790	1,528	2,973	681	1,684	19,773
Reclassification	(11,410)	11,098	289	23	—	—	—
Disposals	—	(48)	(26)	(1,413)	(590)	(1,096)	(3,173)
At 31st December, 2005	**6,229**	**42,674**	**8,520**	**16,970**	**7,593**	**21,232**	**103,218**
DEPRECIATION AND AMORTISATION							
At 1st January, 2004 as originally stated	—	6,987	2,084	7,473	4,220	7,641	28,405
Effect of the application of HKAS 17	—	(506)	—	—	—	—	(506)
At 1st January, 2004 as restated	—	6,481	2,084	7,473	4,220	7,641	27,899
Currency realignment (restated)	—	8	4	11	5	14	42
Provided for the year (restated)	—	1,152	1,278	1,439	908	1,411	6,188
Eliminated on disposals	—	—	(15)	(257)	(1,611)	(6)	(1,889)
At 31st December, 2004 (restated)	—	7,641	3,351	8,666	3,522	9,060	32,240
Currency realignment	—	129	75	159	62	176	601
Provided for the year	—	1,223	1,417	1,858	1,041	1,471	7,010
Eliminated on disposals	—	(24)	(12)	(1,039)	(531)	(370)	(1,976)
At 31st December, 2005	**—**	**8,969**	**4,831**	**9,644**	**4,094**	**10,337**	**37,875**
CARRYING VALUES							
At 31st December, 2005	**6,229**	**33,705**	**3,689**	**7,326**	**3,499**	**10,895**	**65,343**
At 31st December, 2004 as restated	6,210	21,715	3,230	6,408	3,856	11,157	52,576

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Properties in Hong Kong	2%
Buildings outside Hong Kong on short and medium term leases (including renewal period)	Over the shorter of the term of the lease or 50 years
Leasehold improvements	4.5%
Furniture, fixtures and office equipment	18% - 20%
Motor vehicles	18% - 25%
Plant, machinery and equipment	4% - 18%

Construction in progress are not depreciated until completion of construction when the properties are ready for their intended use.

An analysis of the locations of the properties held is as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Medium term leases in Hong Kong	**6,187**	4,901
Medium term leases in the PRC	**25,728**	14,977
Short term leases in the PRC	**1,790**	1,837
	33,705	21,715

The Group has pledged certain properties in Hong Kong having a carrying value of approximately HK$2,500,000 (2004: HK$2,600,000) to secure general banking facilities granted to the Group.

13. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights in the PRC held under medium-term leases.

	2005 HK$'000	2004 HK$'000 (restated)
Analysed for reporting purposes as:		
Non-current asset	**7,999**	7,492
Current asset	**199**	184
	8,198	7,676

14. INVESTMENTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of unlisted investments in associates	**178**	178
Share of post-acquisition exchange reserve	**335**	14
Share of post-acquisition profits, net of dividends received	**26,104**	17,199
	26,617	17,391

Details of the Group's associates at 31st December, 2005 are as follows:

Name of associate	**Place of incorporation or establishment/ operations**	**Attributable equity interest to the Group**		**Principal activities**
		Directly	**Indirectly**	
Chemfield Trading Company Limited	Hong Kong	49%	—	Trading in paints
Weilburger Manfield Limited	Hong Kong	45%	—	Trading in paints and related products
Weilburger Manfield Chemical (Shenzhen) Limited	PRC	—	45%	Trading in paints and related products
CMW Coatings (Guangzhou) Limited	PRC	—	45%	Trading in paints and related products
Cashew Manfield Weilburger Coatings (Wuxi) Limited	PRC	—	45%	Not yet commenced business
CMW Coatings (Hong Kong) Limited	Hong Kong	—	45%	Trading in paints and related products

14. INVESTMENTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	**162,287**	127,312
Total liabilities	**103,171**	88,696
Net assets	**59,116**	38,616
Group's share of net assets of associates	**26,617**	17,391
Revenue	**228,054**	197,968
Profit for the year	**25,757**	23,311
Group's share of result of associates for the year	**11,591**	10,490

15. INVESTMENTS IN SECURITIES

Investments in securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investment in securities were reclassified to appropriate categories under HKAS 39 (see Note 2 for details).

	2005 HK$'000	2004 HK$'000
Other investments:		
Unlisted equity interests	—	360
Unlisted bonds	—	6,666
Less: impairment loss recognised		(350)
	—	6,676
Carrying amount analysed for reporting purposes as:		
Non-current	—	10
Current	—	6,666
	—	6,676

16. AVAILABLE-FOR-SALE INVESTMENTS

	2005 **HK$'000**	2004 HK$'000
Unlisted equity securities, at cost	**360**	—
Less: impairment loss recognised	**(350)**	—
	10	—

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Hong Kong, they do not have a quoted market price in an active market and stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be reliably measured.

17. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were made by the Group in connection with the acquisition of property, plant and equipment in the PRC and Hong Kong. The amount committed is shown as capital commitment in note 27.

18. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Difference between accounting and tax depreciation HK$'000	**Allowance for bad and doubtful debts** HK$'000	**Total** HK$'000
At 1st January, 2004	73	88	161
Charged to income for the year	(85)	—	(85)
At 31st December, 2004	(12)	88	76
Credited to income for the year	43	—	43
At 31st December, 2005	**31**	**88**	**119**

19. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**22,281**	44,771
Work in progress	**3,532**	6,281
Finished goods	**2,062**	2,957
	27,875	54,009

All inventories are stated at costs at the balance sheet dates.

20. ADVANCES TO ASSOCIATES

The advances to associates are unsecured and repayable within one year (2004: The advance to an associate was unsecured and partially repaid during the year). Included in the advances is an amount of HK$15,000,000 (2004: Nil), which bears interest at Hong Kong Dollar Prime Rate plus 1% per annum, and the remaining amount bears interest at 8.4% per annum (2004: the amount bore interest at 8.4% per annum). In the opinion of the Directors, the fair value of the Group's advances to associates at 31st December, 2005 approximates to their corresponding carrying amounts.

21. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$99,708,000 (2004: HK$110,820,000), of which HK$20,274,000 (2004: HK$43,375,000) are trade receivables from associates.

The Group allows a credit period of 30 - 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet dates:

	2005 HK$'000	2004 HK$'000
0 - 30 days	**32,075**	35,698
31 - 60 days	**26,567**	35,933
61 - 90 days	**17,344**	26,955
Over 90 days	**23,722**	12,234
	99,708	110,820

In the opinion of the Directors, the fair value of the Group's trade and other receivables at 31st December, 2005 approximates to their corresponding carrying amounts.

22. DIVIDEND RECEIVABLE FROM AN ASSOCIATE

In the opinion of the Directors, the fair value of the Group's dividend receivable from an associate at 31st December, 2005 approximates to its corresponding carrying amounts.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry at prevailing market interest rate of 1.3% (2004: 0.07%) per annum. In the opinion of the Directors, the fair value of bank deposits at 31st December, 2005 approximates to their corresponding carrying amount.

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$25,842,000 (2004: HK$73,610,000).

The following is an aged analysis of trade payables at the balance sheet dates:

	2005 **HK$'000**	2004 HK$'000
0 - 30 days	**13,934**	25,991
31 - 60 days	**9,105**	23,908
61 - 90 days	**2,399**	17,443
Over 90 days	**404**	6,268
	25,842	73,610

In the opinion of the Directors, the fair value of the Group's trade and other payables at 31st December, 2005 approximates to their corresponding carrying amounts.

25. AMOUNT DUE TO A RELATED COMPANY

The balance is due to Sheffield Chemical Company Limited, a company in which Mr. Yuen Shu Wah, a director of the Company, has a beneficial interest. The amount is unsecured, interest-free and repayable on demand.

In the opinion of the Directors, the fair value of the amount due to a related company approximates to its corresponding carrying amount.

26. SHARE CAPITAL OF THE COMPANY

	Authorised 2005 & 2004		**Issued and fully paid 2005 & 2004**	
	Number of shares	**HK$'000**	**Number of shares**	**HK$'000**
Ordinary shares of HK$0.1 each	1,000,000,000	100,000	250,000,000	25,000

There were no movements in the share capital of the Company during both years.

27. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**1,803**	7,405

28. OPERATING LEASE COMMITMENTS

The Group has paid minimum lease payments under operating leases during the year in respect of office and factory premises of approximately HK$832,000 (2004: HK$247,000).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office and factory premises under non-cancellable operating leases which fall due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**456**	205
In the second to fifth year inclusive	**1,539**	60
Over five years	**6,822**	—
	8,817	265

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases are negotiated and rentals are fixed for terms which range from 2 to 50 years.

29. RETIREMENT BENEFITS SCHEMES

The Group participates in defined contribution schemes which are registered under the ORSO Scheme and the MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions by the Group at 7% of the employee's basic salary.

There are no forfeited contributions for the year ended 31st December, 2005 which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable in future years (2004: Nil).

29. RETIREMENT BENEFITS SCHEMES (Continued)

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 8% of the employee payroll to such scheme to fund the retirement benefits of the employees.

The pension scheme contributions for the directors and employees, which have been dealt with in the income statement of the Group for the year ended 31st December, 2005, is approximately HK$3,612,000 (2004: HK$2,835,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contribution for the year (2004: Nil).

30. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related companies, some of which are also deemed to be connected parties pursuant to the Listing Rules on the Stock Exchange. The transactions with these companies during the year, and significant balances with them at the balance sheet date, are as follows:

(I) Connected parties

	Nature of balances/ transactions	2005 HK$'000	2004 HK$'000
An associate in which Mr. Yuen Shu Wah, a director of the Company, has beneficial interest	Advances to (note a)	**740**	1,240
	Interest income received from (note a)	**96**	114

(II) Related parties, other than connected parties

	2005 HK$'000	2004 HK$'000
Associate:		
Transactions		
Interest income received therefrom (note a)	**985**	—
Management fee income received therefrom	**2,605**	2,080
Subcontracting income received therefrom	**9,958**	—
Sales of goods thereto	**84,936**	123,806
Commission paid thereto	**—**	617
Purchases of goods therefrom	**917**	—
Dividend income therefrom	**2,700**	2,250
Balances		
Advances to (note a)	**15,000**	—
Trade receivables (note b)	**20,274**	43,375
Dividend receivable	**2,700**	2,250

Notes:

(a) The terms of the advances are set out in note 20.

(b) A credit period of 30 days to 90 days is granted to the associate.

30. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	**8,746**	11,320
Retirement benefits scheme contribution	**319**	310
	9,065	11,630

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

31. BALANCE SHEET OF THE COMPANY

Details of the balance sheet of the Company are as follows:

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Investments in subsidiaries	(a)	**119,072**	119,072
Current assets			
Amounts due from subsidiaries	(b)	**52,865**	44,096
Deposit and prepayment		**145**	145
Bank balance		**71**	43
		53,081	44,284
		172,153	163,356
Capital and reserves			
Share capital		**25,000**	25,000
Reserves	(c)	**147,153**	138,356
		172,153	163,356

31. BALANCE SHEET OF THE COMPANY (Continued)

Notes:

(a) Investments in subsidiaries

	2005 **HK$'000**	2004 HK$'000
Unlisted shares, at cost	**119,072**	119,072

Details of the Company's subsidiaries at 31st December, 2005 are set out in note 32.

(b) The amounts due from subsidiaries are unsecured, interest-free and repayable within one year.

(c) Reserves

	Share premium HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1st January, 2004	4,242	119,071	15,030	138,343
Profit for the year	—	—	23,763	23,763
Dividends paid	—	—	(23,750)	(23,750)
At 31st December, 2004	4,242	119,071	15,043	138,356
Profit for the year	—	—	33,797	33,797
Dividends paid	—	—	(25,000)	(25,000)
At 31st December, 2005	**4,242**	**119,071**	**23,840**	**147,153**

(d) At 31st December, 2005 and 2004, the Company had given guarantees to banks in respect of credit facilities granted to subsidiaries amounting to HK$19,000,000. The subsidiaries had not utilised the facilities at 31st December, 2005 and 2004.

32. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued ordinary share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
Rookwood Investments Limited	British Virgin Islands	Ordinary US$100	100%	—	Investment holding
Manfield Coatings Company Limited	Hong Kong	Ordinary HK$1,000 Non-voting class A HK$32,000,000 (note i)	—	100%	Investment holding and trading in paints products
Manfield Chemical Limited	Hong Kong	Ordinary HK$10,000	—	100%	Investment holding
Shenzhen Pinefield Chemical Enterprises Co, Ltd.	PRC (note ii)	US$1,500,000	—	100%	Manufacture of paints and trading in petrochemical products
Champion Chemical (Guangzhou) Company Limited	PRC (note ii)	HK$3,000,000	—	100%	Manufacture of paints and trading in petrochemical products

Notes:

(i) The non-voting class A shares practically carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.

(ii) The company is registered in the form of wholly foreign owned enterprises.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.