

Managing Director's Statement

For the year ended 31st December, 2006, the Group had a consolidated turnover of HK\$279,133,000, a decrease of 20% from HK\$349,637,000 of the preceding year. Its gross profit and net profit also declined 32% to HK\$60,131,000 and 44% to HK\$28,966,000 respectively. These could be partly attributed to the fierce competition, depressed prices of chemicals products and rising overheads that confronted us. The injection of certain business elements into the associated company Weilburger Manfield Limited ("WML"), along with its commencement of own production in Guangzhou and Wuxi in mainland China, it reduced its purchase in the Group's products. Hence, the turnover of the Group dropped. However, in return, the Group obtained a substantial increase in profit contribution and other incomes from WML.

The Group had to contend with a challenging operating environment in the period under review. The demand for toy paints, one of our core products, was in part affected by the stagnant toy market throughout most of the year. In addition, the prices of raw material, including that of crude oil, were prevailing at a high level, which had a negative impact on general market sentiments.

The generally buoyant economy and shortage of labour supply pushed manpower costs up, which increased the burden of our overheads. Yet, competition remained keen in the industry. Despite the competition, our Group continued to stand by its principle of offering "Quality Products and Services." A step taken in this direction was to improve our plant facilities, including measures to step up production safety and environmental protection.

Responding positively to the challenges, we have adopted stringent cost-controls in the key aspects of our operation. For instance, efforts were made to seek less expensive sources of raw materials in a bid to strengthen our supply network. Concurrently, we also monitored market trends more closely, with an initiative to improve customer satisfaction. Our sales team called on customers more regularly to understand their needs better and solicited their feedback, based on which our products and services were further improved. Marketing campaigns were also launched to create a stronger presence for the Group in the market.

Partly owing to the aforementioned business injection, WML had increased its profit contributions to the Group. The improved turnover of WML could also be attributed to the efforts it made in developing new markets and diversifying its range of mobile-phone paint products. Its new factory in Wuxi commenced operations in the second half of 2006, to serve the growing markets in Central and Northern China. WML is poised to continue its profitability, since its production fundamentals are already firmly in place.

Looking ahead, volatility of oil prices will remain a major concern for the Group, combined with the rise in general operating costs. In 2007, we will persevere with our strategies of upgrading our products and services constantly, of developing new markets and cementing closer relationships with customers. We will continue to implement efforts to increase the sales of our high-yield products, such as those catering to the electronics markets. Demand for these products is likely to be significantly higher, with the emergence of more electronics manufacturers in China. Overall, the management is constantly reviewing and seeking new investment opportunities that could lead to a long-term benefit to the Group and, hence, increased returns to its shareholders.

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On behalf of the Board, I would like to convey my heart-felt gratitude to all our employees for their diligence and contributions to the Group. I would also like to acknowledge the continual patronage of our customers, along with the support of our suppliers and shareholders. Not least, I am thankful to the guidance and leadership provided by my fellow Directors.

Yuen Shu Wah

Managing Director

Hong Kong, 12th April, 2007