GREENFIELD CHEMICAL HOLDINGS LIMITED
嘉 輝 化 工 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 582)

GREENFIELD CHEMICAL

2007 Annual Report

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Corporate Information

Board of Directors

Executive Directors

Lau Yau Cheung
Tsui Robert Che Kwong

Non-executive Directors

Chung Tze Hien
Ng Seng Nam

Independent Non-executive Directors

Lau Siu Ki, Kevin
Wu Wing Kit
Chui Hong Sheung, *JP*

Remuneration Committee

Lau Siu Ki, Kevin *(Chairman)*
Wu Wing Kit
Chui Hong Sheung, *JP*

Audit Committee

Lau Siu Ki, Kevin *(Chairman)*
Wu Wing Kit
Chui Hong Sheung, *JP*

Company Secretary

Cheng Yin Wah

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Legal Adviser

Robertsons
57th Floor, The Center
99 Queen's Road Central
Hong Kong

Principal Banker

Standard Chartered Bank

Registered Office

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

Block L, 9th Floor
On Wah Industrial Building
41-43 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Principal Registrars

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

Registrars in Hong Kong

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

582

Website of the Company

http://www.gch.hk

Biographical Details of Directors

MR. LAU YAU CHEUNG, aged 47, was appointed as an Executive Director on 31st October, 2007. Mr. Lau is responsible for the overall management and general administrative activities. Mr. Lau graduated in 1984 from the University of Toronto in Canada with a bachelor's degree in Commerce and has served in various senior management positions with both private and publicly listed companies in Hong Kong in the past years. Mr. Lau is also an independent non-executive director of Chai-Na-Ta Corp., a Canadian company which is the world's largest supplier of North American ginseng with shares listed on the NASDAQ – OTCBB in the United States, since November 2006.

MR. TSUI ROBERT CHE KWONG, aged 54, was appointed as an Executive Director on 1st November, 2007. Mr. Tsui is a graduate of the University of Buckingham, England, with a bachelor degree in Law. He is the sole proprietor of Robert C. K. Tsui & Co., a firm of solicitors in Hong Kong. Mr. Tsui has been practising in the legal field for more than 20 years. He is also an independent non-executive director of Dore Holdings Limited (Stock Code: 628), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, since August 2004.

MR. CHUNG TZE HIEN, aged 58, was appointed as a Non-executive Director on 8th December, 2003. Mr. Chung graduated from the University of Otago, New Zealand with a Commerce Degree and later proceeded to qualify as an Associate Member of the Institute of Chartered Accountants of New Zealand and the Institute of Chartered Secretaries and Administrators of United Kingdom. Mr. Chung had worked for and held senior managerial positions in several public listed companies in Hong Kong, Singapore and Malaysia, involving a variety of industries and businesses. He is also a Director and Chief Executive Officer of Mulpha International Bhd. ("Mulpha"), the ultimate holding company of the Company, and a Director of Mulpha Land Berhad ("MLB") and Mulpha Australia Limited, two subsidiaries of Mulpha, and Mudajaya Group Berhad ("MJG"), an associate company of Mulpha. Mulpha, MLB and MJG are listed on the Bursa Malaysia Securities Berhad.

MR. NG SENG NAM, aged 52, joined the Group in 1998 and was appointed a Non-executive Director on 22nd October, 2001. Mr. Ng is the company secretary and general manager of finance of Mulpha. He is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants. Prior to joining Mulpha, he was the company secretary and accountant of Malaysian Kuwaiti Investment Company Sdn. Bhd., an investment holding company with diversified interests, for eight years. Mr. Ng started his career with PricewaterhouseCoopers (previously Price Waterhouse) in 1976 where he worked for six years.

Biographical Details of Directors

MR. LAU SIU KI, KEVIN, aged 49, was appointed as an Independent Non-executive Director on 9th April, 2002. He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked for an international accounting firm for over 15 years. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. He is now a member of the ACCA Council. He has also served as a member of the Executive Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for 2000/2001. Mr. Lau is an independent non-executive director of several other listed companies in Hong Kong.

MR. WU WING KIT, aged 51, was appointed as an Independent Non-executive Director on 9th April, 2002. He holds a Bachelor of Laws Degree from the University of Hong Kong and a Master of Law Degree from the City University of Hong Kong. Mr. Wu has been practicing as a solicitor in Hong Kong for more than 25 years. He is presently a partner of Fred Kan & Co. and is a notary public in Hong Kong and a China Appointed Attesting Officer. Mr. Wu is also a non-executive director of another listed company in Hong Kong.

DR. CHUI HONG SHEUNG, JP, aged 58, was appointed as an Independent Non-executive Director on 23rd August, 2004. He holds a Doctor of Philosophy Degree from The University of New South Wales. He is the President of the Hang Seng School of Commerce. For the past 20 years, Dr. Chui has taken up various leadership and management roles in different organizations such as church, District Cultural, Recreational, and Sports Associations, Hong Kong Association of Heads of Secondary Schools, Hong Kong Subsidised Secondary Schools Council, various committees of Education Department, Regional Council and District Council. Besides, he has undertaken researches on education, leadership and management. Dr. Chui received the Queen's Badge of Honour in 1991 in recognition of his contributions to the society and the Neil Andrew Johnson Award for Excellence in Research in Educational Administration from the University of New South Wales in 1995.

Letter from the Board

For the year ended 31st December, 2007, the Group had a consolidated turnover of HK$317,066,000, an increase of 14% from HK$279,133,000 of the preceding year. Its gross profit and profit attributable to shareholders declined by 23% to HK$46,563,000 and 15% to HK$24,535,000 respectively. Such decrease is mainly due to the fierce competition, depressed prices of chemical products and rising overheads that continue to confront us. Since the associated company CMW Holding Limited ("CMW") (formerly known as Weilburger Manfield Limited) commenced its own production in Wuxi in China mainland, the turnover for CMW grew.

During the year under review, the demand for toy paints was still affected by the relative sluggishness of the toy market. The soaring of the prices of raw materials, particularly that of crude oil, also had a noticeable impact on the costing and pricing of the Group's products as well as general market sentiments. As economic growth in China accelerated and demand for labour became more and more acute, rising labour costs imposed significant additional burden on the Group in terms of overheads. In response to such challenges, we further tightened our stringent cost-controls in key areas of our operation including sourcing for less expensive raw materials and expanding our sources of supply.

Despite the keen competition, we persisted in our dedication to providing quality product and service to our customers by improving our plant facilities and work standards in respect of production needs and regulatory requirements. As such, the Group is able to maintain the confidence of its customers because of its good track record and continual efforts to enhance quality control and provide quality service.

Faced with the problem of having to operate in an increasingly difficult business environment, the Company sought to mitigate the effect of adverse factors on its business and to secure an immediate financial return for the purpose of obtaining additional resources by disposing of its 49% interests in Rookwood Investments Limited, a then major wholly-owned subsidiary of the Company. In an effort to further increase the general working capital of the Company, Pacific Orchid Investments Limited ("Pacific Orchid"), the major shareholder of the Company, entered into a top-up arrangement with the placing agent and the Company, pursuant to which Pacific Orchid placed 50,000,000 shares at a placing price of HK$2.5 per share and subscribed for the same number of new shares at the same price each share. Upon completion of the arrangement, there were net proceeds of approximately HK$120,000,000 for use by the Group as general working capital.

In light of the increasingly difficult business operating environment as aforesaid, the Company has been endeavouring to maximize return for shareholders by capitalizing on good investment opportunities and seeking diversification of business. To fully exploit the growing demand for coal on a global scale and in the PRC, the Company, through its direct wholly-owned subsidiary, entered into a conditional agreement with independent third parties to acquire, subject to the fulfillment of a number of conditions, two coal mines in Inner Mongolia, the PRC. We anticipated that the purchase of the coal mines will enable the Company to generate income and cash flow through its investment and trading activities in the natural resource sector.

Looking ahead, the continual rise in general operating costs accentuated by increasing volatility of oil prices will remain a major concern for the Group. In 2008, we will persist in our constant efforts to upgrade our products and services, develop new markets, deepen our contacts and consolidate closer ties with our customers.

Letter from the Board

Besides, the management is constantly seeking and reviewing new investment opportunities that could lead to long-term benefit to the Group and, hence, increase returns to its shareholders.

On behalf of the Group, the Board would like to convey its heart-felt gratitude to all our employees for their diligence and contributions to the Group. We would also like to acknowledge the continual patronage of our customers, along with the support of our suppliers and shareholders.

On behalf of the Board

Lau Yau Cheung
Executive Director

Hong Kong, 17th March, 2008

Management Discussion and Analysis

Business Review

During the year ended 31st December, 2007, the Group had a consolidated turnover of HK$317,066,000, representing an increase of 14% from HK$279,133,000 of the previous year. The net profit during the year was HK$23,226,000, a decrease of 20%, in comparison with the figure of HK$28,966,000 in 2006. Earnings per share decreased from HK11.6 cents for last year to HK9.4 cents.

Review of Operations

The Group's increased turnover during the year was mainly due to the expansion of business scope and the launch of newly developed products to the market. However, as operating overheads and production costs, in particular, the prices of oil and other key raw materials and labour costs kept on rising, the increase in turnover was insufficient for the purpose of setting off the effect caused by such ascending operation costs in the year. In light of the customary narrow profit margin for manufacturing industries, only part of the rising operation costs can be shifted to customers. Hence, profit after taxation for the year decreased as compared with that of last year. The Group implemented stringent cost-controls including sourcing for less expensive raw materials and expanding the sources of supply, sought to rationalize and streamline the work and production process and to introduce a logistics system with a view to improving operational efficiency and productivity and enhancing the Group's competitiveness.

We continued to face cut-throat competition from some of our competitors who persisted in their strategy of price-cutting measures to maintain their market shares. In response to such competition, we kept on improving our product and service quality and providing quality product and service at reasonable price in order to maintain the confidence of and solidify the business relationship with our customers. We launched market campaigns to strengthen the presence of our Group and products in the market. We actively monitored market trends and our sales team regularly liaised with our customers to ascertain their feedback on our products and their needs in order to improve our products in time to their satisfaction such that we can maintain their confidence and their continual use of our products and services.

Seeking to mitigate the effect of the drop in business and to secure an immediate financial return for the purpose of obtaining additional resources, the Company disposed of its 49% interests in Rookwood Investments Limited, a then major wholly-owned subsidiary of the Company.

In addition, Pacific Orchid Investments Limited ("Pacific Orchid"), the major shareholder of the Company, entered into a top-up arrangement with the placing agent and the Company, whereby Pacific Orchid signed a placing agreement with the placing agent to place 50,000,000 shares at a placing price of HK$2.5 per share and signed a subscription agreement with the Company to subscribe for the same number of new share at the same price each share. Upon the 50,000,000 share being placed and the new 50,000,000 share being subscribed, there were net proceeds of approximately HK$120,000,000.00 for use by the Group as general working capital.

Further, the Company, through its direct wholly-owned subsidiary, entered into a conditional agreement with independent third parties to acquire two coal mines in Inner Mongolia, the PRC, subject to the fulfillment of a number of conditions.

Management Discussion and Analysis

Outlook

Operation overheads and production costs will continue to rise with ascending prices in oil and other key raw materials. However, demand for our products would also rise with the continual growth and improvement of the economy in China. The Group will strive to maintain and enlarge its market share in the China market. The Group will also work to reinforce its competitiveness, consolidate its relationship with customers, expand its customer base, increase the sale of its high-yield products and invest resources to enhance product quality.

In light of the increasingly difficult business operating environment, the Company has been endeavouring to maximize return for shareholders by capitalizing on good investment opportunities. In view of the growing demand for coal on a global scale and in the PRC, the Company considers it an opportune time to develop its investment and business into the natural resources sector. Hence, the Company, through its direct wholly-owned subsidiary, entered into a conditional agreement with independent third parties to acquire two coal mines in Inner Mongolia, the PRC, subject to the fulfillment of a number of conditions. Upon completion of the acquisition of the coal mines after fulfillment of such conditions, the Company will diversify into the coal mining business, and since the two coal mines are being exploited pursuant to the mining right permits granted by the appropriate authority, it is anticipated that the purchase of the coal mines will demonstrate the Company's ability to generate income and cash flow through its investment and trading activities in the natural resource sector.

Liquidity and Financial Resources

During the year ended 31st December, 2007, the Group had no borrowings outstanding. The Group has sufficient cash surplus to finance operation from internally generated cash flow. The Group maintained a satisfactory financial position derived from the steady growth of its business. As at 31st December, 2007, the Group had cash on hand of HK$173,948,000 (31st December, 2006: HK$47,212,000).

Exposure to Foreign Exchange Risk

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. Though the Group has not entered into any hedging contract, the Group's exposure to foreign exchange risk is minimal. In view of the revaluation of the Renminbi during the year, the Group will monitor the situation closely and will introduce suitable hedging measures if there are likely to be any changes in the value of the Renminbi that may have adverse effect on the Group.

Employee and Remuneration Policies

As at 31st December, 2007, the Group had around 1,330 employees, including management and administrative staff as well as technical and production workers. Most of the Group's staff members were stationed in Mainland China while the rest were in Hong Kong. Remuneration, promotion and salary increments for the Group's staff were determined on the basis of individual performance as well as professional and working experience with due regard to prevalent industry practices.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

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 consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 22.

An interim dividend of HK2.5 cents per ordinary share, amounting to HK$7,500,000, 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 ordinary share and a special dividend of HK3 cents per ordinary share, amounting to HK$9,000,000 and HK$9,000,000, respectively to the shareholders on the register of members on 29th April, 2008.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company are set out in note 26 to the consolidated financial statements.

Distributable Reserves of the Company

The amount of the Company's reserves available for distribution as at 31st December, 2007 represent the share premium, contributed surplus and retained profits with an aggregate amount of approximately HK$304,881,000 (2006: HK$142,236,000).

Summary of Financial Information

A summary of the results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 66.

Directors' Report

Directors

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

Executive Directors

Mr. Lau Yau Cheung	(appointed on 31st October, 2007)
Mr. Tsui Robert Che Kwong	(appointed on 1st November, 2007)
Mr. Yuen Shu Wah	(resigned on 31st October, 2007)
Mr. Ko Jack Lum	(resigned on 31st October, 2007)
Mr. Ng Kai On	(resigned on 1st November, 2007)

Non-executive Directors

Mr. Chung Tze Hien
Mr. Ng Seng Nam

Independent Non-executive Directors

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

In accordance with Article 99 of the Company's Articles of Association (the "Articles"), Messrs. Lau Yau Cheung and Tsui Robert Che Kwong are to hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Articles, Mr. Ng Seng Nam, retires by rotation and, being eligible, offers himself 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 Articles.

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, 2007, 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:

Name of Director	Corporate interests	Percentage of the issued share capital held
Mr. Lau Yau Cheung ("Mr. Lau")	6,500,000	2.17%

Note: The shares were held by BH Equities Limited, a company wholly owned by Mr. Lau.

The interests stated above represent long positions. Other than as disclosed above, none of the Directors, chief executive 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, 2007.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, or any of its holding companies, its subsidiaries or 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.

Directors' Interests in Contracts

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at any time during the year.

Directors' Report

Substantial Shareholders

As at 31st December, 2007, 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 shares held	Percentage of issued share capital of the Company
Mulpha International Bhd. ("MIB")	Held by controlled corporation (Note)	187,500,000	62.5%
Mulpha Strategic Limited ("MSL")	Held by controlled corporation (Note)	187,500,000	62.5%
Pacific Orchid Investments Limited ("Pacific Orchid")	Beneficial owner	187,500,000	62.5%

Note: These shares were held by Pacific Orchid, which is owned as to 68% by MSL, an indirect wholly-owned subsidiary of MIB, and as to 32% by Jumbo Hill Group Limited, a wholly-owned subsidiary of MSL. Therefore, each of MIB and MSL is deemed to be interested in the shares held by Pacific Orchid.

All the interests stated above represent long positions. Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2007.

Confirmation of Independence of Non-executive Directors

The Company has received from each of the Independent Non-executive Director, 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.

Directors' Report

Connected Transactions

Details of the discloseable connected transactions are disclosed in note 30 to the consolidated 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 business of the Group;

(ii) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(iii) in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Other than as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Major Disposal and Acquisition

During the year, the Company disposed of its 49% interests in Rookwood Investments Limited, a then major wholly-owned subsidiary of the Company. The net proceeds of approximately HK$122,500,000 from the disposal provided the Company with additional working capital for future business development and investment.

In the year, the Company, through its direct wholly-owned subsidiary, entered into a conditional agreement with independent third parties to acquire, subject to the fulfillment of a number of conditions, two coal mines in Inner Mongolia, the People's Republic of China. Details of the acquisition are disclosed in the "Management and Discussion and Analysis" and note 17 to the consolidated financial statements.

Major Customers and Suppliers

During the year, less than 30% of the Group's sales and purchases were attributable to the Group's five largest customers and suppliers.

Retirement Benefits Schemes

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

Directors' Report

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.

Emolument Policy

The emolument policy of the employees of the Group is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

Charitable Donations

During the year, the Group made charitable donations amounting to approximately HK$1,257,000.

Auditor

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Lau Yau Cheung
Executive Director

Hong Kong, 17th March, 2008

Corporate Governance Report

The board of directors (the "Board") is committed to upholding a high standard of corporate governance practices and business ethics in the belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with increasingly stringent regulatory requirements (both locally and internationally), and to fulfill its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") came into effect on 1st January, 2005. The CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CG Code except for certain areas of non-compliance that are discussed later in this report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors of the Company. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2007.

The Board

The Board is charged with overseeing the business and affairs of the Group that aims to enhancing the Company's value for stakeholders. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders. Roles of the Board include reviewing and guiding corporate strategies and policies, monitoring financial and operating performance and setting appropriate risk management policies.

The primary role of the Board is to oversee how management serves the interests of shareholders and other stakeholders. To do this, the Board has adopted corporate governance principles aimed at ensuring that the Board is independent and fully informed on the key strategic issues facing the Company. The Board comprises two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors.

The Company has received from the three Independent Non-executive Directors annual confirmations of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such Directors to be independent.

Corporate Governance Report

The Board has appointed Board Committees to oversee different areas of the Company's affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

Board of Directors	Audit Committee	Remuneration Committee
Executive Directors		
Mr. Lau Yau Cheung *(appointed on 31st October, 2007)*	—	—
Mr. Tsui Robert Che Kwong *(appointed on 1st November, 2007)*	—	—
Mr. Yuen Shu Wah *(resigned on 31st October, 2007)*	—	—
Mr. Ko Jack Lum *(resigned on 31st October, 2007)*	—	—
Mr. Ng Kai On *(resigned on 1st November, 2007)*	—	—
Non-executive Directors		
Mr. Chung Tze Hien	—	—
Mr. Ng Seng Nam	—	—
Independent Non-executive Directors		
Mr. Lau Siu Ki, Kevin	✓	✓
Mr. Wu Wing Kit	✓	✓
Dr. Chui Hong Sheung, *JP*	✓	✓

Regular Board meetings are scheduled in advance to facilitate fullest possible attendance. The Company Secretary assists the Executive Directors in setting the agenda of Board meetings and each Director is invited to present any businesses that he wishes to discuss or propose at such meetings. Board papers are circulated to all Directors within reasonable time before the Board meetings to ensure timely access to relevant information. Directors may choose to take independent professional advice if necessary. Draft and final versions of minutes are circulated to all Directors for comments. The Company held three full Board meetings in 2007. Attendance of the full Board meetings are as follows:

Name of Director	Number of Board meetings attended
Mr. Lau Yau Cheung *(appointed on 31st October, 2007)*	—
Mr. Tsui Robert Che Kwong *(appointed on 1st November, 2007)*	—
Mr. Yuen Shu Wah *(resigned on 31st October, 2007)*	3/3
Mr. Ko Jack Lum *(resigned on 31st October, 2007)*	3/3
Mr. Ng Kai On *(resigned on 1st November, 2007)*	3/3
Mr. Chung Tze Hien	3/3
Mr. Ng Seng Nam	3/3
Mr. Lau Siu Ki, Kevin	3/3
Mr. Wu Wing Kit	3/3
Dr. Chui Hong Sheung, *JP*	3/3

Remuneration Committee

The Remuneration Committee comprises the three Independent Non-executive Directors: Mr. Lau Siu Ki, Kevin (Committee Chairman), Mr. Wu Wing Kit and Dr. Chui Hong Sheung.

The written terms of reference stipulating the authority and duties of the Remuneration Committee were adopted on 15th September, 2005 which conform to the provisions of the CG Code.

The Remuneration Committee's major roles are to make recommendations to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages to all Executive Directors and senior management as well as review and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year, two meetings were held by the Remuneration Committee and attended by all members.

Audit Committee

The Audit Committee comprises the three Independent Non-executive Directors: Mr. Lau Siu Ki, Kevin (Committee Chairman), Mr. Wu Wing Kit and Dr. Chui Hong Sheung.

The written terms of reference stipulating the authority and duties of the Audit Committee were adopted in 2002 and subsequently amended in 2005 to conform to the provisions of the CG Code.

The Audit Committee reviews and supervises the Group's financial reporting and internal control systems. It 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.

During the year, two meetings were held by the Audit Committee and attended by all members.

Code of Ethics and Securities Transactions ("Code of Ethics")

The Company adopted the Code of Ethics on 21st December, 2005 as written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in the securities of the Company.

Corporate Governance Report

Deviations from Code on Corporate Governance Practices

The Company has complied with the CG Code except for the following deviations:

Code provision A.1.1

Code provision A.1.1 stipulates that, inter alia, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

The Company held three full Board meetings in 2007 and this constituted a deviation from code provision A.1.1. The Company considers the deviation is minor as the management regularly reported to the Board on the Company's development through other channels. However, the Company shall observe the code provision and comply with the requirement in 2008.

Code provision A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not have a separate chairman and chief executive officer and Mr. Lau Yau Cheung, an Executive Director of the Company, currently assumes both roles. The Board believes that the vesting of the roles of chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The Board also believes that the Company already has a strong corporate governance structure and as such the present structure is considered to be appropriate under the circumstances.

Code provisions A.4.1 and A.4.2

Code provisions A.4.1 and A.4.2 stipulate that (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a causal vacancy should be subject to election at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company does not fully comply with code provisions A.4.1 and A.4.2. The existing Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting.

The Board does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long-term interests of the Shareholders.

Pursuant to the Articles of Association of the Company, the Directors are not subject to retirement by rotation at least once every three years. This constituted a deviation from code provision A.4.2. However, the Articles of Association requires one-third of the Directors (other than the Managing Director or Joint Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire form the office by rotation at every annual general meeting.

Directors' Responsibility for the Group's Financial Reporting

The Directors are responsible for the preparation of financial statements of the Group which give a true and fair view, and are prepared in accordance with the relevant statutory requirements and applicable accounting standards in force, and are published in a timely manner. The Directors are responsible for selecting and applying on a consistent basis suitable accounting policies and ensuring timely adoption of Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards.

The Board understands the importance of presenting a clear and comprehensive assessment of the Group's overall performance, financial positions as well as prospects in a timely manner; and the Board is pleased to report that, so far, the annual and interim results of the Group are announced within the four months and three months limit respectively after the end of the relevant periods.

Internal Control and Internal Audit

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

Management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in area of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security. The Financial Controllor has reported to the Audit Committee two times during the year, in conjunction with key findings identified by the external auditors. The Audit Committee in turn reports any material issues to the Board.

External Auditors

The Report of the Auditors of the Company, Deloitte Touche Tohmatsu, in respect of the audit of the Group's financial statements for the year is set out on pages 20 to 21 of the annual report. The Board takes steps in ensuring continuing auditors' objectivity and independence.

For the year ended 31st December, 2007, the remuneration of HK$640,000 payable to the auditors only related to its audit services provided to the Group.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF
GREENFIELD CHEMICAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Greenfield Chemical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 65 which comprise the consolidated balance sheet as at 31st December, 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 17th March, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	**317,066**	279,133
Cost of sales		**(270,503)**	(219,002)
Gross profit		**46,563**	60,131
Other income		**17,840**	16,543
Distribution and selling expenses		**(13,864)**	(11,620)
Administrative expenses		**(37,587)**	(40,495)
Loss on partial disposal of a subsidiary		**(2,991)**	—
Interest on bank borrowings wholly repayable within five years		**—**	(2)
Share of profits of associates		**16,612**	17,451
Profit before taxation	9	**26,573**	42,008
Taxation	10	**(3,347)**	(13,042)
Profit for the year		**23,226**	28,966
Attributable to:			
Equity holders of the Company		**24,535**	28,966
Minority interests		**(1,309)**	—
		23,226	28,966
Dividends	11	**22,500**	27,500
Earnings per share, basic	12	**HK9.4 cents**	HK11.6 cents

Consolidated Balance Sheet

At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**83,669**	70,418
Prepaid lease payments	14	**13,397**	8,082
Interests in associates	15	**28,685**	42,024
Available-for-sale investments	16	**10**	10
Deposit for acquisition of a subsidiary	17	**100,000**	—
Deposits for acquisition of property, plant and equipment	18	**—**	1,294
Deferred tax assets	19	**114**	25
		225,875	121,853
CURRENT ASSETS			
Prepaid lease payments	14	**320**	203
Inventories	20	**35,431**	33,110
Advance to an associate	21	**18,566**	15,000
Trade and other receivables	22	**102,815**	82,753
Dividend receivable from an associate	30	**4,500**	6,300
Tax recoverable		**1,164**	3,053
Bank balances and cash	23	**173,948**	47,212
		336,744	187,631
CURRENT LIABILITIES			
Trade and other payables	24	**53,933**	37,546
Deferred income	25	**—**	3,195
Amounts due to related companies	30	**2,505**	133
		56,438	40,874
NET CURRENT ASSETS		**280,306**	146,757
Total assets less current liabilities		**506,181**	268,610
CAPITAL AND RESERVES			
Share capital	26	**30,000**	25,000
Reserves		**370,227**	243,610
Equity attributable to equity holders of the Company		**400,227**	268,610
Minority interests		**105,954**	—
Total equity		**506,181**	268,610

The consolidated financial statements on pages 22 to 65 were approved and authorised for issue by the Board of Directors on 17th March, 2008 and are signed on its behalf by:

LAU YAU CHEUNG
DIRECTOR

TSUI ROBERT CHE KWONG
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note a)	Translation reserve HK$'000	Non-distributable reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2006	25,000	4,242	32,000	(2,893)	6,229	198,622	263,200	—	263,200
Exchange differences arising from translation of foreign operations	—	—	—	2,388	—	—	2,388	—	2,388
Share of exchange reserves of associates	—	—	—	1,556	—	—	1,556	—	1,556
Total income recognised directly in equity	—	—	—	3,944	—	—	3,944	—	3,944
Profit for the year	—	—	—	—	—	28,966	28,966	—	28,966
Total recognised income for the year	—	—	—	3,944	—	28,966	32,910	—	32,910
Dividends	—	—	—	—	—	(27,500)	(27,500)	—	(27,500)
At 31st December, 2006	25,000	4,242	32,000	1,051	6,229	200,088	268,610	—	268,610
Exchange differences arising from translation of foreign operations	—	—	—	7,606	—	—	7,606	—	7,606
Share of exchange reserves of associates	—	—	—	2,570	—	—	2,570	—	2,570
Total income and expenses recognised directly in equity	—	—	—	10,176	—	—	10,176	—	10,176
Release upon deregistration of an associate	—	—	—	—	(460)	—	(460)	—	(460)
Profit (loss) for the year	—	—	—	—	—	24,535	24,535	(1,309)	23,226
Total recognised income for the year	—	—	—	10,176	(460)	24,535	34,251	(1,309)	32,942
Issue of new shares on placement	5,000	120,000	—	—	—	—	125,000	—	125,000
Partial disposal of interest in a subsidiary	—	—	—	(2,185)	—	—	(2,185)	98,863	96,678
Contribution from minority shareholders	—	—	—	—	—	—	—	8,400	8,400
Transaction costs attributable to issue of shares	—	(2,949)	—	—	—	—	(2,949)	—	(2,949)
Dividends	—	—	—	—	—	(22,500)	(22,500)	—	(22,500)
At 31st December, 2007	**30,000**	**121,293**	**32,000**	**9,042**	**5,769**	**202,123**	**400,227**	**105,954**	**506,181**

Notes:

(a) The special reserve of the Group represents the nominal values of 32,000,000 non-voting class A shares of HK$1 each issued by a subsidiary of the Company to its then shareholders prior to a group reorganisation in 2002.

(b) The non-distributable reserve of the Group mainly represents statutory reserves requirement that the foreign investment enterprises appropriated 10% of profit after taxation of the subsidiary of the Company registered in the People's Republic of China other than Hong Kong (the "PRC") to the non-distributable reserve, under the PRC laws and regulations.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**26,573**	42,008
Adjustments for:		
Allowance for trade receivables	**1,176**	92
Amortisation of prepaid lease payments	**241**	200
Depreciation of property, plant and equipment	**10,910**	9,451
(Gain) loss on disposal of property, plant and equipment	**(40)**	775
Interest income	**(2,215)**	(2,125)
Interest expense	**—**	2
Loss on partial disposal of a subsidiary	**2,991**	—
Share of profits of associates	**(16,612)**	(17,451)
Operating cash flows before movements in working capital	**23,024**	32,952
Increase in inventories	**(2,321)**	(5,096)
(Increase) decrease in trade and other receivables	**(18,110)**	21,967
Increase in trade and other payables	**9,997**	373
Increase in amounts due to related companies	**(58)**	72
Cash generated from operations	**12,532**	50,268
Interest paid	**—**	(2)
Hong Kong Profits Tax paid	**(979)**	(4,814)
Payment for tax reserve certificates	**—**	(11,001)
PRC income tax paid	**(612)**	(932)
NET CASH FROM OPERATING ACTIVITIES	**10,941**	33,519
INVESTING ACTIVITIES		
Deposits paid for acquisition of a subsidiary	**(100,000)**	—
Purchase of property, plant and equipment	**(23,858)**	(12,442)
Advance to associates	**(3,566)**	—
Deposits for acquisition of property, plant and equipment	**—**	(1,294)
Dividend received from associates	**6,300**	—
Interest received	**2,215**	2,125
Proceeds from disposal of property, plant and equipment	**1,072**	1,909
Proceeds from partial disposal of a subsidiary	**122,500**	—
Repayment from an associate	**—**	740
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**4,663**	(8,962)

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 **HK$'000**	2006 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(22,500)**	(27,500)
Advance from a minority shareholder	**2,430**	—
Contribution from minority shareholders of a subsidiary	**8,400**	—
Net proceeds from issue of shares	**122,051**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**110,381**	(27,500)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**125,985**	(2,943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**47,212**	49,712
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**751**	443
CASH AND CASH EQUIVALENTS AT END OF THE YEAR,		
represented by bank balances and cash	**173,948**	47,212

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate holding company is Pacific Orchid Investments Limited, a company incorporated in the British Virgin Islands ("BVI"), and its ultimate holding company is Mulpha International Bhd., a company incorporated in Malaysia with its shares listed on the Main Board of 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 associates and subsidiaries are set out in notes 15 and 32 respectively.

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

2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior periods adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. Application of New and Revised Hong Kong Financial Reporting Standards (Continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – INT 12	Service Concession Arrangements[3]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st March, 2007
[3] Effective for annual periods beginning on or after 1st January, 2008
[4] Effective for annual periods beginning on or after 1st July, 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Property, plant and equipment

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

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

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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 derecognised.

3. Significant Accounting Policies (Continued)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets of the associates, 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.

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. An 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the two categories including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including advance to an associate, trade receivables, dividend receivable from an associate, deposit for acquisition of a subsidiary and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

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 are carried at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as advance to an associate and trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of advance to an associate and trade and other receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days observable changes in national or local economic conditions that correlate with default on trade and other receivables and advance to associates.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advance to an associate and trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When advance to an associate or trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

For available-for-sale financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including trade and other payables and amounts due to related companies) are measured at amortised cost, using the effective interest method, subsequent to initial recognition.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

3. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discount and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Management fee income and royalty fee income are 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.

Retirement benefits costs

Payments to the defined contribution retirement benefits plans, including Occupational Retirement Scheme (the "ORSO Scheme"), the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme, are charged as expenses when employees have rendered service entitling them to the contributions.

Borrowing costs

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

Leasing

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessors are classified as operating leases.

3. Significant Accounting Policies (Continued)

The Group as lessee

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of 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 term on a straight-line basis.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. Leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Prepaid lease payments

Prepaid lease payments represent the up-front payments to lease medium-term leasehold land interests in the PRC and are charged to the consolidated income statement on a straight-line basis over the term of the relevant leases.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated 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 consolidated financial statements and the corresponding tax bases 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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 possible 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 profits 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 to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 Group (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.

4. Key Sources of Estimation Uncertainty and Management Judgement

In the process of applying the Group's accounting policies, management has made the following estimates and judgement that have significant effect on the amounts recognised in the consolidated financial statements:

Taxation

As stated in note 10, the Hong Kong Inland Revenue Department (the "IRD") issued additional assessments in aggregate of approximately HK$11,001,000 relating to certain previous years of assessment, during the year ended 31st December, 2006. Income tax expense of HK$10,000,000 was recognised against the payment for tax reserve certificates in the prior year, and the remaining amount of HK$1,001,000 was included in tax recoverable as at 31st December, 2006 and 31st December, 2007. As the ultimate outcome of the additional assessments remain undetermined, the tax amount that would otherwise become payable may change.

5. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity reserves attributable to equity holders of the Company, comprising issued share capital, other reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

6. Financial Instruments

(a) Categories of financial instruments

	2007	2006
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**393,367**	149,783
Available-for-sale investments	**10**	10
Financial liabilities		
Amortised cost	**44,333**	28,319

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposit for acquisition of a subsidiary, advance to an associate, trade and other receivables, bank balances, trade and other payables and amounts due to related companies. The risks associated with these financial instruments include market risk and the policies on how to mitigate these risks are set out below.

(i) Market risk

Currency risk

The Group has foreign currency sales and purchases denominated in United States dollars ("USD"), which expose the Group to market risk arising from changes in foreign exchange rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
USD	**3,455**	3,046	**—**	2,880

As Hong Kong dollar is pegged with USD, the Group's currency risk in relation to the above monetary assets/liabilities is expected to be minimal.

Interest rate risk

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's Hong Kong dollars advance to an associate.

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

The sensitivity analyses below have been determined based on the exposure to variable interest rates for advance to an associate at the balance sheet date. The analysis is prepared assuming the amount of receivable at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by HK$71,000 (2006: decrease/increase by HK$62,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate advance to an associate.

(ii) Credit risk

As at 31 December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group is exposed to concentration of credit risk because as at 31st December, 2007, approximately 15% (2006: 18%) of trade receivables is due from the associates, advance of HK$18,566,000 (2006: HK$15,000,000) has been made to an associate.

6. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

(iii) Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Carrying amount at 31st December, 2007 HK$'000
2007					
Non-derivative financial liabilities					
Trade and other payables	—	**24,655**	**13,203**	**3,970**	**41,828**
Amounts due to related companies	—	**2,505**	—	—	**2,505**
		27,160	**13,203**	**3,970**	**44,333**
2006					
Non-derivative financial liabilities					
Trade and other payables	—	16,883	10,550	753	28,186
Amount due to a related company	—	133	—	—	133
		17,016	10,550	753	28,319

6. Financial Instruments (Continued)

(c) Fair value

The fair values of the Group's financial assets and financial liabilities (including deposit for acquisition of a subsidiary, advance to an associate, trade and other receivables, dividend receivable from an associate, bank balances, trade and other payables and amounts due to related companies) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of these financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. Revenue and Segmental Information

Revenue represents the amounts received and receivable for goods sold, net of discount and sales related taxes, during the year.

The Group's primary format for reporting segment information is geographical segments (based on location of customers).

2007

	Hong Kong HK$'000	The PRC HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	**195,576**	**121,490**	**—**	**317,066**
Inter-segment sales (note)	**166,284**	**85,956**	**(252,240)**	**—**
Total revenue	**361,860**	**207,446**	**(252,240)**	**317,066**
RESULTS				
Segment results	**13,562**	**7,999**		**21,561**
Interest income				**2,215**
Unallocated income				**7,002**
Unallocated expenses				**(17,826)**
Loss on partial disposal of a subsidiary				**(2,991)**
Share of profits of associates				**16,612**
Profit before taxation				**26,573**
Taxation				**(3,347)**
Profit for the year				**23,226**

7. Revenue and Segmental Information (Continued)

2006

	Hong Kong HK$'000	The PRC HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	181,740	97,393	—	279,133
Inter-segment sales (note)	144,736	88,351	(233,087)	—
Total revenue	326,476	185,744	(233,087)	279,133
RESULTS				
Segment results	28,897	12,187		41,084
Interest income				2,125
Unallocated income				5,129
Unallocated expenses				(23,779)
Finance costs				(2)
Share of profits of associates				17,451
Profit before taxation				42,008
Taxation				(13,042)
Profit for the year				28,966

Note: Inter-segment sales are charged at prices with reference to the prevailing market rates.

An analysis of the Group's segment assets and liabilities attributable to geographical markets by location of customer for both years is not presented as it is impracticable to allocate the amounts of the respective assets and liabilities to geographical markets.

7. Revenue and Segmental Information (Continued)

The following is an analysis of the carrying amount of segment assets and expenditure on property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Expenditure on property, plant and equipment	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
The PRC	**254,576**	157,543	**428**	2,022
Hong Kong	**155,004**	85,529	**19,864**	13,111
	409,580	243,072	**20,292**	15,133

The Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and solvents which are subject to the similar risks and returns and which accounts for more than 90% of the turnover and profits of the Group for the current and prior years. Accordingly, no business segment is presented.

8. Directors' and Employees' Emoluments

(a) Directors' Remuneration

The emoluments paid or payable to each of the ten (2006: nine) directors were as follows:

	Lau Yau Cheung HK$'000	Tsui Robert Che Kwong HK$'000	Yuen Shu Wah HK$'000	Ko Jack Lum HK$'000	Ng Kai On HK$'000	Chung Tze Hien HK$'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
2007											
Fees	—	—	—	—	—	—	—	100	100	100	300
Other emoluments											
Salaries and other benefits	217	65	1,279	2,402	821	—	—	—	—	—	4,784
Retirement benefit scheme contribution	2	2	106	106	54	—	—	—	—	—	270
Total emoluments	219	67	1,385	2,508	875	—	—	100	100	100	5,354
2006											
Fees	—	—	—	—	—	—	—	100	100	100	300
Other emoluments											
Salaries and other benefits	—	—	3,276	4,058	835	—	—	—	—	—	8,169
Retirement benefit scheme contribution	—	—	102	102	52	—	—	—	—	—	256
Total emoluments	—	—	3,378	4,160	887	—	—	100	100	100	8,725

During the year, director's emolument of approximately HK$1,257,000 (2006: HK$1,200,000) was waived by Mr. Yuen Shu Wah.

8. Directors' and Employees' Emoluments (Continued)

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**1,405**	1,281
Retirement benefit scheme contribution	**58**	55
	1,463	1,336

Their emoluments were within the following bands:

	2007 Number of employees	2006 Number of employees
Nil to HK$1,000,000	**2**	2

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

9. Profit Before Taxation

	2007 HK$'000	2006 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration		
Fees	**300**	300
Other emoluments	**5,054**	8,425
Other employee benefits expense	**65,839**	50,115
Total employee benefits expense	**71,193**	58,840
Allowance for trade receivables	**1,176**	92
Amortisation of prepaid lease payments	**241**	200
Auditor's remuneration	**640**	872
Cost of inventories recognised as expense	**270,503**	219,002
Depreciation of property, plant and equipment	**10,910**	9,451
Loss on disposal of property, plant and equipment	**—**	775
Operating lease rentals in respect of rented premises	**1,025**	968
Share of taxation of associates (included in share of profits of associates)	**3,924**	3,054
and after crediting:		
Exchange gain, net	**2,397**	1,846
Gain on disposal of property, plant and equipment	**40**	—
Interest income earned from:		
Advances to associates	**1,333**	1,393
Bank deposits	**882**	732

10. Taxation

	2007 **HK$'000**	2006 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	**1,733**	2,450
Under(over) provision in prior year	**932**	(14)
	2,665	2,436
Estimated provision relating to prior years	**—**	10,000
	2,665	12,436
PRC Income Tax		
Current year	**676**	520
Under(over) provision in prior year	**95**	(8)
	771	512
Deferred taxation (note 19)	**(89)**	94
	3,347	13,042

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

Pursuant to the relevant laws and regulations in the PRC, the Company'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. These PRC subsidiaries continue to enjoy their tax holiday during the year.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will gradually change the tax rate from 15% to 18%, and 24% to 25% for certain subsidiaries from 1st January, 2008.

10. Taxation (Continued)

During the year ended 31st December, 2006, the IRD issued additional assessment in aggregate of approximately HK$11,001,000 to an indirect wholly-owned subsidiary of the Company disallowing its offshore claims in respect of its production activities for years of assessment 2002/03, 2003/04, 2004/05 and 2005/06. The Group had purchased tax reserve certificates totalling HK$11,001,000 and an amount of HK$10,000,000 was recognised as income tax expense against such tax reserve certificates in the prior year and the remaining amount of tax reserve certificates of HK$1,001,000 was included in tax recoverable as at the balance sheet date. In the opinion of the directors of the Company, the ultimate outcome of the additional assessment remains undetermined and the Group will continue to defend vigorously against the additional assessment.

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

	2007	2006
	HK$'000	HK$'000
Profit before taxation	**26,573**	42,008
Less: Share of profits of associates	**(16,612)**	(17,451)
	9,961	24,557
Tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**1,743**	4,297
Estimated provision for Hong Kong Profits Tax relating to prior years	**—**	10,000
Tax effect of expenses not deductible for tax purpose	**1,483**	732
Tax effect of income not taxable for tax purpose	**(660)**	(1,883)
Effect of tax exemptions granted to PRC subsidiaries	**(439)**	(321)
Effect of different tax rates of subsidiaries operating in the PRC	**193**	239
Under(over)provision in respect of prior year	**1,027**	(22)
Taxation charge for the year	**3,347**	13,042

Details of deferred taxation are set out in note 19.

11. Dividends

	2007	2006
	HK$'000	HK$'000
Dividends paid and recognised as distribution during the year:		
2007 Interim – HK2.5 cents (2006: 2006 Interim – HK3 cents)		
per ordinary share	**7,500**	7,500
2006 Final – HK3 cents (2006: 2005 Final – HK3 cents)		
per ordinary share	**7,500**	7,500
2006 Special – HK3 cents (2006: 2005 Special – HK5 cents)		
per ordinary share	**7,500**	12,500
	22,500	27,500

The directors recommend the payment of a final dividend of HK3 cents per share and a special dividend of HK3 cents per share for the year ended 31st December, 2007. The proposed dividend for 2007 is subject to approval by the shareholders in the forthcoming annual general meeting.

12. Earnings Per Share

The calculation of basic earnings per share for the year is based on the profit attributable to equity holders for the year of HK$24,535,000 (2006: HK$28,966,000) and on the weighted average number of ordinary shares of 262,054,795 (2006: 250,000,000) in issue during the year.

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

13. Property, Plant and Equipment

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1st January, 2006	42,674	8,520	16,970	7,593	21,232	6,229	103,218
Currency realignment	1,289	354	586	220	751	117	3,317
Additions	1,698	2,203	3,668	835	3,607	3,122	15,133
Transfer	4,582	2,883	73	—	1,441	(8,979)	—
Disposals	(920)	(698)	(1,773)	—	(2,670)	—	(6,061)
At 31st December, 2006	49,323	13,262	19,524	8,648	24,361	489	115,607
Currency realignment	3,298	909	1,525	525	1,862	22	8,141
Additions	7,636	395	4,887	2,071	2,969	2,334	20,292
Transfer	802	133	205	—	1,485	(2,625)	—
Disposals	(464)	(165)	(522)	(1,551)	(545)	—	(3,247)
At 31st December, 2007	**60,595**	**14,534**	**25,619**	**9,693**	**30,132**	**220**	**140,793**
DEPRECIATION							
At 1st January, 2006	8,969	4,831	9,644	4,094	10,337	—	37,875
Currency realignment	269	190	329	117	335	—	1,240
Provided for the year	1,936	2,259	2,560	1,047	1,649	—	9,451
Eliminated on disposals	(314)	(658)	(1,481)	—	(924)	—	(3,377)
At 31st December, 2006	10,860	6,622	11,052	5,258	11,397	—	45,189
Currency realignment	705	565	881	273	816	—	3,240
Provided for the year	2,174	2,430	3,026	1,402	1,878	—	10,910
Eliminated on disposals	(244)	(65)	(329)	(1,358)	(219)	—	(2,215)
At 31st December, 2007	**13,495**	**9,552**	**14,630**	**5,575**	**13,872**	**—**	**57,124**
CARRYING AMOUNTS							
At 31st December, 2007	**47,100**	**4,982**	**10,989**	**4,118**	**16,260**	**220**	**83,669**
At 31st December, 2006	38,463	6,640	8,472	3,390	12,964	489	70,418

Owner-occupied leasehold land is included in above land and buildings as the allocation between the land and buildings elements cannot be made reliably.

13. Property, Plant and Equipment (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, and after taking into account of their estimated residual values, at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease or 50 years
Leasehold improvements	4.5% – 20%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	18% – 25%
Plant, machinery and equipment	4% – 18%

The carrying values of land and buildings shown above comprise:

	2007	2006
	HK$'000	HK$'000
Medium-term leases in Hong Kong	**5,861**	6,024
Medium-term leases in the PRC	**38,515**	30,676
Short-term leases in the PRC	**2,724**	1,763
	47,100	38,463

The Group has pledged certain land and buildings in Hong Kong with a carrying value of approximately HK$2,348,000 (2006: HK$2,204,000) to secure general banking facilities granted to the Group.

14. Prepaid Lease Payments

The Group's prepaid lease payments represent land use rights in the PRC held under medium-term lease, and are analysed for reporting purposes as follow:

	2007	2006
	HK$'000	HK$'000
Non-current asset	**13,397**	8,082
Current asset	**320**	203
	13,717	8,285

15. Interests in Associates

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Unlisted investments, at cost	**91**	178
Share of post-acquisition exchange reserve	**2,276**	1,891
Share of post-acquisition profits, net of dividends received	**26,318**	39,955
	28,685	42,024

Details of the Group's associates at 31st December, 2007 and 31st December, 2006 are as follows:

Name of associate	**Place of incorporation or establishment/ operations**	**Attributable equity interest held by the Group**		**Principal activities**
		2007	2006	
Chemfield Trading Company Limited	Hong Kong	**25%** (Note)	49%	Inactive
CMW Holding Limited (formerly known as "Weilburger Manfield Limited")	Hong Kong	**23%** (Note)	45%	Investment holding

Note: The dilution of effective interest in Chemfield Trading Company Limited and CMW Holding Limited held by the Group were caused by the disposal of 49% equity interest in Rookwood Investments Limited, that was a wholly-owned subsidiary of the Group at 31st December, 2006, during the year.

15. Interests in Associates (Continued)

Name of subsidiaries of CMW Holding Limited	Place of incorporation or establishment/ operations	Attributable equity interest held by CMW Holding Limited		Principal activities
		2007	2006	
CMW Coatings (Guangzhou) Limited	PRC	**100%**	100%	Manufacturing and trading in paints and related products
CMW Coatings (Wuxi) Limited	PRC	**100%**	100%	Manufacturing and trading in paints and related products
CMW Coatings (Hong Kong) Limited	Hong Kong	**100%**	100%	Trading in paints and related products

Weilburger Manfield Chemical (Shenzhen) Limited, a wholly-owned subsidiary of CMW Holding Limited, has been deregistered during the year. The Group's share of non-distributable reserve of HK$460,000 was released in the statement of changes in equity upon deregistration.

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

	2007 **HK$'000**	2006 HK$'000
Total assets	**274,351**	200,022
Total liabilities	**(149,364)**	(106,849)
Net assets	**124,987**	93,173
Group's share of net assets of associates	**28,685**	42,024
Revenue	**332,233**	279,441
Profit for the year	**36,915**	38,660
Group's share of result of associates for the year	**16,612**	17,451

16. Available-for-sale Investments

	2007	2006
	HK$'000	HK$'000
Unlisted equity securities, at cost	**360**	360
Less: Impairment loss recognised	**(350)**	(350)
	10	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. The impairment loss recognised at the balance sheet date is related to the unlisted equity interest in an entity which is in the progress of liquidation.

17. Deposit for Acquisition of a Subsidiary

On 5th November, 2007, the Company, through a wholly-owned subsidiary, entered into a conditional agreement with independent third parties, New Hoong Investment Limited ("New Hoong"), New Mine Investment Limited ("New Mine") and Will High International Limited ("Will High"), to acquire the entire issued share capital of Winfame Investments Limited at a consideration of HK$600,000,000. An initial refundable deposit of HK$100,000,000 was paid to New Hoong, New Mine and Will High in November 2007.

Details of the transaction are stated in the announcement of the Company on 9th November, 2007. As at the date of the report, the acquisition had not been completed.

18. Deposits for Acquisition of Property, Plant and Equipment

At 31st December, 2006, the deposits were made by the Group in connection with the acquisition of property, plant and equipment in the PRC and Hong Kong. The related capital commitment was included in note 28.

19. Deferred Taxation

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

	Difference between tax allowance and depreciation HK$'000	Allowance for trade receivables HK$'000	Total HK$'000
At 1st January, 2006	31	88	119
Credit to consolidated income statement	(8)	(86)	(94)
At 31st December, 2006	23	2	25
Charge (credit) to consolidated income statement	(32)	121	89
At 31st December, 2007	**(9)**	**123**	**114**

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

20. Inventories

	2007 HK$'000	2006 HK$'000
Raw materials	**26,737**	26,312
Work in progress	**5,444**	4,430
Finished goods	**3,250**	2,368
	35,431	33,110

21. Advance to an Associate

Name of associate	**Terms of advance**	**2007 HK$'000**	2006 HK$'000
CMW Holding Limited	Unsecured, bearing interest at Hong Kong Prime Rate plus 1% per annum and repayable within one year	**18,566**	15,000

The balance is neither past due nor impaired, and has the best credit quality attributable under internal assessment by the Group.

22. Trade and Other Receivables

	2007 **HK$'000**	2006 HK$'000
Trade receivables from third parties	**81,639**	66,779
Trade receivables from an associate	**14,714**	14,492
Other receivables	**6,462**	1,482
	102,815	82,753

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

	Trade receivables from third parties		**Trade receivables from associates**	
	2007 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
0 - 30 days	**23,699**	18,841	**8,222**	12,571
31 - 60 days	**26,583**	19,517	**1,679**	1,310
61 - 90 days	**20,117**	15,223	**1,292**	274
Over 90 days	**11,240**	13,198	**3,521**	337
	81,639	66,779	**14,714**	14,492

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed once a year. 82% of the trade receivables that is neither past due nor impaired have the best credit quality attributable under internal assessment by the Group.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$14,761,000 (2006: HK$13,535,000) which are aged between 91 days to 150 days and are past due at the reporting date for which the Group has not provided for impairment loss, as the Group considered such balance could be recovered based on historical experience. The Group does not hold any collateral over these balances. The Group takes into consideration the estimated cash flows when determining evidence of impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

22. Trade and Other Receivables (Continued)

Movement in the allowance for doubtful debts is as follows:

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	3,221	3,802
Impairment losses recognised on trade receivables	292	92
Amounts written off as uncollectible	(533)	(673)
Balance at end of the year	2,980	3,221

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$2,980,000 (2006: HK$3,221,000), which is taken into consideration of the estimated cash flows of the relevant assets.

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 bank balances carry at market interest rate of 1.5% (2006: 2.5%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007 HK$'000	2006 HK$'000
Renminbi ("RMB")	196	125
USD	—	2,880
Others	37	34
	233	3,039

24. Trade and Other Payables

	2007 HK$'000	2006 HK$'000
Trade payables to third parties	**34,059**	27,651
Trade payables to an associate	**4,212**	—
Other payables	**15,662**	9,895
	53,933	37,546

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

	2007 HK$'000	2006 HK$'000
0 - 30 days	**19,991**	16,657
31 - 60 days	**10,498**	8,862
61 - 90 days	**2,706**	1,688
Over 90 days	**864**	444
	34,059	27,651

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payable is within the credit timeframe.

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007 HK$'000	2006 HK$'000
USD	**3,455**	3,046
Others	**251**	131
	3,706	3,177

25. Deferred Income

During the year ended 31st December, 2006, the Group provided an associate the exclusive rights to sell certain specialty industrial coatings in Hong Kong and the PRC at an one-off licence fee income totalling HK$6,390,000 which was deferred to recognise as income over the estimated product life of two years. The Group has recognised a licence fee income of HK$3,195,000 (2006: HK$3,195,000) to the consolidated income statement during the year. Under this arrangement, the Group also received an annual royalty fee totalling HK$3,807,003 (2006: HK$1,934,000) based on a pre-determined percentage on the relevant sales for the year.

26. Share Capital

	Number of shares	**Amount**
		HK$'000
Authorised		
At 31st December, 2006 and 2007		
Ordinary shares of HK$0.1 each	1,000,000,000	100,000
Issued and fully paid		
At 1st January, 2006 and 2007	250,000,000	25,000
Issue of new shares on placement	50,000,000	5,000
At 31st December, 2007	**300,000,000**	**30,000**

On 21st September, 2007, the Company entered into a placing agreement with a placing agent for placement of 50,000,000 new shares at the price of HK$2.50 per share to independent third parties, representing a discount of 14% to the closing market price of the Company's shares on 20th September, 2007. Arrangement fee of HK$2,949,000 was set-off against share premium. All the shares issued during the year rank pari passu with the then existing shares in all respects.

27. Operating Lease Commitments

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:

	2007	2006
	HK$'000	HK$'000
Within one year	**1,650**	791
In the second to fifth year inclusive	**2,415**	2,545
Over five years	**6,724**	6,666
	10,789	10,002

Leases are negotiated and monthly rentals are fixed for terms ranging from two to five years.

28. Capital Commitments

	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,043**	511

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 maximum monthly contribution by the Group is limited to HK$1,000 per 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 both years which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable in future years.

Employees in the Company'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 consolidated income statement of the Group for the year, is approximately HK$3,930,000 (2006: HK$3,712,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contribution for both years.

30. Connected and Related Party Transactions and Balances

During the year, the Group had the following transactions and balances with related companies:

Relationship	Nature of transactions/balances	2007 HK$'000	2006 HK$'000
Connected and related parties:			
Minority shareholder that has significant influence over the Group	Amount due to (non-trade payable) (note b)	**2,430**	—
Associate			
Chemfield Trading Company Limited (note a)	Interest income received by the Group	—	52
Key management personnel of the entity beneficially owned company			
Sheffield Chemical Company Limited (note a)	Amount due to (trade payable) (note b)	**75**	133
Related parties:			
Associate			
CMW Holding Limited	Sales of goods by the Group	**38,963**	60,238
	Management fee income received by the Group	**6,783**	6,191
	Purchases of goods by the Group	**11,893**	7,978
	Sales of property, plant and equipment by the Group	—	1,091
	Licence fee income received by the Group	**3,195**	3,195
	Royalty fee income received by the Group	**3,807**	1,934
	Dividend income recognised to profit and loss by the Group	**4,500**	3,600
	Interest income received by the Group (note c)	**1,333**	1,341
	Advances by the Group (note c)	**18,566**	15,000
	Trade receivables owed to the Group (note c)	**14,714**	14,492
	Dividend receivable by the Group	**4,500**	6,300
	Amount due to (trade payable) (note b)	**4,212**	—

30. Connected and Related Party Transactions and Balances (Continued)

Notes:

(a) The companies are also deemed to be connected parties in accordance with the provisions under the Listing Rules as Mr. Yuen Shu Wah, who was a director of the Company during the year, has beneficial interest in these companies.

(b) The amount is unsecured, interest-free and repayable on demand.

(c) The terms of the advances and trade receivables are set out in notes 21 and 22, respectively.

In addition, the remuneration of directors and other members of key management during the year, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	2007 **HK$'000**	2006 HK$'000
Short-term benefits	**6,489**	9,750
Post-employment benefits	**328**	311
	6,817	10,061

31. Balance Sheet of the Company

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

	Notes	**2007**	2006
		HK$'000	HK$'000
Investments in subsidiaries		**60,766**	119,072
Amounts due from subsidiaries	(a)	**132,456**	47,916
Deposit and prepayment		**154**	145
Bank balances		**141,787**	103
Total assets		**335,163**	167,236
Accrual		**(282)**	—
Total liabilities		**(282)**	—
		334,881	167,236
Capital and reserves			
Share capital		**30,000**	25,000
Reserves	(b)	**304,881**	142,236
		334,881	167,236

31. Balance Sheet of the Company (Continued)

Notes:

(a) The amounts are unsecured, interest-free and repayable within one year.

(b) Details of changes in reserves of the Company are as follows:

	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2006	4,242	119,071	23,840	147,153
Profit for the year	—	—	22,583	22,583
Dividends	—	—	(27,500)	(27,500)
At 31st December, 2006	4,242	119,071	18,923	142,236
Issue of new shares on placement	120,000	—	—	120,000
Transaction costs attributable to issue of shares	(2,949)	—	—	(2,949)
Profit for the year	—	—	68,094	68,094
Dividends	—	—	(22,500)	(22,500)
At 31st December, 2007	**121,293**	**119,071**	**64,517**	**304,881**

(c) At 31st December, 2007, the Company had given guarantees to banks in respect of undrawn credit facilities granted to subsidiaries to an extent of HK$19,000,000 (2006: HK$19,000,000).

32. Subsidiaries

Details of the Company's subsidiaries at 31st December, 2007 and 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued share capital/paid up registered capital	Attributable equity interest held by the Company Directly 2007	Directly 2006	Indirectly 2007	Indirectly 2006	Principal activities
Rookwood Investments Limited	BVI/Hong Kong	US$10,000 Ordinary	**51%**	100%	**—**	—	Investment holding
Upflow Limited	Hong Kong	HK$1 Ordinary	**100%**	—	**—**	—	Management services
Smart Million Limited	BVI/Hong Kong	US$1 Ordinary	**100%**	—	**—**	—	Investment holding
Manfield Coatings Company Limited	Hong Kong	HK$1,000 Ordinary HK$32,000,000 Non-voting class A (note i)	**—**	—	**51%**	100%	Investment holding and trading in paints and related products
Manfield Chemical Limited	Hong Kong	HK$10,000 Ordinary	**—**	—	**51%**	100%	Investment holding
Shenzhen Pinefield Chemical Enterprises Co., Ltd,	PRC (note ii)	US$5,500,000 Paid-up registered capital	**—**	—	**51%**	100%	Manufacture of paints and trading in petrochemical and related products
Champion Chemical (Guangzhou) Company Limited	PRC (note ii)	HK$3,000,000 Paid-up registered capital	**—**	—	**51%**	100%	Manufacture of paints and trading in petrochemical and related products
Manfield Chemical (Changzhou) Limited	PRC (note ii)	HK$21,840,000 Paid-up registered capital	**—**	—	**41%** (note iii)	—	Manufacture of paints and trading in petrochemical and related products
Changzhou Manfield Transportation Limited	PRC (note ii)	RMB1,500,000 Paid-up registered capital	**—**	—	**51%**	—	Transportation

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.

(iii) 80% equity interest of the company is indirectly held by Rookwood Investments Limited.

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

Financial Summary

	Year ended 31st December,				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
RESULTS					
Revenue	283,800	369,789	349,637	279,133	**317,066**
Profit from operations	49,654	44,789	45,610	24,559	**12,952**
Interest on bank borrowings wholly repayable within five years	(4)	(4)	(12)	(2)	**—**
Share of profits of associates	5,737	10,490	11,591	17,451	**16,612**
Loss on partial disposal of subsidiary	—	—	—	—	**(2,991)**
Loss on dissolution of subsidiaries	(5)	—	—	—	**—**
Profit before taxation	55,382	55,275	57,189	42,008	**26,573**
Taxation	(4,802)	(4,454)	(5,628)	(13,042)	**(3,347)**
Profit for the year	50,580	50,821	51,561	28,966	**23,226**
Attributable to:					
Equity holders of the Company	50,580	50,821	51,561	28,966	**24,535**
Minority interests	—	—	—	—	**(1,309)**
	50,580	50,821	51,561	28,966	**23,226**

	At 31st December,				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	255,794	318,461	300,391	309,484	**562,619**
Total liabilities	(47,980)	(83,450)	(37,191)	(40,874)	**(56,438)**
Shareholders' funds	207,814	235,011	263,200	268,610	**506,181**
Equity attributable to:					
Equity holders of the Company	207,814	235,011	263,200	268,610	**400,227**
Minority interests	—	—	—	—	**105,954**
	207,814	235,011	263,200	268,610	**506,181**