MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group had a consolidated turnover of HK$349,637,000 during the year ended 31st December, 2005. This represented a decrease of 5.4% compared to the figure of HK$369,789,000 for the previous year owing to decreased sales to the associate company. Sales to outside customers continued to expand.

The net profit attributable to shareholders during the year amounted to HK$51,561,000, an increase of 1.5% compared to the figure of HK$50,821,000 in 2004. This represented a net profit per share of HK20.6 cents (2004: HK20.3 cents).

REVIEW OF OPERATIONS

The Group's consolidated turnover decreased slightly during 2005, mainly due to a small decline in the value of sales to the associate company. However, our gross profit rose by 7.6% and our net profit by 1.5% through sales increase to outside customers and passing on some of the increased raw material costs in the form of price adjustments.

The price of crude oil stabilised somewhat during 2005, although it remains at a historically high level. Therefore, the prices of petroleum-based raw materials – such as solvents and resins – the key materials that the Group uses to manufacture its products, increased continuously. The cost of crude oil also had an adverse effect on general market conditions. Faced with these uncertainties, the Group's customers became cautious and conservative about placing orders. Meanwhile, the prices of other raw materials used by the Group rose considerably during the year. Labour costs also grew as the result of a general shortage of workers in Southern China.

Competition from other manufacturers remained fierce. Their adoption of low-price strategies exerted strong downward pressure on the profit margins of the Group's products, especially in the key China market. The Group responded by continuous sales expansion, upgrading our operations, products and customer services, and passing on some of the higher costs of raw materials to our customers, in the form of price adjustments.

The Group responded energetically to all the challenges it faced in the market place. In particular, it implemented stringent cost-controls, improved its workflow processes and enhanced its ERP system. In addition, it sought out suppliers of less-expensive raw materials, and strengthened its overall supply network. Major investments were made in plant and machinery, in order to improve the efficiency and safety of the Group's production facilities.

The Group's associate Weilburger Manfield Limited ("Weilburger Manfield") recorded a substantial rise in its sales of mobile phone coatings, thus accounting for 22.5% of the Group's total profit. Demand for paints used in toy manufacturing remained stable; while there was significant growth in consumer sales of electronic products, which led to greater demand for the Group's products from this sector.

REVIEW OF OPERATIONS (continued)

The excellence of the Group's products and services continued to receive recognition in the forms of various accolades. These included:

- The Gold Award in the 2005 Hong Kong Management Association Quality Award
- A Productivity and Quality Certificate of Merit in the Hong Kong Productivity Council's 2005 Hong Kong Awards for Industries
- Nominee of 2005 China Quality Management Award of the China Association for Quality
- Winner of the APBEST Award-2006 (BNQA) in the Asia-Pacific Business Excellence Standard Academy's 2006 APBEST Award

OUTLOOK

The volatility of oil prices remains a major concern, and it will continue to exert a major influence on the global, Mainland and Hong Kong economies during 2006. The Group will meet the challenges created by rising costs by constantly striving to improve the quality of its products and services, thereby reinforcing its competitiveness. While building on existing customer relationships, it will aim to broaden its customer base. Special efforts will be made to increase sales of its high-yield products, and products used by the electronics market. This strategy will be helped by the greater demand that is expected to arise from the arrival of more manufacturers in China as a result of further relaxation of the country's market policies.

Weilburger Manfield's new factory in Wuxi will commence operations during 2006. This will enable it to serve the growing markets in Central and Northern China better, and thus contribute to the Group's growth in profit.

The further development of the Group's human resources will remain a top priority during 2006. As in previous years, the Group will provide training for all of its staff, and it will strengthen internal communications by holding inter-departmental meetings to exchange ideas and experience.

LIQUIDITY AND FINANCIAL RESOURCES

The Group observed prudent and stable financial policies in 2005. As a result, it remained in a healthy financial situation, and it had no outstanding borrowings. The steady growth of its business during the year enabled it to maintain a sufficient cash surplus to finance its operations from internally generated cash flow. As at 31st December, 2005, the Group had cash in hand of HK$49,712,000 (2004: HK$58,654,000).

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2005, the Group had around 1,100 employees. They included management and administrative staff and production workers. Most were stationed in Mainland China, while the rest were in Hong Kong. Their remuneration, promotion and salary increments were assessed according to individual performance, as well as professional and working experience, and in accordance with prevailing industry practices.