

REPORT OF THE DIRECTORS

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries comprise the trading of plastic and chemical products, the distribution and installation of building supplies, electrical and mechanical products, engineering contracting business in the air-conditioning industry and the provision of maintenance services and investment holding. The wholesaling of electrical appliances was discontinued in June 2005. Details of the principal subsidiaries and their activities are set out in note 17 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 104.

The directors do not recommend the payment of any dividend in respect of the year (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Liquidity and financial resources

Total interest-bearing debts of the Group amounted to HK\$185 million as at 31 December 2005 (31 December 2004: HK\$233 million), of which HK\$156 million (31 December 2004: HK\$190 million) related to trust receipt loans. The debts were all due and repayable within one year. Current ratio of the Group at 31 December 2005, as measured by total current assets over total current liabilities, was 1.35.

Total cash on hand as at 31 December 2005 was HK\$70 million. The Group had a total of HK\$191 million committed but undrawn banking facilities at year-end available for its working capital purpose. The gearing ratio of the Group, as measured by the net interest-bearing debts of HK\$115 million over the shareholders' funds of HK\$157 million, was 73% as at 31 December 2005.

Subsequent to the balance sheet date, the Group acquired the Contracting Business from Shun Cheong for a cash consideration of HK\$35 million (the "Acquisition"). The latest audited financials of the Contracting Business shown total interest-bearing debts of HK\$45 million, cash on hand of HK\$34 million and shareholders' funds of HK\$38 million as at 30 September 2005. Full details of the financial effect of the Acquisition are set out in the circular to the shareholders of the Company dated 10 March 2006.

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Funding and treasury policy

The Group maintains a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates. Forward contracts of non-speculative nature are entered to hedge the foreign currency trade purchase commitments of the Group.

Pledge of assets

Certain properties, having an aggregate book value of HK\$19.3 million as at 31 December 2005, were pledged to secure the borrowings of the Group.

Contingent liabilities

Details of the significant contingent liabilities of the Group are set out in note 41 to the financial statements.

Employees and remuneration policies

The Group employed approximately 230 staff in Hong Kong and other parts of the PRC as at 31 December 2005. Remuneration packages are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments and year-end discretionary bonuses, the Group also provides other employment benefits including medical insurance cover, provident fund and educational subsidies to eligible staff.

Business and operations review

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

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SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
CONTINUING OPERATIONS					
TURNOVER	1,015,001	1,044,491	828,261	801,902	665,135
Profit/(loss) for the year from continuing operations	5,412	12,879	(25,889)	(57,307)	(128,418)
DISCONTINUED OPERATION					
Profit/(loss) for the year from discontinued operation	(1,960)	61	(1,511)	(1,342)	(1,753)
PROFIT/(LOSS) FOR THE YEAR	3,452	12,940	(27,400)	(58,649)	(130,171)
Profit/(loss) attributable to:					
- Equity holders of the parent	3,411	12,720	(27,818)	(58,885)	(129,458)
- Minority interests	41	220	418	236	(713)

Assets, liabilities and minority interests

	As at 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
TOTAL ASSETS	438,573	519,166	428,201	436,346	482,892
TOTAL LIABILITIES	(281,105)	(364,893)	(301,575)	(298,671)	(299,361)
MINORITY INTERESTS	-	(1,912)	(1,692)	(1,274)	(1,797)
	157,468	152,361	124,934	136,401	181,734

The information set out above does not form part of the audited financial statements.

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PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 34 and 35 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Under the laws of Bermuda, the Company's reserves available for distribution to shareholders amounted to HK\$97,673,000, as at 31 December 2005.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for 37% of the total purchases for the year and the largest supplier included therein amounted to 13%. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

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DIRECTORS

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

Executive Directors:

James Sai-Wing Wong (*Chairman*)

Stephen Sek-Kee Yu

Frank Kwok-Kit Chu

Peter Chi-Chung Luk (resigned on 11 April 2006)

Non-Executive Director:

Herman Man-Hei Fung

Independent Non-Executive Directors:

William Gage McAfee

David Chung-Shing Wu

Vincent Tian-Quan Mo

In accordance with the Company's Bye-law 87, Messrs. Stephen Sek-Kee Yu and Frank Kwok-Kit Chu will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and still considers them as independent.

BIOGRAPHIES OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director has a service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

REMUNERATION POLICY

The Company's remuneration policy is built upon the principles of providing an equitable, motivating and market-competitive remuneration package that can stimulate and drive staff at all levels to work towards achieving the Group's strategic objectives.

The remuneration of the executive directors of the Company are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Details of the directors' remuneration and the five highest paid individuals in the Company are set out in notes 8 and 9 to the financial statements.

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DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 38 to the financial statements, none of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules, were as follows:

Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
James Sai-Wing Wong	–	–	46,158,319 (Note)	46,158,319	29.10%
Frank Kwok-Kit Chu	48,240	47,840	–	96,080	0.06%
Peter Chi-Chung Luk	–	12,800	–	12,800	0.01%
					<u>29.17%</u>

Note: These shares are held by Multi-Investment Group Limited, a company in which Dr. James Sai-Wing Wong is a director and has a beneficial interest.

The interests of the directors in the share options of the Company are separately disclosed under the share option scheme disclosure in note 35 to the financial statements.

Save as disclosed above and in the share option scheme disclosure in note 35 to the financial statements, as at 31 December 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosure in note 35 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 35 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2005, the interests and short positions of those persons in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company

Name	<i>Notes</i>	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
James Sai-Wing Wong	1	Interest through a controlled corporation	46,158,319	29.10%
Madeline May-Lung Wong	1	Interest through a controlled corporation	46,158,319	29.10%
Lucky Year Finance Limited	1	Interest through a controlled corporation	46,158,319	29.10%
Chinney Holdings Limited	1	Interest through a controlled corporation	46,158,319	29.10%
Chinney Investments, Limited	1	Interest through a controlled corporation	46,158,319	29.10%
Newsworthy Resources Limited	1	Interest through a controlled corporation	46,158,319	29.10%
Multi-Investment Group Limited	1	Beneficial owner	46,158,319	29.10%
Sumitomo Mitsui Banking Corporation	2	Beneficial owner	12,792,000	8.06%

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Long positions in ordinary shares of the Company (Continued)

Name	Notes	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Credit Suisse First Boston International	2	Beneficial owner	12,792,000	8.06%
Dresdner Kleinwort Wasserstein Limited	2	Beneficial owner	12,792,000	8.06%
Krung Thai Bank Public Company Limited	2	Beneficial owner	12,792,000	8.06%
PT. Bank Mandiri (Persero)	2	Beneficial owner	12,792,000	8.06%
PT. NISP Sekuritas	2	Beneficial owner	12,792,000	8.06%

Notes:

- (1) Dr. James Sai-Wing Wong, Ms. Madeline May-Lung Wong, Lucky Year Finance Limited, Chinney Holdings Limited, Chinney Investments Limited, Newsworthy Resources Limited and Multi-Investment Group Limited are deemed to be interested in the same parcel of 46,158,319 shares by virtue of Section 316 of the SFO; and
- (2) These shares are registered in the name of an agent bank on behalf of six banks that comprise a syndicate of lenders to a shareholder of the Company (the "Syndicate"). The Syndicate's interest in the relevant shares was acquired as a result of security given by the shareholder over such shares in respect of a loan advanced to the shareholder by the Syndicate. Such interest became discloseable upon the Syndicate becoming entitled to exercise the power of sale and voting rights in respect of the interest in the shares as a result of a default by the shareholder. Accordingly, Sumitomo Mitsui Banking Corporation, Credit Suisse First Boston International, Dresdner Kleinwort Wasserstein Limited, Krung Thai Bank Public Company Limited, PT. Bank Mandiri (Persero) and PT. NISP Sekuritas are each deemed to have a security interest in the relevant shares.

No share options of the Company were held by the above shareholders as at 31 December 2005.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected transactions, particulars of which have been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

1. A sale and purchase agreement dated 27 September 2005 was entered into between DMT International Hong Kong Limited (as vendor), a wholly-owned subsidiary of the Company, and Mr. Yee-Cheong Lung (as purchaser), a director of DMT PVC Compounding Ltd. ("DMT PVC") as well as a shareholder holding 30% of equity interest in DMT PVC, in relation to the sale and purchase of a 30% equity interest in DMT PVC for a cash consideration of HK\$888,000.

The consideration of HK\$888,000 was negotiated between the parties at arm's length on normal commercial terms, having regard to the adjusted net assets of DMT PVC of about HK\$2,960,000 as at 30 June 2005. The disposal of DMT PVC reduced the Group's investment in the plastic manufacturing business undertaken by DMT PVC and enable the Group to divert its resources to its principal business of the trading of plastics.

The transaction constituted a connected transaction of the Company under the Listing Rules but was exempt from seeking independent shareholders' approval. Details of the transaction are set out in the Company's announcement dated 27 September 2005. The transaction was completed on 25 October 2005.

2. A sale and purchase agreement dated 26 October 2005 was entered into between Best Treasure Limited (as vendor), a wholly-owned subsidiary of the Company, Chinney Construction (BVI) Limited (as purchaser), an 86.05% owned subsidiary of Chinney Investments, Limited which is a substantial shareholder of the Company, and the Company as vendor's guarantor in relation to the sale and purchase of the entire issued share capital of Jackson Mercantile Trading Company Limited ("JMT") for a cash consideration of HK\$7,800,000.

The consideration of HK\$7,800,000 was negotiated between the parties at arm's length on normal commercial terms, having regard to the unaudited pro forma net assets of JMT of about HK\$7,800,000 as at 10 October 2005 (adjusted for the market value of the Property as defined below as at 26 October 2005). JMT discontinued the wholesaling of electrical home appliances in June 2005. The significant asset left behind in JMT was a workshop and a carparking space in Cheung Sha Wan (the "Property"), which value was assessed by an independent property valuer to be HK\$11,500,000 as at 26 October 2005. The significant liability left behind was a bank mortgage of HK\$5,000,000 over the Property as at 10 October 2005. The disposal of JMT freed up discontinued assets of the Group into cash for working capital use.

The transaction constituted a discloseable and connected transaction of the Company under the Listing Rules but was exempt from seeking independent shareholders' approval. Details of the transaction are set out in the Company's announcement dated 26 October 2005 and the circular to the shareholders of the Company dated 11 November 2005. The transaction was completed on 9 November 2005.

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SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 43 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Stephen Sek-Kee Yu

Director

Hong Kong, 11 April 2006