BUSINESS REVIEW

The Group is principally engaged in (i) manufacture and sale of paints and blended solvents; (ii) manufacture and sale of plastic colorants; and (iii) trading of chemical materials. For the year ended 31st March 2006, the Group achieved a turnover of approximately HK$262,918,000. This represents a trifling decrease in turnover of 7.57%, an increase in gross profit margin by 2.02% and turn around from the restated net loss attributable to equity shareholders of the Company of HK$6,584,000 to net profit attributable to equity shareholders of the Company of approximately HK$11,536,000 over last year.

The period under review was still a hard time for our operation being characterized by intense competition together with the prevailingly record high international crude-oil prices, resulting in the moderately low marketing profit. With the market uncertainties, the Group's customers became cautious and delayed in placing orders. Against the backdrop of adverse market condition, the Group's business strategy was premised on the reinforcement of operating cash flow by means of merging customer base and stringent control over costs.

To balance off the negative impact of the increase in raw material costs, the Group continued to exert strict cost control. As a result of the Group's relentless effort in reviewing and streamlining the core operating processes, the administrative expenses were significantly curtailed particularly by way of rationalising the overall headcount within the Group's operation.

In August 2005 following the completion of acquisition of Dongguan City Changan Xinyimei Paint Company Limited ("Dongguan Xinyimei"), which was specialised in manufacture and sales of wooden furniture and industrial coatings, both product mix and market segments of the Group could capitalise its core competence in production and distribution through a more efficient and effective allocation of resources over the existing production plants in Dongguan.

Furthermore, the Group also completed to acquire the Zhongshan Wing Shing Ling Feng Chemical Company Limited ("Ling Feng") in November 2005, which was strong in manufacture and sale of paints and blended solvents, manufacture and sale of plastic colorants and trading of chemical material. Since Ling Feng has built up its sales channel, the Group further broadens the products mix in wooden furniture and decorative coating for household usage, with extensive sales network scattered over the northern and eastern mainland. After these acquisitions, our annual production capacity rises to 30,000 tone per annum and now the operation is not at full capacity.

The acquisitions can broaden and supplement the market segments of the Group and create synergies in terms of greater economies of scale and utilisation of management expertise. In taking advantage of the geographic proximity, the Group could capitalise its core competence in production and distribution through a more efficient and effective allocation of resources over the existing production plants in Dongguan and sales outlets in Yangtze and Pearl River Deltas. In the wake of the completion of the acquisitions, it is expected to bring a good contribution in the coming years.

Paints and blended solvents

The division recorded a turnover of approximately HK$244,909,000 (2005: HK$269,693,000), or a decrease of 9.19% over the previous year. The division contributed an operating profit of HK$13,925,000 for the year under review. As compared with HK$2,180,000 for the last corresponding period, the annual increment is 539% .

During the period under review, as the international crude oil price and the cost of the petroleum-based raw materials such as solvents, resins and additives were standing high; customers became cautious and delayed in placing orders. The export industries on the whole were in a hard time, with demand tending to weak. The market, in general can accept raw material costs increase as the price of petroleum-based raw material increase. The sales order can keep as much a reasonable profit to pass on to customers after a time lag.

In terms of market segment, demands for toy paints and metal paints, which were highly vulnerable to the oil price volatility, had showed less briskly than other products like cabinet and UV cured plastic paints during the year.

The Group anticipates that the Paints and Blended Solvents division will continue to be an important contributor to the Group's profits. The Group will further deploy its marketing strategies to gain the market share.

Plastic colorants

The division contributed a turnover of approximately HK$10,710,000 (2005: HK$8,523,000), up 25.66% from previous year. Plastic colorants are supplementary raw material widely used by the toy, electronics, printing and furniture industries. As the Group successfully reduced the direct costs relating to raw materials and labour, the division contributed a profit of HK$982,000 for the year under review, as compared with a loss of HK$1,731,000 in the previous year.

There is no doubt that the China plastic colorants market is large but with keen competition. For the last few years, the Group has established a sound reputation. It is expected that the business will continue to grow in the foreseeable future.

Chemical trading

The division accounted for a turnover of approximately HK$7,299,000 (2005: HK$6,262,000), up 16.56% as compared to previous year. The division also contributed a profit of HK$189,000 for the year under review, as compared with a loss of HK$503,000 for the previous year.

During the review period, the Group's trading business line has gained from the fluctuation of international crude oil price on world-wide scale. The Group performed a good result by good financial planning and good logistics control.

Implementation of ERP system

The newly installed ERP system has been organisation-wide implemented during the year. The management recognises that it will further enhance the Group's capabilities in the areas of costing, pricing and financial management. It is expected that the daily operation will be more efficiency and effectiveness and the economic benefits will be shown prominently in the coming years.

Commitment to environmental protection

The newly acquired subsidiary in Zhongshan had been accredited the ISO14000 environmental protection license, the Group will continuously commit to environmental protection on its production facilities in China. Furthermore, the implementation of "Safety in Production Permit Rule" encourages the Group to invest in the infrastructure for safety and more environmental production. The Group will be benefited from such facilities that will greatly reduce the production costs, wastage and pollution. It will definitely improve the corporate image and customer relationship satisfaction that will help the Group enhance competitive edge.

FUTURE PROSPECT

Faced with the huge difficulties last year, the Group successfully optimized product mix to expedite new product development for marketing-based growth; cost efficient initiatives were also carried out under the total cost-oriented strategy to sharpen the competitive edge in the market. The Group will continue to improve the profit margin by enhancing more flexible pricing strategy to transfer the increment of costs to customers and develop some high profit margin products such as water-base and environmental grade furniture coatings. In addition, the Group will continue to focus on the improvement of production quality of products and also try to shorten the sales channel by direct selling approach.

According to the "Safety in Production Permit Rule (State Council rule no. 397)", "Dangerous Chemistry Enterprise Safety in Production Permit Implementation Means (The National Safety Supervises the Administrative Bureau Rule no. 10)", all chemical industry should apply the "Dangerous Material Production Enterprise Safety in Production Permit" for the daily operation. At 30th June 2006, the Group's wholly-owned subsidiary in Dongguan was successfully awarded the permit issued by the Guangdong Province Safety in Production Surveillance Administrative Bureau. Accompanying with the strictly execution of the new national safety policy to chemical industry, management believes that the operation of some small coating factories will be forced to halt giving rise to an opportunity for further market expansion for the Group in the coming years.

For research and development, the Company is now co-operating with partners to investigate a colour mixing system. Such colour mixing system can be installed in remote sites and communicate with customers directly. All the samples will be mixed automatically through the system, with definitely the same as the customer requirement with uniform standard. The customer can further mix their unique colour pattern. As a result, all colour formula would be stored systematically; customers might come back because they are not easy to obtain a standardised colour sample elsewhere.

As China's economy grows, China's industrial development will also grow at similar pace. While the Group expects China continue to be the most important market for our products, we will further develop our sales channel in next phases.

DIVIDENDS

No interim dividend was paid or declared in respect of the year ended 31st March 2006 (2005: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st March 2006 (2005: Nil).

FINANCIAL REVIEW

REVENUE AND OPERATING RESULTS

For the year ended 31st March 2006, the Group recorded a turnover of approximately HK$262,918,000. The Group achieved a profit attributable to shareholders of HK$11,536,000 for the year. Pursuant to the adoption of the new Hong Kong Financial Reporting Standards – 3, Business Combination, the Group's newly acquired subsidiaries have been revalued as at 31st March 2006 thus resulting in a negative goodwill of HK$5,065,000 being recognized in the income statement for the year.

The distribution costs of the Group for the financial year amounted to approximately HK$16,962,000, representing a slightly increase of approximately 1.3%. Excluding those of the two newly acquired subsidiaries, Zhongshan Wing Shing Ling Feng Chemical Company Limited and Dongguan City Changan Xinyimei Paint Company Limited, the actual distribution costs dropped by approximately 4.0% as compared to the previous year. The decrease in distribution costs was mainly due to the enhancement of sales force efficiency resulting in the reduction of sales commission expenses.

The administrative expenses of the Group for the financial year under review amounted to approximately HK$27,603,000, representing a decrease of approximately 9.3% year-to-year. Excluding those of the aforesaid newly acquired subsidiaries, the actual costs dropped by approximately 15.0% as compared to the previous year. The decrease is mainly due to the share of administration costs of the synergy effects.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operating cash flow remains stable, and a suitable level of cash holding being maintained. During the financial year under review, the Company has issued 142,000,000 new shares and raised net proceeds of approximately HK$19,814,000 for its general working capital. In addition, 8,500,000 share options were exercised by staff at exercised price of HK$0.178 per share. The gross proceeds amount is approximately HK$1,513,000.

In general, the Group finances its operations with internally generated cash flow and banking facilities from banks. As at 31st March 2006, the Group had bank balances and cash of approximately HK$17,632,000 (2005: HK$17,050,000) and total outstanding borrowings of approximately HK$84,675,000 (2005: HK$100,779,000). Current assets of the Group amounted to approximately HK$123,916,000 (2005: HK$147,820,000) whilst current liabilities were approximately HK$130,407,000 (2005: HK$135,427,000). It is mainly due to consolidate a short term loan with outstanding amount of approximately HK$11,442,000.

The gearing ratio, calculated by dividing the total borrowing by the total assets, was equal to 31% as at 31st March 2006 (2005: 41%).

The Group was required to satisfy certain restrictive financial covenants imposed by a major bank. The financial covenants include, among other things, the maintenance of the minimum current ratio (the consolidated current assets to the consolidated current liabilities) shall be not less than 1.2:1 as at 31st March 2006. The Group did not fulfill this financial covenant as at 31st March 2006, but obtained waivers from the relevant bank in respect of such non-compliance.

As at 31st March 2006, the Group's banking facilities totaling approximately HK$171,066,000 (2005: HK$206,397,000) granted by various banks at prevailing market interest rates. The management is of the view that the Group's incoming cash flow from business operations together with the available banking facilities will provide sufficient funds for the Group to meet the requirements for present operation and further business development in the foreseeable future.

PLEDGE OF ASSETS

As at 31st March 2006, certain of the Group's assets with a net book value of approximately HK41,608,000 were pledged to secure banking facilities granted to the Group. As at 31st March 2005, no assets of the Group were pledged.

EXPOSURE TO FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group's business transactions are mainly denominated in Hong Kong dollars and Renminbi. Most interest bearing bank borrowings of the Group are on floating rate basis. Foreign currency exposure is monitored closely by the management and hedged by forward foreign currency contracts. The Group also uses derivative financial instruments to manage interest rate exposures for hedging purpose only.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st March 2006, the Group had an aggregate of 507 (2005: 562) employees of which about 492 (2005: 535) located in mainland China while the rest were based in Hong Kong and Macau. The employee's remuneration package includes salary, bonus and share options. Pursuant to the Group's remuneration policy, employees are rewarded on the basis of merit and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees located.

DISCLOSURES PURSUANT TO RULES 13.21 0F THE LISTING RULES

In accordance with the disclosure requirements of rule 13.21 of the Listing Rules, the Company makes the following disclosures in relation to the details of the Facility Letter (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company:–

On 7th May 2004, the Group has accepted a facility letter dated 6th May 2004 (the "Facility Letter") issued by a bank in Hong Kong (the "Bank') in relation to various working capital facilities up to the aggregate amount of HK$68,000,000 including a term loan facility up to HK$40,000,000 (collectively, the "Facilities"). The Facilities are subject to periodic review by the Bank at its sole discretion.

Under the provisions of the Facility Letter, there are conditions, among other things, that (1) Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall collectively maintain at least 50% of the issued share capital of the Company and (2) Mr. Poon Sum shall remain as Chairman or Chief Executive Officer of the Group and shall be actively involved in the management and business of the Group. Should there be any breach of such conditions; the Bank shall have the right to demand for repayment of all outstanding amounts due by the Group under the Facilities.

On 30th November 2004, the Group has accepted the renewal of the Facilities by the Bank together with the same conditions imposing specific performance obligations on the controlling shareholder as described above. The aggregate facilities amount has been revised to HK$66,708,333.35 following the reducing balance of the term loan facility made by the Group's installment repayment as scheduled.

On 19th October 2005, the Group has accepted the further renewal of the Facilities by the Bank up to the aggregate amount of HK$48,388,894.30 together with the same conditions imposing specific performance obligations on the controlling shareholder as described above, save as the amendment to the condition, "that Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall collectively maintain at least 40% of the issued share capital of the Company is allowed subject to the maintenance of the consolidated tangible net worth by the Group at not less than HK$100,000,000 throughout the life of all the Facilities" as duly renewed by the Bank. Consolidated net worth is defined as shareholders' equity less any intangible assets, deferred expenditure, loan due from directors and loan due from third party companies.

CLOSURE OF REGISTERS OF MEMBERS AND WARRANTHOLDERS

The registers of members and warrantholders of the Company will be closed from Monday, 21st August 2006 to Friday, 25th August 2006, both days inclusive, during which period no transfer of shares will be affected and no transfer or exercise of warrants will be affected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates or all completed subscription forms in relation to the exercise of the warrants accompanied by the appropriate subscription monies and the relevant warrant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 18th August 2006.