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, and its ultimate holding company is Mulpha International Bhd., a company incorporated in Malaysia with its shares listed on the 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 14 and 31.

The consolidated financial statements are presented in Hong Kong dollars, which is 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, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

At the date of authorisation of the consolidated financial statements, the Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st March, 2006
[4] Effective for annual periods beginning on or after 1st May, 2006
[5] Effective for annual periods beginning on or after 1st June, 2006
[6] Effective for annual periods beginning on or after 1st November, 2006
[7] Effective for annual periods beginning on or after 1st March, 2007
[8] Effective for annual periods beginning on or after 1st January, 2008

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 Rule") 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.

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

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 associate, 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.

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 returns and allowances.

Sales of goods are recognised when goods are delivered and title has passed.

Management fee income and royalty fee income is 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.

Property, plant and equipment

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

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

Construction in progress represents property, plant and equipment in the course of construction for production and administrative purposes. Construction in progress is carried at cost less any identified 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)

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.

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.

Inventories

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 trade and other receivables, advances to associates, dividend receivable from an associate, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

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. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

Financial liabilities and equity instruments

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 amount due to a related company) are measured at amortised cost, using the effective interest method, subsequent to initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Borrowing costs

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

Leasing

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

Payments to the defined contribution retirement benefits plan, 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND MANAGEMENT JUDGEMENT

In the process of applying the Group's accounting policies (as stated in note 3 to the consolidated financial statements), management has made the following estimates and judgement that have significant effect on the amounts recognised in the financial statements:

Allowance for trade and other receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Inventory valuation method

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Market price is generally the merchandise selling price quoted from the market of similar items. The Group reviews its inventory levels in order to identify slow-moving and obsolete merchandise, where the Group identified items of inventory has a market price lower than its carrying amount, the Group estimates the amount of inventory loss as allowance on inventory.

Taxation

As stated in note 9, the Hong Kong Inland Revenue Department (the "IRD") has issued additional assessments in aggregate of approximately HK$11,001,000 relating to certain years of assessment, disallowing the offshore claims. Income tax expense of HK$10,000,000 has been recognised against the tax reserve certificates. Since the tax inquiries are still at the stage of collation of evidence, the ultimate outcome of the tax that would otherwise become payable may change.

5. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, advances to associates, dividend receivable from an associate, bank balances, trade and other payables, and amount due to a related company. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

Currency risk

The Group has minimal foreign currency exposure as the Group's sales and purchases transactions are mainly denominated in the functional currency of the relevant group entity. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Directors have 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 bank balances is limited as the counterparties are banks with high credit-ratings.

However, the Group is exposed to concentration of credit risk because as at 31st December, 2006, approximately 18% (2005: 20%) of trade receivables is due from the associates and advance of HK$15,000,000 (2005: HK$15,740,000) has been made to an associate. Apart from this, the Group does not have any other significant concentration of credit risk.

Liquidity risk

The Group finances its operations by its working capital. Adequate fundings are maintained to ensure the necessary liquidity is available when required.

5. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value

The fair values of the Group's financial assets and financial liabilities (including trade and other receivables, advances to associates, dividend receivable from an associate, bank balances, trade and other payables, and amount due to a related company) 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 approximate their corresponding fair values due to their immediate or short-term to maturity.

6. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of returns and allowances, during the year.

The Group is principally engaged in manufacturing and trading of liquid coatings, powder coatings and solvents which are subject to the same risks and returns and which accounts for more than 90% of the turnover and profits of the Group for the years ended 31st December, 2006 and 31st December, 2005. Accordingly, no business segment is presented.

The Group also operates within one geographical segment because its revenue is primarily generated in the PRC and Hong Kong and all identifiable assets of the Group are located in the PRC and Hong Kong. Accordingly, no geographical segment is presented.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' Remuneration

The emoluments paid or payable to each of the nine (2005: nine) Directors were as follows:

	Yuen Shu Wah HK$'000	Ko Jack Lum HK$'000	Ng Kai On HK$'000	Chung Tze Hien HK$'000	Ng Seng Nam HK$'000	Tan Peng Koon HK$'000	Lau Siu Ki, Kevin HK$'000	Wu Wing Kit HK$'000	Chui Hong Sheung HK$'000	Total HK$'000
2006										
Fees	—	—	—	—	—	—	100	100	100	300
Other emoluments										
Salaries and other benefits	3,276	4,058	835	—	—	—	—	—	—	8,169
Contributions to retirement benefits schemes	102	102	52	—	—	—	—	—	—	256
Total emoluments	3,378	4,160	887	—	—	—	100	100	100	8,725
2005										
Fees	—	—	—	—	—	—	100	100	100	300
Other emoluments										
Salaries and other benefits	1,235	4,720	792	—	—	—	—	—	—	6,747
Contributions to retirement benefits schemes	99	99	50	—	—	—	—	—	—	248
Total emoluments	1,334	4,819	842	—	—	—	100	100	100	7,295

During the year, Director's emolument of approximately HK$1,200,000 (2005: HK$3,680,000) was waived by Mr. Yuen Shu Wah.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2005: three) were Directors of the Company whose emoluments are included in the disclosures in note 7(a) above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**1,281**	1,699
Retirement benefit scheme contribution	**55**	71
	1,336	1,770

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**—**	1

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.

8. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration		
Fees	300	300
Other emoluments	8,425	6,995
Other staff costs	50,115	50,257
Total staff costs	58,840	57,552
Allowance for trade receivables	92	416
Amortisation of prepaid lease payments	200	198
Auditor's remuneration	872	608
Cost of inventories recognised as expense	219,002	261,699
Depreciation of property, plant and equipment	9,451	7,010
Loss on disposal of property, plant and equipment	775	178
Operating lease rentals in respect of rented premises	968	832
Share of taxation of associates (included in share of profits of associates)	3,054	2,028
and after crediting:		
Exchange gain, net	1,846	558
Interest income		
Bank deposits	732	217
Advance to associates	1,393	1,081
Investments held for trading	—	98
Gain on disposal of listed investments held for trading	—	110
Dividend income from listed investments held for trading	—	51

9. TAXATION

	2006 HK$'000	2005 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	**2,450**	3,172
(Over)underprovision in prior year	**(14)**	64
	2,436	3,236
Estimated provision relating to prior years	**10,000**	—
	12,436	3,236
PRC income tax		
Current year	**520**	1,677
(Over)underprovision in prior year	**(8)**	758
	512	2,435
Deferred taxation (note 17)	**94**	(43)
	13,042	5,628

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. The tax holiday will expire in 2007.

9. TAXATION (Continued)

Pursuant to the enquiry letters raised by the IRD against a wholly-owned subsidiary of the Company regarding its offshore claim in respect of its production activities for the prior years, the IRD issued additional assessments for years of assessment 2002/03, 2003/04, 2004/05 and 2005/06 in aggregate of approximately HK$11,001,000, disallowing the offshore claims. The Group had lodged objections against the additional assessments and purchased tax reserve certificates totalling HK$11,001,000. In the opinion of the Directors, in view that the tax inquiries are still at the stage of collation of evidence, the ultimate outcome of these tax inquiries remained undetermined and the Group will defend vigorously against the additional assessments. Nevertheless, an amount of HK$10,000,000 has been recognised as income tax expense against the tax reserve certificates, and the remaining amount of tax reserve certificates of HK$1,001,000 was included in tax recoverable as at 31st December, 2006.

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

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**42,008**	57,189
Less: Share of profits of associates	**(17,451)**	(11,591)
	24,557	45,598
Tax at Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**4,297**	7,980
Estimated provision for Hong Kong Profits Tax relating to prior years	**10,000**	—
Tax effect of expenses not deductible for tax purpose	**1,382**	4,386
Tax effect of profit not chargeable to tax	**—**	(3,071)
Tax effect of income not taxable for tax purpose	**(2,533)**	(4,078)
Effect of tax exemptions granted to PRC subsidiaries	**(321)**	(792)
Effect of different tax rates of subsidiaries operating in the PRC	**239**	381
(Over)underprovision in respect of prior year	**(22)**	822
Taxation charge for the year	**13,042**	5,628

Details of deferred taxation are set out in note 17.

For the year ended 31st December, 2006

10. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividends paid during the year:		
2006 Interim — HK3 cents (2005: 2005 Interim — HK3.5 cents) per ordinary share	7,500	8,750
2005 Final — HK3 cents (2005: 2004 Final — HK3 cents) per ordinary share	7,500	7,500
2005 Special — HK5 cents (2005: 2004 Special — HK3.5 cents) per ordinary share	12,500	8,750
	27,500	25,000

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, 2006. The proposed dividend for 2006 is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year of HK$28,966,000 (2005: HK$51,561,000) and on 250,000,000 (2005: 250,000,000) shares in issue throughout 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.

For the year ended 31st December, 2006

12. 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, 2005	29,356	6,581	15,074	7,378	20,217	6,210	84,816
Currency realignment	478	148	313	124	427	312	1,802
Additions	1,790	1,528	2,973	681	1,684	11,117	19,773
Transfer	11,098	289	23	—	—	(11,410)	—
Disposals	(48)	(26)	(1,413)	(590)	(1,096)	—	(3,173)
At 31st December, 2005	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**
DEPRECIATION							
At 1st January, 2005	7,641	3,351	8,666	3,522	9,060	—	32,240
Currency realignment	129	75	159	62	176	—	601
Provided for the year	1,223	1,417	1,858	1,041	1,471	—	7,010
Eliminated on disposals	(24)	(12)	(1,039)	(531)	(370)	—	(1,976)
At 31st December, 2005	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**
CARRYING VALUES							
At 31st December, 2006	**38,463**	**6,640**	**8,472**	**3,390**	**12,964**	**489**	**70,418**
At 31st December, 2005	33,705	3,689	7,326	3,499	10,895	6,229	65,343

12. 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 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:

	2006 HK$'000	2005 HK$'000
Medium-term leases in Hong Kong	6,024	6,187
Medium-term leases in the PRC	30,676	25,728
Short-term leases in the PRC	1,763	1,790
	38,463	33,705

The Group has pledged certain land and buildings in Hong Kong with a carrying value of approximately HK$2,204,000 (2005: HK$2,500,000) to a bank to secure general banking facilities granted to the Group.

13. 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:

	2006 HK$'000	2005 HK$'000
Non-current asset	8,082	7,999
Current asset	203	199
	8,285	8,198

14. INTERESTS IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Unlisted investments, at cost	**178**	178
Share of post-acquisition exchange reserve	**1,891**	335
Share of post-acquisition profits, net of dividends received	**39,955**	26,104
	42,024	26,617

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

Name of associate	Place of incorporation or establishment/ operations	Attributable equity interest held	Principal activities
Chemfield Trading Company Limited ("Chemfield")	Hong Kong	49%	Inactive
Weilburger Manfield Limited ("Weilburger Manfield")	Hong Kong	45%	Investment holding
Subsidiaries of Weilburger Manfield			
Weilburger Manfield Chemical (Shenzhen) Limited	PRC	100%	In application for liquidation
CMW Coatings (Guangzhou) Limited	PRC	100%	Manufacturing and trading in paints and related products
CMW Coatings (Wuxi) Limited	PRC	100%	Manufacturing and trading in paints and related products
CMW Coatings (Hong Kong) Limited	Hong Kong	100%	Trading in paints and related products

14. INTERESTS IN ASSOCIATES (Continued)

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

	2006 HK$'000	2005 HK$'000
Total assets	200,022	162,287
Total liabilities	(106,849)	(103,171)
Net assets	93,173	59,116
Group's share of net assets of associates	42,024	26,617
Revenue	279,441	228,054
Profit for the year	38,660	25,757
Group's share of result of associates for the year	17,451	11,591

15. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'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.

16. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were made by the Group in connection with the acquisition of property, plant and equipment in the PRC and Hong Kong. The amount committed is shown as capital commitment in note 27.

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17. 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, 2005	(12)	88	76
Credit to consolidated income statement	43	—	43
At 31st December, 2005	31	88	119
Charge to consolidated income statement	(8)	(86)	(94)
At 31st December, 2006	**23**	**2**	**25**

18. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**26,312**	22,281
Work in progress	**4,430**	3,532
Finished goods	**2,368**	2,062
	33,110	27,875

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19. ADVANCES TO ASSOCIATES

Name of associate	Terms of advance	2006 HK$'000	2005 HK$'000
Chemfield	Unsecured and bearing interest at 8.4% per annum	—	740
Weilburger Manfield	Unsecured, bearing interest at Hong Kong dollar Prime Rate plus 1% per annum and repayable within one year	15,000	15,000
		15,000	15,740

20. TRADE AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Trade receivables from third parties	66,779	79,434
Trade receivables from associates	14,492	20,274
Other receivables	1,482	1,678
	82,753	101,386

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	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
0 - 30 days	18,841	22,461	12,571	9,614
31 - 60 days	19,517	22,043	1,310	4,524
61 - 90 days	15,223	15,621	274	1,723
Over 90 days	13,198	19,309	337	4,413
	66,779	79,434	14,492	20,274

21. 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 prevailing market interest rate of 2.5% (2005: 1.3%) per annum.

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$27,651,000 (2005: HK$25,842,000).

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

	2006	2005
	HK$'000	HK$'000
0 - 30 days	**16,657**	13,934
31 - 60 days	**8,862**	9,105
61 - 90 days	**1,688**	2,399
Over 90 days	**444**	404
	27,651	25,842

23. DEFERRED INCOME

During the year, 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 (2005: Nil) which have deferred to recognise as income over the estimated product life of 2 years. The Group recognised a licence fee income of HK$3,195,000 for the year and the remaining amount of HK$3,195,000 is included under deferred income as at 31st December, 2006. Under this arrangement, the Group also received an annual royalty fee totalling HK$1,934,000 based on a pre-determined percentage on the relevant sales for the year.

24. AMOUNT DUE TO A RELATED COMPANY

The amount is owed to Sheffield Chemical Company Limited, a company in which Mr. Yuen Shu Wah, a Director of the Company, has a beneficial interest. The amount is unsecured, interest-free and repayable on demand.

25. SHARE CAPITAL

	Number of shares 2006 & 2005	Amount 2006 & 2005 HK$'000
Ordinary shares of HK$0.1 each:		
Authorised	1,000,000,000	100,000
Issued and fully paid	250,000,000	25,000

26. 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:

	2006 HK$'000	2005 HK$'000
Within one year	791	456
In the second to fifth year inclusive	2,545	1,539
Over five years	6,666	6,822
	10,002	8,817

Leases are negotiated and monthly rentals are fixed for terms ranging from 2 to 50 years.

27. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	511	1,803

28. 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 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 ended 31st December, 2006 is approximately HK$3,712,000 (2005: HK$3,612,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contribution for both years.

29. 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	2006 HK$'000	2005 HK$'000
Connected and related party:			
An associate (note a)	Interest income received by the Group (note b)	52	96
	Advances by the Group (note b)	—	740
Related parties:			
Other associates	Sales of goods by the Group	60,238	84,936
	Subcontracting income received by the Group	—	9,958
	Purchases of goods by the Group	7,978	917
	Management fee income received by the Group	6,191	2,605
	Sales of property, plant and equipment by the Group	1,091	756
	Licence fee income received by the Group (note 23)	3,195	—
	Royalty fee income received by the Group (note 23)	1,934	—
	Dividend income received by the Group	3,600	2,700
	Interest income received by the Group (note b)	1,341	985
	Advances by the Group (note b)	15,000	15,000
	Trade receivables by the Group (note b)	14,492	20,274
	Dividend receivable by the Group	6,300	2,700

Notes:

(a) The associate in which Mr. Yuen Shu Wah, a Director of the Company, has beneficial interest, is also deemed to be connected party in accordance with the provisions under Listing Rules.

(b) The terms of the advances and trade receivables are set out in notes 19 and 20, respectively.

29. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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:

	2006 HK$'000	2005 HK$'000
Short-term benefits	9,750	8,746
Retirement benefits scheme contribution	311	319
	10,061	9,065

30. BALANCE SHEET OF THE COMPANY

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

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries		119,072	119,072
Current assets			
Amounts due from subsidiaries	(a)	47,916	52,865
Deposit and prepayment		145	145
Bank balance		103	71
		48,164	53,081
		167,236	172,153
Capital and reserves			
Share capital		25,000	25,000
Reserves	(b)	142,236	147,153
		167,236	172,153

30. BALANCE SHEET OF THE COMPANY (Continued)

Notes:

(a) The amounts are unsecured, interest-free and recoverable 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, 2005	4,242	119,071	15,043	138,356
Profit for the year	—	—	33,797	33,797
Dividends	—	—	(25,000)	(25,000)
At 31st December, 2005	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**

(c) At 31st December, 2006, the Company had given guarantees to banks in respect of undrawn credit facilities granted to subsidiaries to the extent of HK$19,000,000 (2005: HK$19,000,000).

31. SUBSIDIARIES

Details of the Company's subsidiaries at 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	Indirectly	Principal activities
Rookwood Investments Limited	British Virgin Islands	US$100 Ordinary	100%	—	Investment holding
Manfield Coatings Company Limited	Hong Kong	HK$1,000 Ordinary HK$32,000,000 Non-voting class A (note i)	—	100%	Investment holding and trading in paints and related products
Manfield Chemical Limited	Hong Kong	HK$10,000 Ordinary	—	100%	Investment holding
Shenzhen Pinefield Chemical Enterprises Co., Ltd.	PRC (note ii)	US$1,500,000 Paid-up registered capital	—	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	—	100%	Manufacture of paints and trading in petrochemical and related products

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.

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

32. POST BALANCE SHEET EVENT

On 30th March, 2007, the Group entered into a joint venture agreement, pursuant to which the parties have agreed to form a joint venture company to principally engage in manufacture of acrylic stoving enamel in the PRC. The registered capital of the joint venture company is HK$42,000,000 owned as to 80% by the Group. The Group shall make capital contribution in the form of cash and/or raw materials in the aggregate sum of HK$33,600,000.