

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Mulpha International Bhd, a public company listed on the Main Board of the Bursa Malaysia Securities Berhad.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are presented. These new HKFRSs may result in changes in the future as to how the results and financial position are presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associates 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.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Interests in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus unamortised goodwill less any identified impairment loss.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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, amortisation and impairment losses.

Construction in progress for production and administrative purposes are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Property, plant and equipment** *(continued)*

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	2%
Buildings in Hong Kong	2%
Buildings outside Hong Kong on medium term leases (including renewal period)	Over the shorter of the term of the lease or 50 years
Leasehold improvements	4.5%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	18% – 25%
Plant, machinery and equipment	4% – 18%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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. Impairment losses are 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, such 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.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments in securities** *(continued)*

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated into Hong Kong dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

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 net profit as reported in the 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the 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 probable 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 profit 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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

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

Retirement benefits costs

Payments to the Group's defined contribution retirement benefits plan, the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged to the income statement as an expense as they fall due.

4. SEGMENTAL INFORMATION

Business Segments

For management purposes, the Group is currently organised into three operating divisions – liquid coatings, powder coatings and solvents. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Liquid coatings	–	manufacture and distribution of liquid coatings
Powder coatings	–	manufacture and distribution of powder coatings
Solvents	–	manufacture and distribution of solvents

4. SEGMENTAL INFORMATION *(continued)***Business Segments** *(continued)*

Segmental information about these business is presented below:

INCOME STATEMENT

For the year ended 31st December, 2004

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER					
External sales	277,654	30,146	61,989	-	369,789
Inter-segment sales	99,206	13,374	10,449	(123,029)	-
Total sales	376,860	43,520	72,438	(123,029)	369,789
Inter-segment sales are charged at prevailing market rates.					
CONTRIBUTION					
TO PROFIT FROM					
OPERATIONS	29,798	95	6,773	-	36,666
Other operating income					8,123
Finance costs					(4)
Share of profits of associates					13,774
Profit before taxation					58,559
Income tax expense					(7,738)
Profit for the year					50,821

4. SEGMENTAL INFORMATION *(continued)***Business Segments** *(continued)***ASSETS AND LIABILITIES***At 31st December, 2004*

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Total HK\$'000
ASSETS				
Segment assets	176,806	15,392	39,975	232,173
Interests in associates				18,632
Unallocated corporate assets				67,656
Consolidated total assets				318,461
LIABILITIES				
Segmental liabilities	62,353	6,770	13,920	83,043
Unallocated corporate liabilities				407
Consolidated total liabilities				83,450

OTHER INFORMATION*For the year ended 31st December, 2004*

Capital expenditure	17,805	1,933	3,975	23,713
Depreciation and amortisation	4,696	510	1,049	6,255
Allowance for bad and doubtful debts	288	31	64	383

4. SEGMENTAL INFORMATION (continued)**Business Segments** (continued)**INCOME STATEMENT**

For the year ended 31st December, 2003

	Liquid coatings	Powder coatings	Solvents	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External sales	212,108	28,848	42,844	–	283,800
Inter-segment sales	87,302	15,001	13,600	(115,903)	–
Total sales	<u>299,410</u>	<u>43,849</u>	<u>56,444</u>	<u>(115,903)</u>	<u>283,800</u>

Inter-segment sales are charged at prevailing market rates.

CONTRIBUTION

TO PROFIT FROM OPERATIONS	<u>35,107</u>	<u>956</u>	<u>4,378</u>	<u>–</u>	<u>40,441</u>
Other operating income					9,213
Finance costs					(4)
Loss on dissolution of a subsidiary					(5)
Share of profits of associates					<u>7,529</u>
Profit before taxation					57,174
Income tax expense					<u>(6,594)</u>
Profit for the year					<u>50,580</u>

4. SEGMENTAL INFORMATION (continued)**Business Segments** (continued)**ASSETS AND LIABILITIES**

At 31st December, 2003

	Liquid coatings	Powder coatings	Solvents	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segment assets	120,321	14,482	25,031	159,834
Interests in associates				10,578
Unallocated corporate assets				85,382
Consolidated total assets				<u>255,794</u>
LIABILITIES				
Segmental liabilities	34,776	4,730	7,024	46,530
Unallocated corporate liabilities				1,450
Consolidated total liabilities				<u>47,980</u>

OTHER INFORMATION

For the year ended 31st December, 2003

Capital expenditure	8,871	1,188	1,765	11,824
Depreciation and amortisation	3,536	481	715	4,732
Allowance for bad and doubtful debts	2,548	347	515	3,410

Geographical Segments

The Group's activities and operations are based in the PRC including Hong Kong. Accordingly, a geographical analysis is not presented.

5. PROFIT FROM OPERATIONS

	2004	2003
	HK\$'000	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' remuneration		
– fees	200	200
– other emoluments	9,676	8,124
Other staff costs	42,039	36,772
Total staff costs	51,915	45,096
Auditors' remuneration	582	574
Depreciation and amortisation of property, plant and equipment	6,255	4,732
Loss on disposal of property, plant and equipment	–	9
Allowance for bad and doubtful debts	383	3,410
and after crediting:		
Bank interest income	112	508
Interest income from advance to an associate	114	131
Interest income from other investments	610	242
Gain on disposal of property, plant and equipment	355	–
Gain on disposal of other investments	1,451	2,480
Dividend income from other investments, listed	448	400
Unrealised holding gain on other investments	183	457

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS**(a) DIRECTORS' REMUNERATION**

	2004 HK\$'000	2003 <i>HK\$'000</i>
Directors' fees		
Executive	–	–
Non-executive	–	–
Independent Non-executive	200	200
Other emoluments of Executive Directors:		
Salaries and other benefits	3,419	3,557
Retirement benefits scheme contribution	241	239
Bonus	6,016	4,328
	9,876	8,324

The Directors' emoluments were within the following bands:

	2004 Number of Directors	2003 Number of Directors
Nil to HK\$1,000,000	7	8
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)**(b) EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, three (2003: three) were Directors of the Company whose emoluments are included in the disclosures in note 6(a) above. The emoluments of the remaining two (2003: two) individuals were as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Salaries and other benefits	1,685	1,679
Retirement benefits scheme contribution	69	68
	1,754	1,747

Their emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1

During the year, no emoluments were paid by the Group to the Directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors nor the five highest paid individuals has waived any emoluments during the year.

7. INCOME TAX EXPENSE

	2004 HK\$'000	2003 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) on the estimated assessable profit		
– current year	3,295	4,368
– overprovision in prior years	(162)	(163)
Income tax calculated at the rates prevailing in the PRC	1,236	758
Share of taxation of an associate	3,284	1,792
Deferred taxation (<i>note 18</i>)	85	(161)
	7,738	6,594

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

	2004 HK\$'000	2003 <i>HK\$'000</i>
Profit before taxation	58,559	57,174
Tax at Hong Kong Profits Tax rate	10,248	10,005
Tax effect of expenses not deductible for tax purpose	3,911	4,380
Tax effect of income not taxable for tax purpose	(6,107)	(8,034)
Tax effect of utilisation of tax losses previously not recognised	–	(34)
Tax effect of tax losses not recognised	–	207
Effect of tax exemptions granted to PRC subsidiaries	(2,451)	(916)
Effect of different tax rates of subsidiaries operating in the PRC	1,340	675
Tax effect of share of results of an associate	874	474
Utilisation of deferred tax assets not recognised in previous year	85	–
Overprovision in respect of prior year	(162)	(163)
Tax expense for the year	7,738	6,594

Details of deferred taxation are set out in note 18.

8. DIVIDENDS

At a board meeting held on 15th September, 2004, the Directors of the Company declared an interim dividend of HK3.5 cents per share (2003 interim dividend: HK3 cents per share) amounting to HK\$8,750,000 (2003 interim dividend: HK\$7,500,000). The interim dividend was paid on 6th October, 2004 to shareholders whose names appeared on the register of members of the Company on 5th October, 2004.

During the current year, a final dividend of HK3 cents per share and a special dividend of HK3 cents per share, amounting to HK\$7,500,000 and HK\$7,500,000 respectively, were paid to shareholders for the year ended 31st December, 2003.

A final dividend of HK3 cents per share and a special dividend of HK3.5 cents per share have been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2004 is based on the profit for the year of HK\$50,821,000 (2003: HK\$50,580,000) and on 250,000,000 (2003: 250,000,000) shares in issue throughout the year.

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

10. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land and buildings	Leasehold improve- ments	Furniture, fixtures and office equipment	Motor vehicles	Plant, machinery and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1st January, 2004	455	29,949	5,745	11,484	6,165	17,668	71,466
Currency realignment	1	44	12	18	9	33	117
Additions	12,270	1,547	849	3,541	2,888	2,618	23,713
Reclassification	(828)	379	-	449	-	-	-
Disposals	-	-	(25)	(418)	(1,684)	(102)	(2,229)
At 31st December, 2004	11,898	31,919	6,581	15,074	7,378	20,217	93,067
DEPRECIATION AND AMORTISATION							
At 1st January, 2004	-	6,987	2,084	7,473	4,220	7,641	28,405
Currency realignment	-	10	4	11	5	14	44
Provided for the year	-	1,219	1,278	1,439	908	1,411	6,255
Eliminated on disposals	-	-	(15)	(257)	(1,611)	(6)	(1,889)
At 31st December, 2004	-	8,216	3,351	8,666	3,522	9,060	32,815
NET BOOK VALUES							
At 31st December, 2004	11,898	23,703	3,230	6,408	3,856	11,157	60,252
At 31st December, 2003	455	22,962	3,661	4,011	1,945	10,027	43,061

10. PROPERTY, PLANT AND EQUIPMENT *(continued)*

An analysis of the locations of the properties held at 31st December, 2004 is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Medium term leases in Hong Kong	4,901	3,814
Medium term leases in the PRC	16,965	17,534
Short term leases in the PRC	1,837	1,614
	23,703	22,962

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	119,072	119,072
Amounts due from subsidiaries	44,096	43,696
	163,168	162,768

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of Directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

The carrying value of the unlisted shares is based on the book values of the underlying assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group Reorganisation.

Details of the Company's subsidiaries at 31st December, 2004 are set out in note 28.

12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Share of net assets of associates	17,392	9,138
Advance to an associate	1,240	1,440
	18,632	10,578

Details of the Group's associates at 31st December, 2004 are set out in note 29.

Advance to an associate is unsecured, carries interest at 8.4% per annum calculated on a compounded basis and has no fixed terms of repayment. In the opinion of the Directors, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown in the balance sheet as non-current.

13. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Other investments:		
Unlisted equity interests	10	10
Unlisted bonds	6,666	9,945
	6,676	9,955
Carrying amount analysed for reporting purposes as:		
Non-current	10	10
Current	6,666	9,945
	6,676	9,955

14. INVENTORIES

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	44,771	29,674
Work in progress	6,281	3,195
Finished goods	2,957	3,298
	54,009	36,167

Inventories were carried at cost at the balance sheet date.

15. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$110,820,000 (2003: HK\$76,514,000), of which HK\$43,375,000 (2003: HK\$17,356,000) are trade receivables from associates. An aged analysis of the trade receivables is as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 30 days	35,698	26,709
31 – 60 days	35,933	21,814
61 – 90 days	26,955	13,027
Over 90 days	12,234	14,964
	110,820	76,514

16. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$73,610,000 (2003: HK\$40,421,000), an aged analysis of which is as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 30 days	25,991	17,190
31 – 60 days	23,908	13,476
61 – 90 days	17,443	8,935
Over 90 days	6,268	820
	73,610	40,421

17. AMOUNT DUE TO A RELATED COMPANY

The balance is due 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.

18. DEFERRED TAXATION

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

THE GROUP

	Difference between accounting and tax depreciation <i>HK\$'000</i>	General allowance for bad and doubtful debts <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	–	–	–
Credited to income for the year	73	88	161
At 31st December, 2003	73	88	161
Charged to income for the year	(85)	–	(85)
At 31st December, 2004	(12)	88	76

The Group and the Company had no other material provided and unprovided deferred taxation during the year or at the balance sheet date.

19. SHARE CAPITAL

	Authorised 2004 & 2003	Issued and fully paid 2004 & 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.1 each	100,000	25,000

There were no movements in the share capital of the Company during both years.

20. RESERVES

	Share premium	Contributed surplus	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY				
At 1st January, 2003	4,242	119,071	212	123,525
Profit for the year	–	–	34,818	34,818
Dividends paid	–	–	(20,000)	(20,000)
At 31st December, 2003	4,242	119,071	15,030	138,343
Profit for the year	–	–	23,763	23,763
Dividends paid	–	–	(23,750)	(23,750)
At 31st December, 2004	4,242	119,071	15,043	138,356

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued for the acquisition.

21. DISSOLUTION OF A SUBSIDIARY

	2004 HK\$'000	2003 <i>HK\$'000</i>
Net assets disposed of		
Bank balance	-	200
Minority interest	-	(85)
Net assets	-	115
Loss on dissolution of a subsidiary	-	(5)
	-	110
Residual value received:		
Cash	-	110
Net cash outflow arising on disposal:		
Cash received	-	110
Bank balance disposed of	-	(200)
Net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary	-	(90)

The subsidiary dissolved during the year ended 31st December, 2003 did not contribute significantly to the turnover, operating results and cash flows of the Group.

22. PLEDGE OF ASSETS

At 31st December, 2004, the Group had pledged certain of its land and buildings with a net book value of approximately HK\$2,600,000 (2003: HK\$2,700,000) to a bank to secure credit facilities granted to the Group.

23. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the financial statements	7,405	4,622

The Company did not have any capital commitment at the balance sheet date.

24. OPERATING LEASE COMMITMENTS

The Group has paid approximately HK\$247,000 (2003: HK\$156,000) minimum lease payments under operating leases during the year in respect of office premises.

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Within one year	205	123
In the second to fifth year inclusive	60	60
	265	183

Operating leases payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 2 years and rentals are fixed for an average term of 2 years.

The Company had no commitment for future minimum lease payment in respect of land and buildings at 31st December, 2004 and 2003.

25. CONTINGENT LIABILITIES

At 31st December, 2004, the Company had given guarantees to banks in respect of credit facilities granted to subsidiaries amounting to HK\$19,000,000 (2003: HK\$19,000,000). The subsidiaries had not utilised the facilities at 31st December, 2004. The extent of such facilities utilised by the subsidiaries as at 31st December, 2003 amounted to approximately HK\$145,000.

26. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (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 the year ended 31st December, 2004 which arose upon employees leaving the ORSO Scheme and which was available to reduce the contributions payable in future years (2003: Nil).

Employees in the Group'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 income statement of the Group for the year ended 31st December, 2004, is approximately HK\$2,835,000 (2003: HK\$1,653,000). No forfeited contributions have been applied to reduce the retirement benefits scheme contribution for the year while in 2003 the retirement benefits scheme contributions are net of forfeited contributions of approximately HK\$17,000.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related companies, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The transactions with these companies during the year, and significant balances with them at the balance sheet date, are as follows:

(I) Connected parties

Name of company	Nature of balances	2004 HK\$'000	2003 HK\$'000
<p><i>An associate in which Mr. Yuen Shu Wah, a Director of the Company, has beneficial interest:</i></p> <p>Chemfield Trading Company Limited ("Chemfield")</p>	<p>Balance due from Chemfield (<i>note a</i>)</p>	1,240	1,440

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)**(II) Related parties, other than connected parties**

Name of company	Nature of transactions/balances	2004 HK\$'000	2003 HK\$'000
Associate:			
Weilburger Manfield Limited ("Weilburger")	Management fee income received by the Group (note b)	2,080	2,084
	Royalty fee paid by the Group (note c)	-	891
	Royalty fee received by the Group (note c)	270	837
	Sales of goods by the Group (note d)	16,254	15,002
	Commission paid by the Group (note d)	617	349
	Technical assistance fee income received by the Group (note e)	-	210
	Trade receivables from Weilburger (note f)	3,328	2,376
	Dividend receivable from Weilburger	2,250	3,600
Weilburger Manfield Chemical (Shenzhen) Limited ("Weilbuger Shenzhen")	Sales of goods by the Group (note d)	107,552	12,316
	Trade receivables from Weilburger Shenzhen (note f)	40,000	14,980
CMW Coatings (Guangzhou) Limited ("CMW Coatings")	Trade receivables from CMW Coatings (note f)	47	-
		47	-

Notes:

- (a) The terms of the balance are set out in note 12.
- (b) The management fee was determined by terms agreed by both parties and charged at pre-agreed monthly rate.
- (c) The amounts were charged at pre-agreed rate and in accordance with terms of the licence agreements.
- (d) The transactions were carried out at market prices, or where no market prices were available, at cost plus a percentage of profit mark-up.
- (e) The transactions were determined by terms agreed by both parties.
- (f) A credit period of 60 days is granted to the associates.

28. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2004 are as follows:

Name of company	Place of incorporation or establishment/ operations	Nominal value of issued ordinary share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Rookwood Investments Limited	British Virgin Islands	Ordinary US\$100	100%	–	Investment holding
Manfield Coatings Company Limited	Hong Kong	Ordinary HK\$1,000 Non-voting class A HK\$32,000,000 (note i)	–	100%	Investment holding and trading in paints products
Manfield Chemical Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Investment holding
Shenzhen Pinefield Chemical Enterprises Co., Ltd.	PRC (note ii)	US\$1,500,000	–	100%	Manufacture of paints and trading in petrochemical products
Champion Chemical (Guangzhou) Company Limited	PRC (note ii)	HK\$3,000,000	–	100%	Manufacture of paints and trading in petrochemical 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.

29. ASSOCIATES

Details of the Group's associates at 31st December, 2004 are as follows:

Name of company	Place of incorporation or establishment/ operations	Attributable equity interest to the Group		Principal activities
		Directly	Indirectly	
Chemfield Trading Company Limited	Hong Kong	49%	–	Trading in paints
Weilburger Manfield Limited	Hong Kong	45%	–	Trading in paints and related products
Weilburger Manfield Chemical (Shenzhen) Limited	PRC	–	45%	Trading in paints and related products
CMW Coatings (Guangzhon) Limited	PRC	–	45%	Trading in paints and related products