

The global economy remained volatile in 2004. The local economy revitalized in 2004 and the overall sentiment continued to improve. However, the benefits were not fully reflected in all industries. The soaring prices in oil and raw materials, the rise in interest rate in United States as well as the negative impact of the macroeconomic control policy in the PRC resulting in an adverse business environment confronted by the Group in 2004.

### RESULTS

The Group incurred a net loss of approximately HK\$195.83 million for the year ended 31 December 2004, as compared to a net loss of approximately HK\$173.33 million last year. Whilst the paint business continued to contribute an operating profit of approximately HK\$33.38 million, the other operations sustained losses amounted to approximately HK\$214.85 million which included various impairments and provisions on the Group's assets of approximately HK\$146.16 million.

The Group's turnover for the year amounted to approximately HK\$490.37 million which was basically in line with that of last year. During the year under review, the increase in turnover of paint products was offset by the reduction in turnover on marble and granite and fuel business. Relatively, the Group's gross profit increased by approximately 6.85% when compared with that of last year to approximately HK\$161.69 million. The increase was mainly due to the increase in gross profit of paint products and the reduction in gross loss of marble and granite business.

### OPERATIONS

#### Paint products

Turnover for the year amounted to approximately HK\$417.85 million, representing an increase of approximately 17.96% when compared with that of last year. Turnover in quantity amounted to approximately 24,000 kl, representing an increase of approximately 37.00% when compared with that of last year. The paint business continued to have steady growth in PRC. However, the intense competition within the industry and the increased raw material costs resulted in gross profit margin falling to approximately 38.00% compared with approximately 40.87% last year. Relatively, the operating profit for the year amounted to approximately HK\$33.38 million which was basically in line with that of last year. The operation focused its business on the PRC market and achieved an increase of approximately 39.00% in turnover over that of 2003. The Group will continue to focus on the PRC market. The construction of a new factory in Xuzhou is in progress.

**Marble and granite**

Turnover for the year amounted to approximately HK\$5.93 million, representing a decrease of approximately 61.30% when compared with that of last year. Sales dropped significantly as low consumer sentiments persisted. Operating loss for the year amounted to approximately HK\$29.31 million, representing a decrease of approximately 69.82% when compared with that of last year. In light of the harsh business environment in the industry ahead, the Group decided to close down its operation. During the year under review, the Group has closed down its Hong Kong operation and realized most of its local assets. In the PRC, the Group has ceased production and leased out its factory and certain plants and machineries to generate steady income. As the operation was closed down, provision for inventories amounted to approximately HK\$2.91 million and provision for plants and machineries amounted to approximately HK\$14.65 million were made during the year.

**Property investment**

Turnover for the year amounted to approximately HK\$4.37 million, representing an increase of approximately 63.74% when compared with that of last year. Operating loss for the year amounted to approximately HK\$95.55 million compared with a loss of approximately HK\$11.89 million last year. This was mainly due to the provision on various properties in the PRC. During the year under review, the Group had disposed certain of its property investments to strengthen its cashflow. Development projects in Hong Kong for land regrant are in progress. Negotiation for disposal of the Dalian project is in progress.

**Fuel**

Turnover for the year amounted to approximately HK\$19.31 million, representing a decrease of approximately 77.64% when compared with that of last year. Operating loss for the year amounted to approximately HK\$5.11 million compared with a loss of approximately HK\$1.84 million last year. In August 2003, the Japan Government implemented new regulations on the environmental fuel which adversely affected our business. New fuel formula which met Japan Government's new requirements was developed and sales started to resume in August 2004. However, the sales were not satisfactory. Subsequent to the year under review, all the fuel had been sold out and the Group decided to close down its operation.

**Others***Iron and steel trading*

Turnover for the year amounted to approximately HK\$28.48 million, representing an increase of approximately 4.30% when compared with that of last year. The business continued to have steady contribution to the Group.

*Quarry*

Turnover for the year amounted to approximately HK\$10.09 million and operating loss for the year amounted to approximately HK\$20.25 million. The quarry market was sluggish during the year under review. The implementation of the macroeconomic control policy had delayed development projects in the region. The strict environmental protection requirements also caused constraints in the industry. The mining licence is due to expire in June 2005 and negotiation for renewal is still in progress. In view of the uncertain conditions ahead, the Group had, subsequent to the year under review, contracted out the operation for the remaining terms of the licence to generate steady income. The contractor had agreed, subject to contract, to continue the contract upon our renewal of the mining licence. Provision for fixed assets amounted to approximately HK\$8.17 million was made during the year.

**Long term investments***Auction house*

The auction house operation continued to record improvements and turned into profit during the year under review. During the year, the operation successfully increased its revenue and will continue to explore new business opportunities.

*Information technology*

The education web operation sustained a marginal loss during the year under review in light of the intense market competition. The development plans in PRC has been postponed resulting in a negative impact on future revenue. Provision for impairment amounted to approximately HK\$29.45 million was made during the year.

*Environmental project*

The Chongqing joint-venture company had entered into contracts with various public and private transportation companies in Chongqing, Chengdu and Xian, using the "W-Tech" technology to modify their vehicle fleets by stages. The initial batch of 20 vehicles modified in third quarter of 2004 had shown a satisfactory result. The second batch of 15-20 vehicles would be modified in early 2005 and if this again proved to be satisfactory, a time-table would be worked out with the transportation companies for full scale modification to their fleets.

**OUTLOOK**

Although the global economy showed signs of recovery in 2004, we expect that 2005 would still be volatile. The rise in interest rate in the United States, the persistent high oil price and the geopolitical tensions and terrorist threats may hinder the recovery of the global economy. However, the macroeconomic control policy in the PRC which aimed at cooling down its overheated economy will enable strong players, including our Group, to benefit from reduced competition and healthy long term growth of the industries concerned. The Group will continue to focus on its core paint products business whilst strengthen its efforts in streamlining the non-performing sectors through tightening control on costs and exploring new revenue items.

**Lam Ting Ball, Paul**

*Chairman*

20 April 2005