

CHAIRMAN'S STATEMENT

2005 was a challenging year for the Group. The persistent high oil price and the increase in interest rates in the United States continued to affect the global economy. However, despite the intense market competition and the increase in raw material costs, the Group's paint operation was still able to achieve an increase in revenue and operating profit by 20.1% and 26.1% respectively to approximately HK\$502.00 million and approximately HK\$42.10 million respectively. On the other hand, the closure of the loss making operations and the disposal of non-core assets enabled the Group to concentrate its effort and resources on its main core paint business which will benefit the Group as a whole in the coming years.

RESULTS

The Group incurred a net loss attributable to the equity holders of the parent company of approximately HK\$7.87 million for the year ended 31 December 2005, as compared to that of approximately HK\$195.97 million last year. The paint business contributed an operating profit of approximately HK\$42.10 million, together with fair value gains on our investment properties, reduction in losses in our marble and granite operation and quarry operation and lower provision for impairment on our investments, the Group reduced its loss significantly during the year under review.

The Group's revenue from continuing operations for the year amounted to approximately HK\$551.24 million, representing an increase of approximately 18.5% when compared with that of last year. The Group's gross profit from continuing operations increased by approximately 2.1% when compared with that of last year to approximately HK\$169.53 million. The increase was mainly due to the increase in gross profit of paint operation.

CONTINUING OPERATIONS

Paint products

Revenue for the year amounted to approximately HK\$502.00 million, representing an increase of approximately 20.1% when compared with that of last year. Revenue in quantity amounted to approximately 30,000 kl, representing an increase of approximately 25.0% when compared with that of last year. The paint business continued to have a steady growth in the PRC. However, the intense competition within the industry and the increase in raw material costs resulting in gross profit margin fell to approximately 32.5% compared with approximately 38.0% last year. Operating profit for the year amounted to approximately HK\$42.10 million, representing an increase of approximately 26.1% when compared with that of last year. The operation focused its business on the PRC market and achieved an increase of approximately 25.6% in revenue over that of 2004. The Group will continue to focus on the PRC market.



Property investment

Revenue for the year amounted to approximately HK\$5.19 million, representing an increase of approximately 18.9% when compared with that of last year. Operating loss for the year amounted to approximately HK\$1.74 million compared with a loss of approximately HK\$95.55 million last year. This was mainly due to fair value gains on our investment properties and reduction in provision on various properties in the PRC. During the year under review, the Group disposed of the Dalian Project and the Futian Property with completion expected to be in 2006. For details refer to the Company's circulars to shareholders dated 4 July 2005 and 9 January 2006 respectively. For development projects in Hong Kong, the Group accepted the land premium for the proposed land exchange in relation to the Mui Wo Project. The total gross floor area under the project is approximately 2,300 square metres for non-industrial (excluding private residential and godown) purpose.

Others

Iron and steel trading

Revenue for the year amounted to approximately HK\$43.36 million, representing an increase of approximately 52.3% when compared with that of last year. The business continued to have a steady contribution to the Group.

Quarry

Revenue for the year amounted to approximately HK\$629,000 and operating loss for the year amounted to approximately HK\$1.03 million. The mining licence expired at the end of June 2005 and the operation closed down accordingly.



Long Term Investments

Auction house

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

Environmental project

Although our "W-Tech" technology has a proved environmental effect to enhance engine performance and fuel saving, the public transportation companies in Chongqing and Chengdu showed little enthusiasm to have it applied to their fleets for one reason or other. As such, the hard work of the joint-venture company in Chongqing became fruitless, and in view of the uncertainty of the market, management decided to close down the operation.

Other

During the year under review, the Group has entered into an agreement to dispose Shenzhen Huate Packing Co., Ltd., an associated company of the Group, completion of which is expected in 2006. The disposal represents a good opportunity for the Group to realise its investment at a reasonable price. For details refer to the Company's circular to shareholders dated 13 March 2006.

DISCONTINUED OPERATIONS

Marble and granite

Revenue for the year amounted to approximately HK\$503,000, representing a decrease of approximately 91.5% when compared with that of last year. Operating loss for the year amounted to approximately HK\$429,000, representing a decrease of approximately 98.5% when compared with that of last year. The operation has been closed down and its results will no longer have any material impact on the Group.

Fuel

Revenue for the year amounted to approximately HK\$1.84 million, representing a decrease of approximately 90.5% when compared with that of last year. Operating loss for the year amounted to approximately HK\$3.72 million compared with a loss of approximately HK\$5.11 million last year. All the fuel had been sold and the operation had been closed down during the year under review.



OUTLOOK

Looking ahead, 2006 will still be a challenging year for the Group. The global business environment will continue to be affected by the persistent high oil price and the increase in interest rates in the United States. On the other hand, the safety and environmental protection regulations in the PRC are expected to be tightened which will increase the Group's cost of compliance with those regulations. The Group will continue to focus on its paint operation. Despite the keen competition within the industry, the Group will continue to improve its performance through maintenance of long term relationship with its customers, tightening control on costs, especially raw material costs, and developing new paint products. During the year under review, our paint product under the brand name of "FLOWER" has been awarded "CHINA TOP BRAND". Certain popular paint products under the brand name of "FLOWER" have also been awarded "Hong Kong Green Label". The Group believes that the awards are an affirmation of our paint products and will enhance their popularity and competitiveness from which the Group will benefit.

Lam Ting Ball, Paul

Chairman

19 April 2006

