THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in The National Lacquer and Paint Products Company, Limited (the "Company"), you should at once hand this circular and the form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

THE NATIONAL LACQUER AND PAINT PRODUCTS COMPANY, LIMITED

國民製煉漆油有限公司

(Incorporated in Hong Kong with limited liability)

PROPOSED OFF-MARKET REPURCHASE OF ORDINARY SHARES AND QUALIFIED SHARES

Independent Financial Adviser to the Independent Board Committee

taifook

TAI FOOK CAPITAL LIMITED

A letter from the Independent Board Committee and a letter from Taifook Capital Limited, independent financial adviser to the Independent Board Committee, are set out on pages 14 to 15 and pages 16 to 24, respectively, of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 6th Floor, Camelpaint Centre, No. 1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong on Friday, 15 December 2006 at 3:00 p.m. is set out on pages 101 to 102 of this circular. If you are a holder of Ordinary Shares of HK$100 each in the capital of the Company, whether or not you intend to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed on it and return it to the Company's registered office at 6th Floor, Camelpaint Centre, No. 1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment of it. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

20 November 2006

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In this circular, the following expressions have the following meanings unless the context requires otherwise:

"acting in concert"	has the meaning ascribed to it in the Codes
"Agreements"	the share repurchase agreements to be entered into between the Company and the Sellers in relation to the Share Repurchase
"Associated Companies"	companies in which any member of the Group has a direct or indirect interest of 30% or more of the voting rights of such companies for the purposes of valuation of properties under Rule 11 of the Takeovers Code
"Board"	the board of Directors
"Business Day"	a day (other than Saturday or a Sunday) on which banks are open for general banking business in Hong Kong
"Codes"	the Takeovers Code and Share Repurchase Code
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	The National Lacquer and Paint Products Company, Limited 國民製煉漆油有限公司, a company incorporated in Hong Kong with limited liability on 21 December 1932
"Completion"	completion of the Agreements expected to take place on the date of approval of the Share Repurchase at the EGM (or such later date as shall be directed by the Company)
"Deed"	the deed dated 26 April 1994 between certain members of the Company regulating their rights in relation to the Company for the purpose of facilitating the effective management of the Company
"Directors"	the directors of the Company
"EGM"	an extraordinary general meeting of the Company to be held on Friday, 15 December 2006 at 3:00 p.m. to approve the Share Repurchase or any adjournment thereof
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"HK$" and "cent(s)"	Hong Kong dollars and cent(s) respectively
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Board, comprising a sole member Yan Wai Man Lilian, established for the purpose of advising the Independent Shareholders in relation to the Share Repurchase

"Independent Shareholders"	the holders of Ordinary Shares other than the Sellers, their respective associates or parties acting in concert with the Sellers
"Last Share Repurchase"	the repurchase by the Company of 1,307 Ordinary Shares and 29,180 Qualified Shares from certain Shareholders (the particulars of which have been set out in the announcement and circular of the Company dated 6 March 2006 and 24 March 2006 respectively) which have been approved by the Independent Shareholders and completed in April 2006
"Latest Practicable Date"	17 November 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Options"	share options granted under the Scheme
"Ordinary Shares"	ordinary shares of HK$100 each in the capital of the Company
"Parties to the Deed" or "Party to the Deed"	the Shareholders who are parties to the Deed
"PRC"	the People's Republic of China
"Qualified Shares"	qualified shares of HK$100 each in the capital of the Company which do not confer any right of voting at any general meetings of the Company nor qualify any person to be a Director but otherwise ranking for dividends and in all other respects pari passu with the Ordinary Shares
"Relevant Period"	the period commencing from 30 April 2006 (being the date falling six months immediately prior to the date of the Company's announcement of the Share Repurchase on 31 October 2006) and ending on the Latest Practicable Date
"Repurchase Price"	HK$1,000 per Sale Ordinary Share and HK$1,000 per Sale Qualified Share for the repurchase of 48,693 Sale Shares pursuant to the Agreements, being HK$48,693,000 in aggregate
"Sale Ordinary Shares"	2,280 Ordinary Shares proposed to be repurchased by the Company under the Share Repurchase
"Sale Qualified Shares"	46,413 Qualified Shares proposed to be repurchased by the Company under the Share Repurchase
"Sale Shares"	the Sale Ordinary Shares and the Sale Qualified Shares
"Scheme"	the share option scheme adopted by the Company on 1 September 2005
"Sellers"	the persons referred to in paragraph 2.2 of this circular
"SFC"	the Securities and Futures Commission of Hong Kong
"Shareholders"	the holders of the Ordinary Shares and Qualified Shares

"Share Repurchase"	the repurchase of the Sale Shares by the Company at HK$1,000 per Sale Share for a total cash consideration of HK$48,693,000 pursuant to the Agreements
"Share Repurchase Code"	the Hong Kong Code on Share Repurchases
"Shares"	Ordinary Shares and Qualified Shares
"Taifook"	Taifook Capital Limited, the independent financial adviser to the Independent Board Committee and a corporation licensed to conduct type 6 (corporate advisory) regulated activities as set out under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"sq.ft."	square feet
"sq.m."	square metres

THE NATIONAL LACQUER AND PAINT PRODUCTS COMPANY, LIMITED
國民製煉漆油有限公司

(Incorporated in Hong Kong with limited liability)

Directors:
Yan Yuen Cheong *(Chairman)*
Yan Yuen Fai *(Honorary Chairman)*
Yan Yuen Chiu *(Vice-chairman)*
Lau Leung Wai Ray *(Vice-chairman)*
Yan Tin Yau Howard
Wong Man Dock
Yan Kerwin
Yan Ray
Yan Wai Man Lilian

Registered office:
6th Floor, Camelpaint Centre
No. 1 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

20 November 2006

To holders of Ordinary Shares and, for information only, to holders of the Qualified Shares

Dear Sir or Madam,

PROPOSED OFF-MARKET REPURCHASE OF ORDINARY SHARES AND QUALIFIED SHARES

1 INTRODUCTION

The Company announced on 31 October 2006 that it is proposing to repurchase 2,280 Ordinary Shares and 46,413 Qualified Shares from the Sellers who had given irrevocable offers to the Company to sell such Sale Shares to the Company at HK$1,000 per Sale Share for a total consideration of HK$48,693,000.

As the Company is a public company incorporated in Hong Kong, the Share Repurchase is subject to the Share Repurchase Code. The Share Repurchase constitutes an off-market repurchase and will be subject to (i) the grant of an approval by the Executive and (ii) approval of the special resolution on the Share Repurchase by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at the EGM.

As all the Directors (other than Yan Wai Man Lilian) have executive roles in the management of the Group, they are, therefore, considered not eligible to advise the Independent Shareholders on the Share Repurchase. Yan Wai Man Lilian has been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders whether they should approve or disapprove the special resolution on the Share Repurchase to be proposed at the EGM. Yan Wai Man Lilian is a sister of Yan Tin

Yau Howard (an executive Director and a Party to the Deed). Yan Wai Man Lilian is not a close relative (as defined in the Code) of any of the Sellers. As approved by the Independent Board Committee, Taifook has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The purpose of this circular is to provide the Independent Shareholders with information on the Share Repurchase, the financial effects of the Share Repurchase, advice from the Independent Board Committee, advice from Taifook in respect of the Share Repurchase and the notice of the EGM.

2 TERMS OF THE SHARE REPURCHASE

The offers from the Sellers to sell the Sale Shares to the Company will expire (i) (if not having been accepted earlier) immediately after the signing of the Agreements which are to be approved by the Independent Shareholders and (ii) on 28 February 2007 (whichever is the earlier).

2.1 Parties to the Agreements

(i) Each of the Sellers and (ii) the Company are expected to enter into each of the Agreements on the approval of the Share Repurchase by the Executive and the approval by the Independent Shareholders at the EGM.

None of the Sellers is a Party to the Deed.

2.2 Sale Shares

2,280 Ordinary Shares and 46,413 Qualified Shares are to be repurchased by the Company from the Sellers under the Agreements, representing approximately 10.22% of the existing issued Ordinary Shares and approximately 17.56% of the existing issued Qualified Shares respectively. The number of the Sale Shares represents approximately 16.99% of the total issued share capital of the Company. Details of the number of Shares held by each of the Sellers immediately before the Share Repurchase and the number of Sale Shares to be repurchased by the Company are set out below:

Name of the Sellers	Number of Ordinary Shares to be repurchased	% of the total issued Ordinary Shares and voting rights	Number of Qualified Shares to be repurchased	% of the total issued Qualified Shares
Falcon Fortune Ltd	120	0.54%	5631	2.13%
Kwong Yuk Shun, Michael	60	0.27%	2091	0.79%
Gladys Lowe	239	1.07%	4198	1.59%
Harry Lowe Jr.	239	1.07%	4198	1.59%
Herbert Lowe Jr.	63	0.28%	1027	0.39%
Sandra Lowe	83	0.37%	1307	0.49%
Lee Kit Yoke	2	0.01%	0	0%
Lee Moo Chun	10	0.04%	158	0.06%
Linda Macias	83	0.37%	1307	0.49%
Yolanda Piert	84	0.38%	1308	0.49%
Wong Chai Yiu	20	0.09%	934	0.35%
Wong Ding Yuen	66	0.29%	1035	0.39%
Wong Foo Yan	456	2.05%	8296	3.14%

Name of the Sellers	Number of Ordinary Shares to be repurchased	% of the total issued Ordinary Shares and voting rights	Number of Qualified Shares to be repurchased	% of the total issued Qualified Shares
The Administrator of the estate of Wong Lok Yim (deceased)	10	0.04%	467	0.18%
Wong Noi Yen Christine	456	2.05%	8,297	3.14%
Wong Sui Wah	95	0.43%	2,498	0.95%
Wong Tad Yung	140	0.63%	2,440	0.92%
Wong Ting Shan, Samuel	21	0.09%	345	0.13%
Yan Chung Chiu, Tunny	2	0.01%	106	0.04%
Yan Chung Nin, Johnny	2	0.01%	106	0.04%
Yan Nga Yung, Jenny	2	0.01%	106	0.04%
Yan Ngar Kam	2	0.01%	106	0.04%
Yan Oi	7	0.03%	173	0.07%
Yan Shiu Ki	10	0.04%	107	0.04%
Zhen Fan Mei	8	0.04%	172	0.07%
Total	2,280	10.22%	46,413	17.56%

The Sale Shares are to be repurchased free from any mortgage, charge, lien, claim or any other encumbrance with all rights, including dividend rights, attached or accruing to them on and from the date of the Completion.

2.3 Repurchase Price

The Sale Shares will be acquired by the Company at HK$1,000 per Sale Share for a total cash consideration of HK$48,693,000 pursuant to the Agreements. The Company and each of the Sellers are to bear Hong Kong ad valorem stamp duty equally and the Company is to arrange for the payment of the stamp duty to the Hong Kong Government. The Repurchase Price will be satisfied by cash from internal resources.

The Repurchase Price was reached following an arm's length negotiations between the Company and the Sellers.

2.4 Completion

The Share Repurchase and the entering into of the Agreements are subject to the approval of the Executive and the approval by the Independent Shareholders at the EGM in accordance with the requirements of the Share Repurchase Code.

Completion is expected to take place on the date of approval of the Share Repurchase at the EGM (or such later date as shall be directed by the Company) when the Sale Shares are to be transferred by the Sellers to the Company. Payment for the Repurchase Price is expected to take place (subject to deduction of half share of the amount of Hong Kong ad valorem stamp duty payable on the Share Repurchase) by posting cheques to the Sellers' last known addresses at the Sellers' own risk on or before the third Business Day after (i) the Completion or (ii) the adjudication of the amount of ad valorem stamp duty payable (whichever is the later).

3 CERTAIN INFORMATION ON THE GROUP AND THE GROUP'S PROSPECTS

The principal activities of the Group are the manufacture and sale of lacquer and paint products, property investment and treasury management.

The audited turnover of the Group for 2005 was approximately HK$191.40 million, represented an increase of approximately 1.05% over that for 2004. The audited net profits of the Group for 2005 was approximately HK$64.83 million (including approximately HK$74.22 million from surplus on revaluation of investment property), represented an increase of approximately 25.30% over that for 2004.

For the two financial years ended 31 December 2005, the Group recorded other net income (comprising net gain on disposal of fixed assets, realised or unrealised gains on investment securities, exchange loss and sundry income) of approximately HK$9.0 million and HK$11.5 million respectively. In the event that net valuation gains on investment properties and other net income were not accounted for, the Group would record profit before taxation of approximately HK$1.7 million and loss before taxation of approximately HK$7.3 million for the financial year ended 31 December 2004 and 2005, respectively, which were solely generated from the principal operating businesses of the Group.

The Group's results for the year 2005 reflect a solid financial foundation and performance under a challenging business environment. The overall performance demonstrated the effectiveness with the Group's tripartite business strategy and is delivering on the Group's objective of creating value for Shareholders.

The year 2005 was a tough year for the coating industry. With oil price hitting new high, raw material costs increased considerably. High inflation rate and strong demand for labour in the PRC led to higher operating costs, resulting in a significant drop in profit margin. The increase in turnover as a result of the Group's effort in product repositioning and introduction of new technology was more than offset by the higher operating costs, leading to an eroded profit contribution.

Performance of the Group's property investment and treasury management portfolios continued to benefit from the improving economy. The revival of the property market brought in higher rental income in both the industrial & commercial sectors, with the Group's lease occupancy rate upholding at a hundred percent. Treasury management also maintained at a stable contribution under the growth and income balanced strategy. The portfolio's equity investments coupled with the increase in deposit rate achieved favourable results, particularly in the last quarter of 2005.

The Group has accomplished considerable progress in the past years towards the Group's strategic objectives of expanding the Group's paint business and maintaining a stable source of income from property investment and treasury management. In the coming year, the Group is expected to continue to improve its competitiveness in the paint industry through enhancement of the Group's technology, quality and services. With the Group's newly launched product portfolios, the Group is increasingly well positioned in broadening its customer base, and strengthening the loyalty of its customers through a more complete range of coatings and services. While the economy is likely to grow at a moderate rate and with a more neutral interest rate environment, outlook for the property and security investment markets remain positive. In addition to extra contribution from new rental areas from a successful warehouse conversion project, the Group will also focus on capturing new investment opportunities in the property and equity markets to enhance the return and asset value for the Group.

On 25 January 2006, the Company allotted and issued 1,200 Ordinary Shares to each of Yan Tin Yau Howard, Yan Kerwin and Yan Ray for the consideration of HK$500 per Ordinary Share pursuant to the general mandate to allot and issue Shares granted to the Directors by the holders of Ordinary Shares on 1 September 2005. The issue of Ordinary Shares to such allottees was made due to the additional executive roles in the Group assumed by them. In recent years, Yan Tin Yau Howard, Yan Kerwin and Yan Ray have been charged with the responsibilities of managing the main divisions of property, paint and investment, respectively, of the Group. In December 2005, the Board formed a Business Management Committee with the view of co-ordinating the functions and resources of these divisions such that the divisional leaders may work jointly to advance the corporate objectives of the entire Group. These three Directors are required to achieve both the targets of their own divisions as well as the overall targets of the Group. As the divisional appointments and activities of the Business Management Committee impose additional responsibilities on these Directors, after taking into consideration of their present remuneration, the Board decided to issue additional shares to them as an incentive to drive them to achieve the desired results.

On 19 April 2006, the Shareholders approved the repurchase of 1,307 Ordinary Shares and 29,180 Qualified Shares at the price of HK$1,000 each. The share repurchase was completed on 19 April 2006.

4 REASONS FOR THE SHARE REPURCHASE

The Share Repurchase represents an opportunity for the Company to utilise its surplus cash to enhance the earnings per Share and the rate of return on capital. Moreover, since the Last Share Repurchase, the Company has continuously and from time to time received requests from certain other Shareholders desirous of disposing their Shares. In response to such requests, and due to the fact that the Company is not listed, there being no public market for the Shares thus not easy for Shareholders to dispose their Shares, with the view of enhancing shareholder value, the Company has therefore proposed to implement the Share Repurchase. As the Sale Shares are to be cancelled upon Completion and the number of Shareholders will be reduced, the Share Repurchase will move towards the goal of reducing the administrative burden of the Company in handling a large number of Shareholders and improving the ability of the Company to communicate with its Shareholders especially given that many Shareholders are located overseas for most of the time. In addition, the existing shareholders' base is considered by the Directors to be unnecessarily diversified, resulting in inefficient communications with the Shareholders in particular those in overseas.

In addition, as the proposed repurchase of Shares are conducted shortly after the Last Share Repurchase, the Directors (except for Yan Wai Man Lilian who acts as the sole member of the Independent Board Committee (as detailed below) and set out her opinion in the section headed "Letter from the Independent Board Committee" of this circular) consider it desirable that the repurchase price and other terms and conditions of the Last Share Repurchase be applied to the proposed share repurchase to the extent applicable to achieve "fairness" among Shareholders.

5 EFFECTS OF THE SHARE REPURCHASE

5.1 Effect on shareholding structure

Following Completion, the Sale Shares will be cancelled. As a result, the number of Ordinary Shares and Qualified Shares in issue immediately following the Share Repurchase will be reduced from 22,293 Ordinary Shares and 264,310 Qualified Shares to 20,013 Ordinary Shares and 217,897 Qualified Shares.

The table below sets out the shareholding structure of the Company in respect of various shareholding groups as at the Latest Practicable Date and immediately after Completion:

	As at the Latest Practicable Date						Immediately after Completion *(Note 1)*					
Holders of Shares	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**
Directors *(Note 2)*	7,924	35.54%	3,449	1.31%	11,373	3.97%	7,924	39.60%	3,449	1.58%	11,373	4.78%
Companies controlled by certain Parties to the Deed *(Note 3)*	287	1.29%	56,910	21.53%	57,197	19.96%	287	1.43%	56,910	26.12%	57,197	24.04%
Other Parties to the Deed *(Note 4)*	7,623	34.20%	62,305	23.57%	69,928	24.39%	7,623	38.09%	62,305	28.59%	69,928	29.39%
Sub-total: Persons acting in concert in respect of the Company *(Note 3)*	15,834	71.03%	122,664	46.41%	138,498	48.32%	15,834	79.12%	122,664	56.29%	138,498	58.21%
Sellers	2,280	10.22%	46,413	17.56%	48,693	16.99%	0	0%	0	0%	0	0%
Others	4,179	18.75%	95,233	36.03%	99,412	34.69%	4,179	20.88%	95,233	43.71%	99,412	41.79%
Total	22,293	100%	264,310	100%	286,603	100%	20,013	100%	217,897	100%	237,910	100%

Notes:

(1) Assuming the number of Shares held by holders of the Shares remain the same and no Shares are to be issued or repurchased from the Latest Practicable Date up to Completion.

(2) The Directors are Lau Leung Wai Ray, Wong Man Dock, Yan Kerwin, Yan Ray, Yan Tin Yau Howard, Yan Wai Man Lilian, Yan Yuen Cheong, Yan Yuen Chiu and Yan Yuen Fai. All of them are Parties to the Deed. As at the Latest Practicable Date, the Directors held a total of 7,924 Ordinary Shares and 3,449 Qualified Shares.

(3) Under the Deed, the parties have entered into certain arrangements with regard to their shareholdings in the Company. Messrs. Yan Yuen Cheong (Chairman), Yan Yuen Fai (Honorary Chairman), Yan Yuen Chiu (Vice-chairman), Lau Leung Wai Ray (Vice-chairman) and other Parties to the Deed are regarded as persons acting in concert. As at the Latest Practicable Date, they held a total of 15,547 Ordinary Shares and 65,754 Qualified Shares. In addition, Chiu Yan Company Limited, PMA Investment Inc., Weltsun Limited and Wyse Company, Ltd are controlled by certain Parties to the Deed. Although these companies are not Parties to the Deed, they are considered to be concert parties with the Parties to the Deed.

(4) This shareholding group includes persons who are Parties to the Deed excluding (i) Directors and (ii) companies controlled by certain Parties to the Deed as referred to in Note (3).

There will be no change in the controlling shareholders of the Company as result of the Share Repurchase and no material changes in the management and employees of the Company are envisaged.

5.2 **Financial effects**

The following tables summarise the financial effects of the Share Repurchase based on the audited results of the Group for the year ended 31 December 2005.

5.2.1 ***Earnings per Share***

	Prior to the Share Repurchase	**Immediately after the Share Repurchase**
Number of Shares in issue	286,603	237,910
	HK$'000	*HK$'000*
Consolidated net profit for the year ended 31 December 2005	64,829	64,829
Deemed finance costs of the Share Repurchase *(Note 1)*	0	1,948
Pro forma adjusted consolidated net profit	64,829	62,881
Pro forma earnings per Share (basic) *(Note 2)*	0.226	0.264
This represents an increase of:		16.81%

Note 1: Assumed to be funded by internal cash resources with an opportunity cost of 4% per annum (being the approximate existing bank deposit rate enjoyed by the Group).

Note 2: Based on the total number of Shares in issue immediately prior to Completion (being 286,603 Shares assuming no further issue of Shares from the Latest Practicable Date up to Completion) and immediately after Completion (being 237,910 Shares), respectively.

5.2.2 ***Net asset value***

The net asset value per Share set out in the following table is based on the audited consolidated accounts of the Company as at 31 December 2005 and assuming that the Completion took place on 31 December 2005.

			HK$ million
Audited consolidated net asset value as at 31 December 2005			521.23
Add the subscription price for the issue of 3,600 Ordinary Shares at HK$500 per Ordinary Share on 25 January 2006			1.80
Less: payment of dividends for the year 2005			9.51
Less: amount of the share repurchase as stated in the Company's circular dated 24 March 2006 and related expenses *(Note)*			31.3
Unaudited adjusted consolidated net asset value of the Company immediately before the Share Repurchase			482.22
Less:	(i)	amount of the Share Repurchase	48.69
	(ii)	related expenses *(Note)*	0.8
Unaudited adjusted consolidated net asset value of the Company immediately after the Share Repurchase			432.73
Net asset value per Share			
- based on the unaudited adjusted consolidated net asset value of HK$482.22 million and 286,603 Shares in issue immediately before the Share Repurchase			HK$1,682.54
- based on the unaudited adjusted consolidated net asset value of HK$432.73 million and 237,910 Shares assumed to be in issue, adjusting for 48,693 Shares to be repurchased at a cost of HK$49.49 million immediately after the Share Repurchase			HK$1,818.88
Increase in the net asset value per Share			8.10%

Note: The related expenses include fees for legal and financial advice, printing and translation fees, property valuer's fees and documentation fees for the SFC.

5.2.3 ***Working capital***

The total consideration and the estimated expenses will be approximately HK$48.69 million and approximately HK$0.8 million, respectively. The Directors estimate that, given the cash position of the Group of approximately HK$121.30 million as at 31 December 2005, the Group will have approximately HK$31 million cash after Completion (taking into account of payment of the dividend for 2005 of HK$9,512,700 and the payment of the consideration for the share repurchase as stated in the Company's circular dated 24 March 2006 and related expenses, totalling HK$31.3 million), which the Directors consider sufficient for its present working capital requirements.

5.2.4 ***Borrowing***

The level of the Group's borrowing as at 31 December 2005 was approximately HK$7 million. The Share Repurchase will be funded by the internal resources of the Group only and therefore it will not affect the level of indebtedness of the Group.

5.2.5 ***Dividends***

The Company has been adopting an annual dividend policy of paying out approximately a minimum of 10% of the consolidated net profit per Share. On 28 February 2006, the Directors declared an annual final dividend for 2005 of HK$30 per Ordinary Share and HK$30 per Qualified Share which was paid on 3 April 2006 to holders of Ordinary Shares and Qualified Shares registered as at 31 March 2006. The final dividend was approved by the holders of Ordinary Shares at the annual general meeting of the Company held at the Company's registered office on 31 March 2006. The Company paid total dividends of HK$25 per Share for the year ended 31 December 2003 and HK$30 per Share for the year ended 31 December 2004. No interim dividend was paid for the six months ended 30 June 2004, 2005 and 2006. The Directors have no present intention to change the Company's dividend policy. The Company's ability to pay dividends in the future depends on whether or not it has sufficient distributable profits, its cash requirements and business plans.

6 EGM

Pursuant to Rule 2 of the Share Repurchase Code, the Share Repurchase constitutes an off-market share repurchase and is subject to approval by the Executive. The Share Repurchase is also conditional upon approval by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at a general meeting. The Sellers are independent of, and not acting in concert with, the Parties to the Deed and their concert parties. The Parties to the Deed and their concert parties, which had an interest of approximately 71.03% in the total issued Ordinary Shares (with voting rights) as at the Latest Practicable Date, are not interested parties in the Share Repurchase on the basis that their interest is not different from the other Independent Shareholders. Accordingly, they are entitled to vote at the EGM.

The EGM is proposed to be held at 6th Floor, Camelpaint Centre, No. 1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong on Friday, 15 December 2006 at 3:00 p.m. A notice of the EGM is set out on pages 101 to 102 of this circular.

Copies of the draft form of the Agreements (not signed) will be available for inspection during normal business hours at the registered office of the Company from the date of this circular up to and including the date of the EGM.

7 ACTION TO BE TAKEN

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed on it and return it to the Company's registered office at 6th Floor, Camelpaint Centre, No. 1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment of it. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

8 RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Taifook which set out their recommendations in relation to the Share Repurchase before considering whether you should approve or disapprove the special resolution on the Share Repurchase to be proposed at the EGM.

9 ADDITIONAL INFORMATION

You are advised to read carefully the letter from Taifook on pages 16 to 24 of this circular setting out its advice to the Independent Board Committee as to the fairness and reasonableness of the Share Repurchase.

Your attention is also drawn to the other information contained in the appendices to this circular before considering whether to vote for or against the resolution on the Share Repurchase.

Yours faithfully
On behalf of the Board
Yan Yuen Cheong
Chairman

THE NATIONAL LACQUER AND PAINT PRODUCTS COMPANY, LIMITED

國民製煉漆油有限公司

(Incorporated in Hong Kong with limited liability)

Directors:
Yan Yuen Cheong *(Chairman)*
Yan Yuen Fai *(Honorary Chairman)*
Yan Yuen Chiu *(Vice-chairman)*
Lau Leung Wai Ray *(Vice-chairman)*
Yan Tin Yau Howard
Wong Man Dock
Yan Kerwin
Yan Ray
Yan Wai Man Lilian

Registered office:
6th Floor, Camelpaint Centre
No. 1 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

20 November 2006

To holders of Ordinary Shares and, for information only, to holders of the Qualified Shares

Dear Sir or Madam,

PROPOSED OFF-MARKET REPURCHASE OF ORDINARY SHARES AND QUALIFIED SHARES

I refer to the circular addressed to the Shareholders dated 20 November 2006 (the "Circular"), of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

I have been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders as to whether the Share Repurchase is fair and reasonable so far as the Independent Shareholders are concerned and as to whether the Independent Shareholders should approve or disapprove the resolution on the Share Repurchase to be proposed at the EGM.

Taifook has been appointed to advise the Independent Board Committee in relation to the Share Repurchase. Details of its advice, together with the principal factors and reasons taken into consideration, are set out in the "Letter from Taifook" on pages 16 to 24 of the Circular.

Your attention is also drawn to the "Letter from the Board" on pages 4 to 13 of the Circular and the additional information set out in the appendices to the Circular.

Having taken into consideration the terms of the Share Repurchase and the principal factors and reasons regarding the Share Repurchase as set out in the Letter from Taifook, the Independent Board Committee concurs with the views of Taifook that the Share Repurchase is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolution on the Share Repurchase to approve the Share Repurchase to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee
Yan Wai Man Lilian
Director

The following is the text of the letter from Taifook to the Independent Board Committee, prepared for the purpose of incorporation in this circular, in connection with its opinion on the terms of the Share Repurchase.

TAIFOOK CAPITAL LIMITED

Taifook Capital Limited
25th Floor
New World Tower
16-18 Queen's Road
Central
Hong Kong

20 November 2006

The Independent Board Committee
The National Lacquer and Paint Products Company, Limited
6/F, Camelpaint Centre
No. 1 Hing Yip Street
Kwun Tong, Kowloon
Hong Kong

Dear Madam,

PROPOSED OFF-MARKET REPURCHASE OF ORDINARY SHARES AND QUALIFIED SHARES

We refer to our appointment as the independent financial adviser to the Independent Board Committee with respect to the terms of the Share Repurchase, details of which are set out in the Letter from the Board contained in the circular of the Company dated 20 November 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

The Company is proposing to repurchase 2,280 Ordinary Shares and 46,413 Qualified Shares from the Sellers who had given irrevocable offers to the Company to sell such Sale Shares to the Company at HK$1,000 per Sale Share for a total cash consideration of HK$48,693,000. Details of the Share Repurchase are set out in the Letter from the Board in the Circular.

As the Company is a public company incorporated in Hong Kong, the Share Repurchase is subject to the Share Repurchase Code and the Companies Ordinance. The Share Repurchase constitutes an off-market repurchase pursuant to the Share Repurchase Code. Under Rule 2 of the Share Repurchase Code, the Share Repurchase will be subject to (i) the grant of an approval by the Executive; and (ii) approval of the special resolution on the Share Repurchase by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at the EGM. The Parties to the Deed and their concert parties, which are Independent Shareholders and had an aggregate voting interest of approximately 71.03% in the Company as at the Latest Practicable Date, are entitled to vote at the EGM. Each of the Sellers and the Company are expected to enter into each of the Agreements on the approval of the Share Repurchase by the Executive and the approval by the Independent Shareholders at the EGM.

As at the date of this letter, the Board comprises nine members. However, except Yan Wai Man Lilian, none of these Directors is considered eligible to advise the Independent Shareholders on the Share Repurchase based on the fact that Lau Leung Wai Ray, Wong Man Dock, Yan Kerwin, Yan Ray, Yan Tin Yau Howard, Yan Yuen Cheong, Yan Yuen Chiu and Yan Yuen Fai, all being Directors, have executive roles in the management of the Group. Accordingly, the Independent Board Committee, comprises solely Yan Wai Man Lilian, has been formed to advise the Independent Shareholders whether they should approve or disapprove the relevant resolution to be proposed at the EGM in relation to the Share Repurchase. As referred to in the Letter from the Board in the Circular, Yan Wai Man Lilian is a sister of Yan Tin Yau Howard (being a Director having executive role and a Party to the Deed) and she is not a close relative (as defined in the Code) of any of the Sellers. Taifook has been appointed as independent financial adviser to advise the Independent Board Committee in this regard.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. The Directors and/or management of the Company have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all such information and facts and any representations made to us or contained in the Circular are true, accurate and complete at the time they were made and continue to be so up to the date of despatch of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Company and/or the management of the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth independent investigation or audit into the businesses and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the fairness and reasonableness of the Share Repurchase, we have taken into account the following principal factors:

1. Background to and reasons for the Share Repurchase

The Company was established in 1932 and the Group's principal activities are the manufacture and sale of lacquer and paint products, property investment and treasury management.

As stated in the Letter from the Board in the Circular, the Company is proposing to repurchase 2,280 Ordinary Shares and 46,413 Qualified Shares from the Sellers (1 holder of the Ordinary Shares and 24 holders of both Ordinary Shares and Qualified Shares) who had given irrevocable offers to the Company to sell such Sale Shares to the Company at HK$1,000 per Sale Share for a total cash consideration of HK$48,693,000. The 2,280 Ordinary Shares and 46,413 Qualified Shares to be repurchased by the Company from the Sellers represent approximately 10.22% of the existing issued Ordinary Shares and approximately 17.56% of the existing issued Qualified Shares respectively. The total number of the Sale Shares represents approximately 16.99% of the total existing issued share capital of the Company.

None of the Sellers is a Party to the Deed. The offers from the Sellers to sell the Sale Shares to the Company will expire (i) (if not having been accepted earlier) immediately after the signing of the Agreements which are to be approved by the Independent Shareholders; and (ii) on 28 February 2007 (whichever is the earlier).

As at the Latest Practicable Date, the Company had 234 Shareholders. The Share Repurchase represents an opportunity for the Company to utilise its surplus cash to enhance the earnings per Share and the rate of return on capital. We understand from the Directors that since the Last Share Repurchase, the Company has from time to time received requests from certain other Shareholders desirous of disposing their Shares. Given there is no public market for the Shares and with the view of enhancing shareholder value, the Company has therefore proposed to implement the Share Repurchase. Based on our discussion with the Directors, we consider that the Share Repurchase is an appropriate means as it not only serves to address concerns raised from the Shareholders but also enhances shareholder value as a whole. Moreover, since the Sale Shares will be cancelled upon Completion and the number of Shareholders will be reduced, we concur with the Directors that the Share Repurchase will move towards the goal of reducing the administrative burden of the Company in handling a large number of Shareholders in particular of those in overseas and improving the ability of the Company to communicate with its Shareholders.

2. **Review of the operation of the Group and outlook**

The following table shows the audited consolidated financial information of the Group for the two years ended 31 December 2005:

	For the year ended 31 December 2005	**For the year ended 31 December 2004**
		(Restated)
	(Audited)	*(Audited)*
	HK$'000	*HK$'000*
Turnover		
— Sale of paint products	167,769	169,178
— Gross rental from investment properties	18,206	16,078
— Investment income	5,420	4,147
	191,395	189,403
Gross margin	69,099	68,377
Net valuation gains on investment properties	74,223	51,949
Other net income	11,504	8,991
Profit from operations	83,288	64,885
Profit before taxation	78,416	62,669
Profit for the year	64,829	51,741

The Group is principally engaged in the manufacture and sale of lacquer and paint products (the "Paint Business"), the sales of which accounted for over 85% of the audited turnover of the Group for each of the two years ended 31 December 2005.

The Group owns various investment properties in Hong Kong and overseas, the rental income (the "Rental Business") derived from which forms the second largest revenue stream of the Group. For these investment properties, the Group recorded net valuation gains of approximately HK$51.9 million and HK$74.2 million respectively for the two years ended 31 December 2005, representing approximately 82.9% and 94.7% of the audited profit before taxation of the Group in the respective years.

The Group also engages in treasury management (the "Treasury Management") including investment in mutual funds and debt securities, the investment income from such activities (which include dividend income from equity securities and interest income from debt securities) is another major source of turnover of the Group.

Based on the audited results for the two years ended 31 December 2005, the Group recorded other net income (comprising net gain on disposal of fixed assets, realized or unrealized gains on investment securities, exchange loss and sundry income) of approximately HK$9.0 million and HK$11.5 million respectively. In the event that net valuation gains on investment properties and other net income were not accounted for, the Group would have recorded profit before taxation of approximately HK$1.7 million and loss before taxation of approximately HK$7.3 million for the year ended 31 December 2004 and 2005 respectively, which were solely generated from the principal operating businesses of the Group. Taking into account the aforesaid, we consider that, as further confirmed by the Directors, the Paint Business was loss making for the two years ended 31 December 2005.

3. The Repurchase Price

3.1 *Basis of determination*

The Sale Shares will be acquired by the Company at HK$1,000 per Sale Share for a total cash consideration of HK$48,693,000. The Company and each of the Sellers are to bear Hong Kong ad valorem stamp duty equally. As advised by the Directors, the Repurchase Price was reached following arm's length negotiations between the Company and the Sellers with reference to the historical off-market transaction price of the Shares and the financial position of the Company, in particular its net asset value per Share as at 31 December 2005 as adjusted by the allotment of new Ordinary Shares in January 2006, the payment of dividends for year 2005 and the consideration and related expenses of the Last Share Repurchase.

3.2 *Repurchase Price compared to historical transacted prices*

As the Shares are not listed on any stock exchanges, market prices are not available. To the best knowledge of the Directors, the following off-market transfers of Shares have been conducted during the past twelve months from the Latest Practicable Date:

Date of transfer	Number of Ordinary Shares or Qualified Shares	Transfer price *(HK$)*
9 December 2005	9 Ordinary Shares and 394 Qualified Shares	1,000 per Ordinary Share and 885.79 per Qualified Share
28 December 2005	580 Ordinary Shares and 49 Qualified Shares	1,000 per Share
25 January 2006	333 Ordinary Shares	1,000 per Ordinary Share
19 April 2006#	1,307 Ordinary Shares and 29,180 Qualified Shares	1,000 per Share
22 May 2006	50 Ordinary Shares and 1,147 Qualified Shares	As gift

Date of transfer	Number of Ordinary Shares or Qualified Shares	Transfer price *(HK$)*
22 May 2006	12 Ordinary Shares and 276 Qualified Shares	1,000 per Share
24 July 2006	1,200 Ordinary Shares	500 per Ordinary Share
24 July 2006	249 Ordinary Shares	1,000 per Ordinary Share
20 September 2006	40 Ordinary Shares and 469 Qualified Shares	Transmission of Shares

These transfers were related to the Last Share Repurchase.

Given the transfer price for the transaction at HK$500 per Share on 24 July 2006 largely deviated from other transactions around that period of time, we have chosen not to include this transaction in our analysis. Other than those Shares that were transferred as gift or transmission of Shares or at an exceptional low price as mentioned above, during the past twelve months, the weighted average transfer price for each of an Ordinary Share and a Qualified Share was HK$1,000 and approximately HK$998.5 respectively. Therefore, we consider that the Repurchase Price of HK$1,000 per Sale Share is in line with the historical transacted prices for the past twelve months.

3.3 ***Repurchase Price compared to the net asset value per Share***

As at 31 December 2005, the Group recorded an audited consolidated net asset value of approximately HK$521.2 million. Subsequent to the allotment of 3,600 new Ordinary Shares in January 2006 for a total consideration of HK$1.8 million, the payment of dividends for year 2005 of HK$9.5 million and the consideration and related expenses for the Last Share Repurchase of approximately HK$31.3 million, the Group recorded an unaudited adjusted consolidated net asset value of approximately HK$482.2 million immediately before the Share Repurchase. After taking into account the consideration and expenses of the Share Repurchase, the Group would record an unaudited adjusted consolidated net asset value of approximately HK$432.7 million immediately after the Share Repurchase.

The Repurchase Price of HK$1,000 per Sale Share represents (i) a discount of approximately 40.6% to the unaudited adjusted net asset value per Share of approximately HK$1,682.5 immediately before the Share Repurchase (based on 286,603 Shares in issue as at the Latest Practicable Date); and (ii) a discount of approximately 45.0% to proforma unaudited consolidated net asset value per Share of approximately HK$1,818.9 upon Completion (based on 237,910 Shares).

3.4 ***Comparable analysis***

Apart from the aforesaid, for the purposes of ascertaining whether the Repurchase Price is generally in line with the market, we have further reviewed the following listed companies (the "Comparable Companies") in Hong Kong whose principal businesses are similar to that of the Company's Paint Business. For the Comparable Companies under our review, based on their latest published audited results, the sale of paint or paint related products has accounted for more than 50% of their respective total turnover.

Company name (Stock code)	Total equity	Price-to-earnings multiple as at the Latest Practicable Date	Price-to-book multiple as at the Latest Practicable Date
	(HK$'000)	*(times)*	*(times)*
CNT Group Limited (701)	641,022#	N/A+	0.37#
COSCO International Holdings Limited (517)	1,916,758#	8.28*	2.14#
Greenfield Chemical Holdings Limited (582)	260,968#	6.30*	1.29#
Wing Shing International Holdings Limited (850)	130,785*	42.62*	3.76#
Yip's Chemical Holdings Limited (408)	983,221*	9.98*	1.71#
The Company	**482,220^**	**4.40^**	**0.59^**

Source: The Stock Exchange website and published financial information of the Comparable Companies

These figures are extracted from the respective latest published unaudited results.

* These figures are extracted from the respective latest published audited results.

^ These figures are extracted from the latest published audited results as adjusted by the Last Share Repurchase, the payment of dividends for year 2005 and the allotment of new Ordinary Shares in January 2006.

+ This company was loss making.

Since the Company is not listed in any stock exchange, Shareholders are reminded to note that the financial parameters manifested by the Comparable Companies may be affected by, among other things, the fact that the Comparable Companies are listed entities.

Price-to-earnings multiple

One of the most commonly used references for valuing an entity is the price-to-earnings multiple. However, due to the fact that, as discussed in the above paragraph headed "2. Review of the operation of the Group" above, for the two years ended 31 December 2005, (i) the Paint Business of the Group was loss making; and (ii) the audited net profit of the Group was mainly derived from the net valuation gains on its investment properties, other income (comprising net gain on disposal of fixed assets, realized or unrealized gains on investment securities, exchange loss and sundry income), the Rental Business and Treasury Management. The Group's financial performance is largely dependent upon the ever-changing stock market conditions and investment environment from time to time. We consider that the price-to-earnings multiple is not an appropriate means to evaluate the Repurchase Price in this case.

Price-to-book multiple

As illustrated in the table above, the average price-to-book ratio of the Comparable Companies was approximately 1.85 times. Despite the fact that a premium might have attached to the price-to-book multiple of the Comparable Companies deriving from their listing status, the price-to-book ratio of 0.59 represented by the Repurchase Price of HK$1,000 per Share is still below the average ratio of the Comparable Companies.

In light of the above, we are of the view that the Repurchase Price is fair and reasonable so far as the Independent Shareholders are generally concerned.

4. **Funding of the Share Repurchase and working capital of the Group**

As stated in the Letter from the Board, the Company will fund the Share Repurchase by its internal resources. The estimated amount of funds required for the Share Repurchase is approximately HK$49.5 million. As at 30 September 2006, the date of the statement of indebtedness of the Company, the Group had (i) short term bank deposits and cash balances of approximately HK$106 million; (ii) trading securities valued at approximately HK$30 million at their market prices quoted on 30 September 2006; and (iii) unused banking facilities of approximately HK$55 million. Besides, as stated in the Letter from the Board in the Circular, the Directors do not foresee any substantial capital expenditure in the near future and have not identified any specific and significant investments as at the Latest Practicable Date.

Based on the aforesaid, we consider that the Group has sufficient financial resources available to fund the Share Repurchase and the Share Repurchase should have no material impact on the Company's dividend payments in the future.

5. **Financial effects of the Share Repurchase on the Company**

As at 31 December 2005, the Company had a total of 313,490 Shares in issue. In January 2006, 3,600 new Ordinary Shares at a price of HK$500 per Ordinary Share were issued. On 19 April 2006, 1,307 Ordinary Shares and 29,180 Qualified Shares were repurchased by the Company. Accordingly, the Company recorded a total of 286,603 Shares in issue as at the Latest Practicable Date. The following analysis on the financial effects of the Share Repurchase on the Company has taken into account of the issue of such new Ordinary Shares and the Last Share Repurchase.

5.1 ***Earnings per Share***

For the year ended 31 December 2005, the Company recorded audited consolidated net profit of approximately HK$64.8 million, representing an unaudited earnings per Share of approximately HK$226.1 based on 286,603 Shares in issue as at the Latest Practicable Date. Immediately after completion of the Share Repurchase, the total number of issued Shares outstanding will be reduced to 237,910.

Assuming there was an opportunity cost for the internal cash resources funded for the Share Repurchase of 4% per annum (being the existing bank deposit rate enjoyed by the Group) on the total Repurchase Price, the unaudited consolidated net profit of the Company for the year ended 31 December 2005 would become approximately HK$62.9 million and the Company would record a pro forma unaudited earnings per Share of approximately HK$264.4 (which represents an increase of approximately HK$38.3 per Share as compared to the unaudited earnings per Share of approximately HK$226.1 prior to the Share Repurchase). Accordingly, the Share Repurchase has the effect of improving the earnings per Share on the above basis by approximately 16.9%.

5.2 ***Net asset value per Share***

As at 31 December 2005, the Company had a total of 313,490 Shares in issue and recorded an audited consolidated net asset value of approximately HK$521.2 million representing an unaudited net asset value per Share of approximately HK$1,662.7. Taking into account the allotment of 3,600 new Ordinary Shares at a price of HK$500 per Ordinary Share in January 2006, the payment of dividends for year 2005 of HK$9.5 million and the consideration and related expenses of the Last Share Repurchase of approximately HK$31.3 million, the adjusted net asset value and unaudited adjusted net asset value per Share of the Company would be approximately HK$482.2 million and approximately HK$1,682.5 respectively as at the Latest Practicable Date.

The Repurchase Price of HK$1,000 per Sale Share represents a discount of approximately 40.6% to the unaudited adjusted net asset value per Share of approximately HK$1,682.5. Immediately after the Share Repurchase, the unaudited adjusted net asset value per Share of the Company will be further reduced by the total Repurchase Price and the related expenses of approximately HK$49.5 million. Accordingly, the pro forma unaudited adjusted net asset value of the Company would be approximately HK$432.7 million. Since the number of Shares outstanding will be reduced to 237,910 upon completion of the Share Repurchase, the pro forma unaudited adjusted net asset value per Share would become approximately HK$1,818.9 (which represents an increase of approximately HK$136.4 per Share as compared to that of HK$1,682.5 immediately prior to the Share Repurchase). Accordingly, the Share Repurchase has the effect of improving the adjusted net asset value per Share on the above basis by approximately 8.1%.

5.3 ***Gearing position***

As discussed above, immediately following completion of the Share Repurchase, the net asset value of the Group will be reduced to approximately HK$432.7 million. Accordingly, the gearing ratio (represents total interest-bearing borrowings over total net asset value) will be slightly increased. However, the Group did not have any outstanding bank borrowing as at 30 September 2006. The effect of Share Repurchase on the Group's gearing position would be very immaterial.

5.4 ***Return on capital and return on equity***

As at the Latest Practicable Date, the Company recorded share capital of HK$28.7 million and unaudited adjusted owners' equity of approximately HK$482.2 million as mentioned above. For the year ended 31 December 2005, the Company recorded audited consolidated net profit of HK$64.8 million, representing a return on capital of approximately 207% and a return on equity of approximately 12.6% respectively. Assuming there was an opportunity cost for the internal cash resources funded for the Share Repurchase of 4% per annum (being the existing bank deposit rate enjoyed by the Group) on the total Repurchase Price, the unaudited consolidated net profit of the Company for the year ended 31 December 2005 would become approximately HK$62.9 million. Immediately after the Share Repurchase, the share capital will be reduced to approximately HK$23.8 million and as mentioned above, the pro forma adjusted owners' equity of the Company would be approximately HK$432.7 million. Consequently, the Company would record a pro forma return on capital and a proforma return on equity of 264.3% and 14.5% respectively.

Based on the above and discussion with the Directors, we concur with the Directors' view that (i) the Group has sufficient available cash in hand to fund the Share Repurchase; (ii) the Share Repurchase represents an opportunity for the Company to utilise its surplus cash to enhance the earnings per Share, net asset value per Share, return on capital and return on equity; and (iii) the Share Repurchase should have no material impact on the Company's gearing position and dividend payments in the near future.

6. **Shareholding and the management of the Company**

Following Completion, the Sale Shares will be cancelled. As a result, the number of Ordinary Shares, Qualified Shares and total number of Shares in issue immediately following the Share Repurchase will be reduced from 22,293 to 20,013, from 264,310 to 217,897 and from 286,603 to 237,910 respectively. Accordingly, the percentage shareholdings of all Shareholders will be increased by approximately 16.99% and the holding of Ordinary Shares of the Parties to the Deed and their concert parties will be increased from 71.03% to 79.12%. Therefore, there will not be any change in the control of the Company immediately following the Completion. Upon Completion, the number of Shareholders will be reduced to 209 and therefore the Company's status of being a public company in Hong Kong will not be affected by the Share Repurchase, and the Code and the Share Repurchase Code will continue to apply to the Company.

The Directors do not anticipate any material change in the composition of the Board as a result of the Share Repurchase. We have confirmed with the Directors that, as at the Latest Practicable Date, the Sellers have not had any representation in the Board and none of the Sellers has been involved in the daily management of the Group. Based on the above, we consider that the Share Repurchase should have no material impact on the operation of the Company.

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, in particular that:

1. the Share Repurchase is funded by surplus cash resources and will not have a material adverse impact on the Company's cash flow position in the near future;

2. the Repurchase Price is in line with the historical transacted prices for the past twelve months and market comparables;

3. the Share Repurchase would improve the earnings per Share by approximately 16.9% on the bases set out above;

4. the Share Repurchase would improve the adjusted unaudited net asset value per Share by approximately 8.1% on the bases set out above; and

5. there is no change in the controlling shareholders and management of the Company,

we are of the opinion that the terms of the Share Repurchase are fair and reasonable so far as Independent Shareholders are generally concerned. Accordingly, we advise the Independent Board Committee to recommend Independent Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the Share Repurchase and the Agreements.

Yours faithfully,
For and on behalf of
TAIFOOK CAPITAL LIMITED

Derek C.O. Chan
Managing Director

April Chan
Executive Director

1 FINANCIAL SUMMARY

The following is a summary of the financial results of the Group for each of the three financial years ended 31 December 2005 as extracted from the Company's annual reports. The auditors' reports in respect of the Company's consolidated audited accounts for the three financial years ended 31 December 2005 did not contain any qualification. The Company has no exceptional or extraordinary items during the periods.

	For the year ended 31 December		
	2005	**2004 (restated)**	**2003**
	(HK$)	*(HK$)*	*(HK$)*
Turnover	191,395,168	189,402,508	184,526,890
Profit before taxation	78,416,217	62,668,546	7,527,469
Taxation	(13,587,200)	(10,928,007)	(3,614,441)
Profit after taxation	64,829,017	51,740,539	3,913,028
Minority interests	6,250,000	6,250,000	6,250,000
Dividends attributable to the year	9,404,700	9,344,700	7,787,250
Earnings per Share *(Note)*	226.20	166.11	12.56
Dividends per Share	30	30	25

Note: The earnings per Share was calculated by dividing the profit after taxation attributable to Shareholders by the number of issued Shares (i) as at the Latest Practicable Date (being 286,603 Shares) for the year ended 31 December 2005 and (ii) 311,490 Shares for the year ended 31 December 2003 and 2004.

2 AUDITED FINANCIAL STATEMENTS

The following is the unqualified audited financial statements of the Group for the year ended 31 December 2005 as extracted from the annual report of the Company for the year ended 31 December 2005. The notes to the accounts have been adapted to conform with the presentation herein.

Consolidated income statement
for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	**2005**	**2004 (restated)**
Turnover	3	$ 191,395,168	$ 189,402,508
Cost of sales		(122,296,073)	(121,025,613)
		$ 69,099,095	$ 68,376,895
Net valuation gains on investment properties	10	74,222,500	51,948,937
Other net income	4	11,504,374	8,991,163
Distribution costs		(41,188,069)	(37,742,383)
Administrative expenses		(25,830,514)	(20,871,871)
Other operating expenses		(4,519,315)	(5,817,994)
Profit from operations		$ 83,288,071	$ 64,884,747
Finance costs	5(a)	(528,257)	(267,514)
Share of losses from jointly controlled entities		(4,343,597)	(1,948,687)
Profit before taxation	5	$ 78,416,217	$ 62,668,546
Taxation	6(a)	(13,587,200)	(10,928,007)
Profit for the year		$ 64,829,017	$ 51,740,539
Dividends payable to equity shareholders of the company attributable to the year			
Dividend proposed after balance sheet date	9(a)	$ 9,404,700	$ 9,344,700

Consolidated balance sheet
at 31 December 2005
(Expressed in Hong Kong dollars)

	Note	**2005**	**2004 (restated)**
Non-current assets			
Fixed assets	10(a)		
— Investment property		$288,225,000	$222,270,000
— Other property, plant and equipment		62,181,854	58,352,456
— Interests in leasehold land held for own use under operating leases		7,447,605	7,045,652
		$357,854,459	$287,668,108
Interest in jointly controlled entities	12	2,635,808	13,051,312
Other financial assets	13	22,204,418	65,376,697
Deferred tax assets	7(b)	2,246,206	1,990,756
		$384,940,891	$368,086,873
Current assets			
Inventories	14	$ 26,659,192	$ 27,409,085
Trade and other receivables	15	42,646,552	36,647,513
Other financial assets	13	45,822,135	—
Tax recoverable	7(a)	706,399	198,503
Deposits with banks and other financial institutions	16	98,583,493	99,307,121
Cash at bank and in hand	16	22,757,575	21,642,997
		$237,175,346	$185,205,219
Current liabilities			
Bank loans — secured	17	$ 7,000,000	$ 13,300,000
Trade and other payables	18	49,964,870	42,129,665
Provisions	19	4,385,446	4,290,250
Taxation payable	7(a)	652,740	811,764
		$ 62,003,056	$ 60,531,679
Net current assets		$175,172,290	$124,673,540
Non-current liabilities			
Deferred tax liabilities	7(b)	$ 38,887,033	$ 25,659,623
NET ASSETS		$521,226,148	$467,100,790

	Note	2005	2004 (restated)
CAPITAL AND RESERVES	20(a)		
Share capital		$ 31,349,000	$ 31,149,000
Reserves		483,627,148	429,701,790
Total equity attributable to equity shareholders of the company		$514,976,148	$460,850,790
Minority interests		6,250,000	6,250,000
TOTAL EQUITY		$521,226,148	$467,100,790

Balance sheet
at 31 December 2005
(Expressed in Hong Kong dollars)

	Note	**2005**	**2004**
Non-current assets			
Fixed assets	10(e)	$ 436,859	$ 636,726
Investments in subsidiaries	11	23,008,002	24,008,002
Other financial assets	13	1,048,418	52,711,972
Deferred tax assets	7(b)	1,133,544	1,340,173
		$ 25,626,823	$ 78,696,873
Current assets			
Trade and other receivables	15	$145,229,413	$142,940,800
Other financial assets	13	37,875,278	—
Deposits with banks and other financial institutions	16	58,578,768	30,889,135
Cash at bank and in hand	16	640,442	556,589
		$242,323,901	$174,386,524
Current liabilities			
Trade and other payables	18	$ 43,299,563	$ 28,264,379
Provisions	19	1,213,196	1,213,196
		$ 44,512,759	$ 29,477,575
Net current assets		$197,811,142	$144,908,949
NET ASSETS		$223,437,965	$223,605,822
CAPITAL AND RESERVES	20(b)		
Share capital		$ 31,349,000	$ 31,149,000
Reserves		192,088,965	192,456,822
TOTAL EQUITY		$223,437,965	$223,605,822

Consolidated statement of changes in equity
for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note		**2005**		**2004 (restated)**
Total equity at 1 January:					
As previously reported:					
- attributable to equity shareholders of the company	20(a)	$ 494,688,145		$ 434,859,591	
- minority interests	20(a)	6,250,000		6,250,000	
	20(a)	$ 500,938,145		$ 441,109,591	
Prior period adjustments arising from changes in accounting policies	20(a)	(33,837,355)		(19,084,619)	
As restated, before opening balance adjustments	20(a)		$ 467,100,790		$ 422,024,972
Opening balance adjustments arising from changes in accounting policies	20(a)		—		—
As at 1 January, after prior period and opening balance adjustments	20(a)		$ 467,100,790		$ 422,024,972
Net income recognised directly in equity:					
Exchange differences on translation of financial statements of overseas subsidiaries	20(a)		$ 230,862		$ 2,596,535
Surplus on revaluation of investment property, net of deferred tax:					
As previously reported				$ 57,143,937	
Prior period adjustments arising from changes in accounting policies under HKAS 40				(57,143,937)	
Surplus on revaluation of investment property, net of deferred tax (2004: as restated)				$ —	
Changes in fair value of available-for-sale securities	20(a)		(1,397,648)		2,503,494
Net (loss)/income for the year recognised directly to equity (2004: as restated)			$ (1,166,786)		$ 5,100,029
Transfer to income statement on disposal of available-for-sale securities	20(a)		(2,192,173)		(3,977,500)
Net profit for the year:					
As previously reported				$ 9,349,338	
Prior period adjustments arising from changes in accounting policies				42,391,201	

	Note	2005	2004 (restated)
Net profit for the year (2004: as restated)	20(a)	64,829,017	51,740,539
Total recognised income and expense for the year (2004: as restated)		$ 61,470,058	$ 52,863,068
Dividends declared or approved during the year	20(a)	$ (9,344,700)	$ (7,787,250)
Movements in equity arising from capital transactions:			
Shares issued under share option scheme	20(a)	$ 2,000,000	$ —
Total equity at 31 December		$ 521,226,148	$ 467,100,790
Restatements of total recognised income and expense for the year			
Arising from restatements of:			
Net income recognised directly in equity			$ (57,143,937)
Net profit for the year			42,391,201
			$ (14,752,736)

Consolidated cash flow statement
for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	**2005**	**2004 (restated)**
Operating activities			
Profit before taxation		$ 78,416,217	$ 62,668,546
Adjustments for:			
— Net valuation gains on investment property		(74,222,500)	(51,948,937)
— Depreciation		9,056,559	8,719,001
— Amortisation of land cost		186,080	178,012
— Share of losses of jointly controlled entities		4,343,597	1,948,687
— Impairment loss on other financial assets		45,120	1,547,000
— Finance costs		528,257	267,514
— Interest income from investment in unlisted securities		(727,113)	(44,454)
— Interest income from bank deposits		(3,517,528)	(3,256,777)
— Interest income from loan to jointly controlled entities		(539,262)	—
— Investment income		(636,141)	(845,663)
— Transfer from equity on disposals of available-for-sale securities (2004: net realised gain on sales of investment securities)		(2,192,173)	(7,006,725)
— Net gain on disposal of fixed assets		(5,582,741)	(1,638,295)
— Net realised and unrealised gains on trading securities		(1,807,267)	—
— Foreign exchange (gain)/loss		(640,237)	744,560
Operating profit before changes in working capital		$ 2,710,868	$ 11,332,469
Decrease/(increase) in inventories		749,893	(3,805,038)
(Increase)/decrease in trade and other receivables net of impairment loss		(5,999,039)	6,771,314
Increase in trade and other payables		7,835,205	2,638,718
Increase/(decrease) in provisions		95,196	(95,105)
Cash generated from operations		$ 5,392,123	$ 16,842,358
Tax paid			
— Hong Kong profits tax paid		(716,126)	(896,695)
— Overseas tax paid		(566,034)	(820,833)
Net cash generated from operating activities		$ 4,109,963	$ 15,124,830

	Note	**2005**	**2004 (restated)**
Investing activities			
Payment for purchase of fixed assets		$(12,610,312)	$(16,487,305)
Proceeds from sales of fixed assets		13,674,330	15,190,715
Net proceeds from sales of available-for-sale securities — quoted		48,394,493	5,926,478
Net payment for purchase of trading securities		(44,014,868)	—
Interest received		4,244,641	3,396,189
Dividends received from investment securities		636,141	845,663
Payment for the purchase of available-for-sale securities — unquoted		—	(2,142,000)
Net cash generated from investing activities		$ 10,324,425	$ 6,729,740
Financing activities			
Proceeds from shares issued under share option scheme		$ 2,000,000	$ —
Proceeds from new bank loans		20,000,000	24,700,000
Repayment of bank loans		(26,300,000)	(41,900,000)
Interest paid		(528,257)	(304,671)
Dividend paid		(9,344,700)	(7,787,250)
Net cash used in financing activities		$(14,172,957)	$(25,291,921)
Net increase/(decrease) in cash and cash equivalents		$ 261,431	$ (3,437,351)
Effect of foreign exchange rates changes		129,519	1,202,434
Cash and cash equivalents at 1 January		120,950,118	123,185,035
Cash and cash equivalents at 31 December	16	$121,341,068	$120,950,118

Notes on the financial statements

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) **Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) **Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value explained in the accounting policies set out below:

— investment property (see note 1(g)); and

— financial instruments classified as available-for-sale securities and trading securities (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) **Subsidiaries and controlled enterprises**

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Where losses applicable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) **Jointly controlled entities**

A jointly controlled entity is an entity which operates under a contractual arrangement between the group and other parties, where the contractual arrangement establishes that the group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 1(e) and (i)).

When the group's share of losses exceeds its interest in the jointly controlled entity, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the group and its jointly controlled entity are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) **Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)). In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entity.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly controlled entity is recognised immediately in the income statement.

On disposal of a cash generating unit or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) **Other investments in debt and equity securities**

The group's and the company's policies for investments in debt and equity securities, other than investments in subsidiaries and jointly controlled entities, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Investments are recognised/derecognised on the date the group and/or the company commits to purchase/sell the investments or they expire.

(g) **Investment property**

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(j)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 1(s).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(j).

(h) **Other property, plant and equipment**

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

— other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Freehold land is not depreciated;
— Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion; and
— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives of 13 to 55 years, being no more than 50 years after the date of completion.
— Plant, furniture, fixtures and equipment and leasehold improvements 2 to 10 years
— Motor vehicles $3\frac{1}{3}$ to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) **Impairment of assets**

(i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current and non-current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease; and

— investments in subsidiaries and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) **Leased assets**

(i) *Classification of assets leased to the group*

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) *Operating leases charges*

Where the group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(k) **Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost includes the cost of materials computed using the average cost method and, in the case of work in progress and finished goods, direct labour, an appropriate proportion of production overheads and other costs incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

(m) **Trade and other payables**

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

(o) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) **Employee benefits**

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the defined contribution retirement plan administered by the People's Republic of China's government, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) **Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities and is recognised in the income statement. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the company or group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) **Revenue recognition**

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income is recognised as it accrues using the effective interest method.

(iv) *Dividends*

— dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(t) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars using the exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) **Borrowing costs**

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) **Related parties**

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and/or company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The HKICPA has issued a number of new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements by the group.

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the group's financial statements for the period beginning 1 January 2006.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has not yet completed that assessment.

(a) **Employee share option scheme (HKFRS 2, Share-based payment)**

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the group has adopted a new policy for employee share options. Under the new policy, the group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(p)(ii).

The new accounting policy has been applied retrospectively with comparatives restated, except that the group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

No adjustments to the opening balances as at 1 January 2004 and as at 1 January 2005 are required as no options existed at that time.

Details of the employee share option scheme are set out in note 22.

(b) **Changes in presentation (HKAS 1, Presentation of financial statements)**

(i) *Presentation of shares of jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the group's share of taxation of jointly controlled entities accounted for using the equity method was included as part of the group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the group has changed the presentation and includes the share of taxation of jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the group's profit or loss before tax. These changes in presentation have been applied retrospectively by reclassifying share of jointly controlled entities' tax expense of $87,653 (2004: $136,978 tax credit) from taxation to share of losses from jointly controlled entities.

(c) **Leasehold land and buildings (HKAS 16, Property, plant and equipment and HKAS 17, Leases)**

Leasehold land and buildings held for own use

In prior years, leasehold land and buildings held for own use were stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 January 2005, in order to comply with HKAS 17, the group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of these buildings, if later.

The new presentation has been applied retrospectively by reclassifying leasehold land with a carrying value of $7,045,652 as of 1 January 2005 (as of 1 January 2004: $7,223,664) from land and buildings held for own use to interest in leasehold land held for own use under operating lease. There is no net effect to the opening retaining profits nor the profit and loss for the years presented.

Also, with effect from 1 January 2005, in order to comply with HKAS 16, all leasehold land and buildings held for own use are stated at cost, rather than at fair value, less accumulated depreciation and accumulated impairment losses. The group has held certain leasehold land and buildings for own use carrying at fair value and has applied the new policy retrospectively by reducing both the land and buildings and revaluation reserve as of 1 January 2005 by $1,731,110 (as of 1 January 2004: $1,731,110). As a result of this policy, the group's retained earnings was increased by $1,413,253 as of 1 January 2005 (as of 1 January 2004: $1,333,789). As a result of this, the group's profit for the year before tax has increased by $79,464 (2004: $79,464).

In 2005, certain properties were reclassified from investment properties to land and buildings since the 15% benchmark for determining the significance of the portion of property held for own use or leased to group companies was removed. This change in accounting policy has been adopted retrospectively by reducing investment properties and revaluation reserves as of 1 January 2005 by $18,400,000 (as of 1 January 2004: $13,205,000) and $9,579,362 (as of 1 January 2004: $4,384,362) respectively with a corresponding decrease in retained earnings as of 1 January 2005 by $1,398,721 (as of 1 January 2004: $1,045,917). As a result of this new policy, the group's profit for the year has decreased by $352,804 (2004: $352,804).

Further details of the new policy are set out in notes 1(h) and (j).

(d) **Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)**

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the group has changed its accounting policies relating to financial instruments to those as set out in notes 1(f), (i) and (l) to (m). Further details of the changes are as follows:

(i) *Investments in debt and equity securities*

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in the income statement, with the exception of dated debt securities being held to maturity.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated debt securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. There are no material adjustments arising from the adoption of the new policies for securities held for trading purposes, debt securities being held to maturity and unquoted equity investments not carried at fair value. Further details of the new policies are set out in note 1(f).

(ii) *Description of transitional provisions and effect of adjustments*

The changes in accounting policies relating to accounting for loan and receivables were adopted by the way of opening balance adjustments to retained earnings as at 1 January 2005. The adjustments included re-designation of shareholder's loan to jointly controlled entities with carrying amount of $10,000,000 at 31 December 2004 as loan to jointly controlled entities under "Other financial assets" at 1 January 2005. At 1 January 2005, loan to jointly controlled entities was restated to its amortised cost of $6,071,907 by way of an opening balance adjustment to retained earnings. Interest in jointly controlled entities was increased by $3,928,093 with a corresponding opening balance adjustment to retained earnings. The adoption of HKAS 39 has no impact on the group's net assets. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(e) **Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes - Recovery of revalued non-depreciable assets)**

Changes in accounting policies relating to investment properties are as follows:

(i) *Timing of recognition of movements in fair value in the income statement*

In prior years, movements in the fair value of the group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years land (including leasehold land) which the group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17, *Property, plant and equipment*, whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from 1 January 2005, the group has adopted a new policy for investment property. Under this new policy:

— all changes in the fair value of investment property are recognised directly in the income statement ("profit or loss") in accordance with the fair value model in HKAS 40; and

— land held for an undetermined future purpose is recognised as investment property if the property is freehold or, if the property is leasehold, the group has chosen to recognise such land as investment property rather than as land held under an operating lease.

Further details of the new policy for investment property are set out in note 1(g).

(ii) *Description of transitional provisions and effect of adjustments*

The group has applied the new policy retrospectively by increasing the opening balance of retained earnings as of 1 January 2005 by $125,829,458 (as of 1 January 2004: $73,880,521) to include all of the company's previous investment property revaluation reserve. As a result of adopting HKAS 40, the group's profit for the year before tax has increased by $74,222,500 (2004: 51,948,937).

There is no net effect to the opening net assets as of 1 January 2005 or 1 January 2004 as a result of the adoption of HKAS 40.

(iii) *Measurement of deferred tax on movements in fair value*

In prior years the group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the group has no intention to sell it and the property would have been depreciable had the group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 1(q).

(iv) *Description of transitional provisions and effect of adjustments*

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained profit as of 1 January 2005 by $22,541,415 (1 January 2004: $13,230,644) and increasing deferred tax liabilities by the same amount.

As a result of this new policy, the group's tax expense for the year has increased by $13,030,150 (2004: $9,310,771).

(f) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(v) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 TURNOVER

The principal activities of the group are the manufacture and sale of lacquer and paint products, property investment and treasury management.

Turnover of the group represents invoiced value of goods supplied to customers less returns and discounts, rental income and investment income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005	**2004**
Sale of paint products	$167,768,805	$169,177,387
Gross rentals from investment properties	18,206,319	16,078,227
Investment income	5,420,044	4,146,894
	$191,395,168	$189,402,508

4 OTHER NET INCOME

	2005	2004
Net gain on disposal of fixed assets	$5,582,741	$1,638,295
Transfer from equity on disposals of available-for-sale securities (2004: net realised gain on sale of investments in securities)	2,192,173	7,006,725
Net realised and unrealised gains on trading securities	1,807,267	—
Exchange loss	(463,367)	(1,248,110)
Sundry income	2,385,560	1,594,253
	$11,504,374	$ 8,991,163

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2005	2004 (restated)
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	$ 528,257	$ 267,514
(b)	Staff costs:		
	Contributions to defined contribution retirement plan	$ 1,058,969	$ 980,743
	Salaries, wages and other benefits	42,281,349	34,401,998
		$ 43,340,318	$ 35,382,741
(c)	Other items:		
	Auditors' remuneration	$ 905,275	$ 818,742
	Depreciation	9,056,559	8,719,001
	Amortisation of land cost	186,080	178,012
	Minimum operating lease payments for lease of land and buildings	1,806,262	2,079,997
	Cost of inventories	93,324,578	103,755,235
	Impairment losses on trade and other receivables net of write back	(1,222,010)	(1,232,800)
	Impairment losses on other financial assets	45,120	1,547,000
	Rentals receivable from investment properties less direct outgoings of $1,943,691 (2004: $2,073,461)	(16,262,628)	(14,004,766)
	Dividend income from investments in unlisted securities	(636,141)	(845,663)
	Interest income from investments in unlisted securities	(727,113)	(44,454)
	Interest income from bank deposits	(3,517,528)	(3,256,777)
	Interest income from loan to jointly controlled entities	(539,262)	—
	Share of jointly controlled entity's taxation	87,653	(136,978)

(d) Profit attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the company includes a profit of $4,775,724 (2004: 9,596,068) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	2005	**2004**
Amount of consolidated profit attributable to equity shareholders dealt with in the company's financial statements	$4,775,724	$9,596,068
Interim dividend from subsidiaries attributable to the profit of the current financial year approved and paid during the year	4,800,000	—
Company's profit for the year *(Note 20(b))*	$ 9,575,724	$ 9,596,068

6 TAXATION IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in consolidated income statement represents:

	2005	**2004** *(restated)*
Provision for Hong Kong Profits Tax		
Provision for the year	$ 69,009	$ 579,805
Under-provision in respect of prior years	22,215	565
	$ 91,224	$ 580,370
Overseas taxation		
Provision for the year	$ 478,001	$ 480,511
Under-provision in respect of prior years	46,015	$ 55,879
	$ 524,016	$ 536,390
Deferred taxation		
Origination and reversal of temporary differences *(Note 7 (b))*	$12,971,960	$ 9,811,247
	$13,587,200	$10,928,007

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2005	**2004** *(restated)*
Profit before tax	$78,416,217	$62,668,546
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	$15,162,786	$11,868,313
Tax effect of non-deductible expenses	935,034	1,400,336
Tax effect of non-taxable revenue	(3,464,566)	(3,053,319)
Tax effect of unused tax losses not recognised	613,413	279,814
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	—	(36,940)
Under-provision in prior years	68,230	56,444
Overseas taxation	235,056	406,576
Others	37,247	6,783
Actual tax expenses	$13,587,200	$10,928,007

7 TAXATION IN THE BALANCE SHEET

(a) **Taxation payable in the consolidated balance sheet represents:**

	The group	
	2005	**2004**
Provision for Hong Kong Profits Tax for the year	$ 69,009	$ 579,805
Provisional Profits Tax paid	(772,811)	(658,705)
	$ (703,802)	$ (78,900)
Overseas taxation payable	650,143	692,161
	$ (53,659)	$ 613,261
Add: Tax recoverable	706,399	198,503
Tax payable	$ 652,740	$ 811,764

(b) **Deferred tax assets and liabilities recognised:**

(i) *The group*

The components of deferred tax (assets)/liablities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Revaluation on investment property	Depreciation allowances in excess of related depreciation	General provisions	Tax losses	Others	Total
Deferred tax arising from:						
At 1 January 2004 (restated)	$13,230,644	$2,919,948	$(1,550,650)	$(1,393,589)	$ 651,267	$13,857,620
Charged/(credited) to income statement	9,310,771	83,640	1,123,650	(423,019)	(283,795)	9,811,247
At 31 December 2004 (restated)	$22,541,415	$3,003,588	$ (427,000)	$(1,816,608)	$ 367,472	$23,668,867
At 1 January 2005 (restated)	$22,541,415	$3,003,588	$ (427,000)	$(1,816,608)	$ 367,472	$23,668,867
Charged/(credited) to income statement	13,030,150	892,083	(847,602)	264,801	(367,472)	12,971,960
At 31 December 2005	$35,571,565	$3,895,671	$(1,274,602)	$(1,551,807)	$ —	$36,640,827

	2005	2004 *(restated)*
Net deferred tax assets recognised on the balance sheet	$ (2,246,206)	$ (1,990,756)
Net deferred tax liabilities recognised on the balance sheet	38,887,033	25,659,623
	$36,640,827	$23,668,867

(ii) *The company*

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	General provisions	Tax losses	Total
Deferred tax arising from:				
At 1 January 2004	$ 90,600	$ (98,946)	$(1,393,291)	$(1,401,637)
(Credited)/charged to income statement	(49,545)	98,946	12,063	61,464
At 31 December 2004	$ 41,055	$ —	$(1,381,228)	$(1,340,173)
At 1 January 2005	$ 41,055	$ —	$(1,381,228)	$(1,340,173)
(Credited)/charged to income statement	(27,939)	—	234,568	206,629
At 31 December 2005	$ 13,116	$ —	$(1,146,660)	$(1,133,544)

(c) **Deferred tax assets not recognised**

The group has not recognised deferred tax assets in respect of cumulative tax losses of $19,366,559 (2004: $15,540,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2005	**2004**
Directors' fees	$140,000	$140,000
Bonuses	500,340	492,444
Contributions to defined contribution retirement plan	48,000	34,942
Salaries and allowances	14,489,828	10,386,356
	$15,178,168	$11,053,742

9 DIVIDENDS

(a) **Dividends payable to equity shareholders of the company attributable to the year**

	2005	**2004**
Dividend proposed after balance sheet date of $30 (2004: $30) per share	$9,404,700	$9,344,700

The dividend proposed after balance sheet date has not been recognised as a liability at the balance sheet date.

(b) **Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year**

	2005	**2004**
Dividend in respect of the previous financial year, approved and paid during the year, of $30 (2004: $25) per share	$9,344,700	$7,787,250

10 FIXED ASSETS

(a) The group

	Land and buildings held for own use carried at cost	Plant, furniture, fixtures, equipment and leasehold improvements	Motor vehicles	Sub-total	Investment property	Interests in leasehold land held for own use under operating leases	Total
Cost or valuation:							
At 1 January 2005 (restated)	$ 66,758,977	$73,127,944	$ 8,682,374	$148,569,295	$222,270,000	$ 8,574,516	$379,413,811
Exchange adjustment	987,808	873,752	51,221	1,912,781	(197,500)	119,455	1,834,736
Additions	6,430,200	5,683,284	—	12,113,484	—	496,828	12,610,312
Disposals	—	(43,398)	(1,005,486)	(1,048,884)	(8,070,000)	—	(9,118,884)
Surplus on revaluation	—	—	—	—	74,222,500	—	74,222,500
At 31 December 2005	$ 74,176,985	$79,641,582	$ 7,728,109	$161,546,676	$288,225,000	$ 9,190,799	$458,962,475
Representing:							
Cost	$ 74,176,985	$79,641,582	$ 7,728,109	$161,546,676	$ —	$ 9,190,799	$170,737,475
Valuation - 2005	—	—	—	—	288,225,000	—	288,225,000
	$ 74,176,985	$79,641,582	$ 7,728,109	$161,546,676	$288,225,000	$ 9,190,799	$458,962,475
Accumulated depreciation and impairment loss:							
At 1 January 2005 (restated)	$ 28,642,355	$57,252,360	$ 4,322,124	$ 90,216,839	$ —	$ 1,528,864	$ 91,745,703
Exchange adjustment	475,076	606,450	37,193	1,118,719	—	28,250	1,146,969
Charge for the year	3,440,466	4,502,368	1,113,725	9,056,559	—	186,080	9,242,639
Write back on disposals	—	(31,065)	(996,230)	(1,027,295)	—	—	(1,027,295)
At 31 December 2005	$ 32,557,897	$62,330,113	$ 4,476,812	$ 99,364,822	$ —	$ 1,743,194	$101,108,016
Net book value:							
At 31 December 2005	$ 41,619,088	$17,311,469	$ 3,251,297	$ 62,181,854	$288,225,000	$ 7,447,605	$357,854,459
Cost or valuation:							
At 1 January 2004 (restated)	$100,381,946	$74,291,987	$ 7,658,145	$182,332,078	$156,621,224	$ 8,574,516	$347,527,818
Exchange adjustment	1,011,673	380,467	10,950	1,403,090	—	—	1,403,090
Additions	3,731,141	6,299,296	3,532,503	13,562,940	2,924,365	—	16,487,305
Transfer to investment property	(23,623,523)	(4,864,929)	—	(28,488,452)	10,775,474	—	(17,712,978)
Disposals	(14,742,260)	(2,978,877)	(2,519,224)	(20,240,361)	—	—	(20,240,361)
Surplus on revaluation	—	—	—	—	51,948,937	—	51,948,937
At 31 December 2004 (restated)	$ 66,758,977	$73,127,944	$ 8,682,374	$148,569,295	$222,270,000	$ 8,574,516	$379,413,811
Representing:							
Cost (restated)	$ 66,758,977	$73,127,944	$ 8,682,374	$148,569,295	$ —	$ 8,574,516	$157,143,811
Valuation - 2004 (restated)	—	—	—	—	222,270,000	—	222,270,000
	$ 66,758,977	$73,127,944	$ 8,682,374	$148,569,295	$222,270,000	$ 8,574,516	$379,413,811

	Land and buildings held for own use carried at cost	Plant, furniture, fixtures, equipment and leasehold improvements	Motor vehicles	Sub-total	Investment property	Interests in leasehold land held for own use under operating leases	Total
Accumulated depreciation and impairment loss:							
At 1 January 2004 (restated)	$ 40,729,469	$58,218,300	$ 5,917,291	$104,865,060	$ —	$ 1,350,852	$106,215,912
Exchange adjustment	666,321	356,426	10,950	1,033,697	—	—	1,033,697
Charge for the year	3,191,313	4,677,873	849,815	8,719,001	—	178,012	8,897,013
Transfer to investment property	(13,733,409)	(3,979,569)	—	(17,712,978)	—	—	(17,712,978)
Write back on disposals	(2,211,339)	(2,020,670)	(2,455,932)	(6,687,941)	—	—	(6,687,941)
At 31 December 2004 (restated)	$ 28,642,355	$57,252,360	$ 4,322,124	$ 90,216,839	$ —	$ 1,528,864	$ 91,745,703
Net book value:							
At 31 December 2004 (restated)	$ 38,116,622	$15,875,584	$ 4,360,250	$ 58,352,456	$222,270,000	$ 7,045,652	$287,668,108

The analysis of net book value of properties is as follows:

	2005	2004 *(restated)*
Land held in Hong Kong		
Medium-term lease	$290,370,521	$224,813,240
Land held outside Hong Kong		
Freehold	520,848	518,803
Medium-term lease	46,400,324	42,100,231
	$337,291,693	$267,432,274
Representing:		
Investment property carried at fair value	$288,225,000	$222,270,000
Land and buildings carried at cost	41,619,088	38,116,622
	$329,844,088	$260,386,622
Interests in leasehold land held for own use under operating leases	7,447,605	7,045,652
	$337,291,693	$267,432,274

(b) Investment properties held outside Hong Kong was revalued at 22 December 2005 by CB Richard Ellis (Pte) Ltd, a firm of independent valuers having appropriate professional qualifications and experience in the location and category of the property being valued, at open market value on an existing use basis. Investment properties held in Hong Kong were revalued at 31 December 2005 by independent firm of surveyors, DTZ Debenham Tie Leung Limited, which have among their staff Associates of the Hong Kong Institute of Surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The net revaluation surplus of $74,222,500 (2004 (restated): $51,948,937) has been transferred to the consolidated income statement.

(c) The group leases out investment properties under operating leases. The leases typically run for an initial period of one to nine years. None of the leases includes contingent rentals.

(d) At 31 December 2005, the group's total future minimum lease payments under non-cancellable operating leases in respect of the investment properties are receivable as follows:

	2005	2004
Within 1 year	$13,682,195	$12,917,324
After 1 year but within 5 years	23,469,577	19,465,230
After 5 years	2,343,000	5,470,000
	$39,494,772	$37,852,554

(e) **The company**

	Motor vehicles
At cost:	
At 1 January 2004	$ 2,726,881
Additions	457,215
Disposals	(2,183,761)
At 31 December 2004	$ 1,000,335
At 1 January 2005 and at 31 December 2005	$ 1,000,335
Accumulated depreciation:	
At 1 January 2004	$ 1,938,009
Charge for the year	170,403
Write back on disposal	(1,744,803)
At 31 December 2004	$ 363,609
At 1 January 2005	$ 363,609
Charge for the year	199,867
At 31 December 2005	$ 563,476
Net book value:	
At 31 December 2005	$ 436,859
At 31 December 2004	$ 636,726

11 INVESTMENTS IN SUBSIDIARIES

(a) **The company**

	2005	2004
Unlisted shares, at cost	$24,008,002	$24,008,002
Less: impairment loss	(1,000,000)	—
	$23,008,002	$24,008,002

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group financial statements.

(b) **Details of the subsidiaries incorporated in Hong Kong are as follows:**

Name of company	Description of shares held	Proportion of ownership interest held by the company	a subsidiary	Principal activity
Camelpaint Chemicals Company Limited	Ordinary	100%	—	Sale of paint products and raw materials
Benson Chemicals Limited	Ordinary	100%	—	Provision of transport services
Benson Development Company Limited	Ordinary	100%	—	Investment holding and property investment
Benson Investment Limited	Ordinary	100%	—	Investment holding and treasury management
Konway Trading Limited	Ordinary	100%	—	Inactive
Ardeley Investment Limited	Ordinary	—	100%	Inactive
Camelpaint (China) Company Limited	Ordinary	—	100%	Investment holding and provision of inventory handling services
Benson Properties Management Company Limited	Ordinary	—	100%	Property management

(c) **Details of the subsidiaries incorporated outside Hong Kong are as follows:**

Name of company	Place of incorporation	Description of shares held	Proportion of ownership interest held by the company	a subsidiary	Principal activity
Camelpaint (Singapore) Private Limited*	Singapore	Ordinary	—	100%	Investment holding and property investment
Camelpaint Investments Private Limited*	Singapore	Ordinary	—	100%	Investment holding
Benson R. & D. Canada Inc.*	Canada	Common	—	100%	Research and development and investment holding
Dongguan Benson Paint Company, Limited*	The People's Republic of China	Capital contribution	—	85.29%	Manufacture and sale of paint products

* Not audited by the parent company's auditors.

The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 18% and 36% (2004: 15% and 35%) of the related consolidated totals.

12 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The group 2005	The group 2004
Share of net assets	$ 2,635,808	$ 3,051,312
Loan to jointly controlled entities	—	10,000,000
	$ 2,635,808	$13,051,312

(a) Details of the group's interest in jointly controlled entities are as follows:

Name of jointly controlled entity	Place of incorporation	Description of shares held	Proportion of ownership interest held by a subsidiary	Proportion of ownership interest held by a jointly controlled entity	Principal activity
Orica Camel Coatings Limited	Hong Kong	Ordinary	50%	—	Sale of powder coatings
Orica Camel Powder Coatings (Dongguan) Limited	The People's Republic of China	Capital contribution	—	100%	Manufacture and sale of powder coatings

Loan to jointly controlled entities is re-designated as other financial assets (see note 13) at 1 January 2005 and restated to its amortised cost. The loan is repayable in 2013 subject to mutual agreement by the shareholders of Orica Camel Coatings Limited.

(b) **Summary financial information on jointly controlled entity - group's effective interest:**

	2005	2004
Non-current assets	$13,048,171	$13,589,869
Current assets	6,922,285	4,360,536
Non-current liabilities	(10,723,479)	(10,000,000)
Current liabilities	(6,611,169)	(4,899,093)
Net assets	$ 2,635,808	$ 3,051,312
Income	$ 8,972,221	$ 3,755,167
Expenses	(13,315,818)	(5,703,854)
Loss for the year	$ (4,343,597)	$ (1,948,687)

13 OTHER FINANCIAL ASSETS

	The group 2005	The group 2004	The company 2005	The company 2004
Available-for-sale debt and equity securities - quoted				
Unlisted mutual funds	$ —	$48,393,045	$ —	$45,535,930
Unlisted debt securities	15,043,369	16,388,652	1,048,418	7,176,042
	$15,043,369	$64,781,697	$ 1,048,418	$52,711,972
Available-for-sale debt and equity securities - unquoted				
Unlisted equity securities, at cost	$ 2,142,000	$ 2,142,000	$ —	$ —
Less: impairment loss	(1,592,120)	(1,547,000)	—	—
	$ 549,880	$ 595,000	$ —	$ —
Loan to jointly controlled entities	$ 6,611,169	$ —	$ —	$ —
	$22,204,418	$65,376,697	$ 1,048,418	$52,711,972
Trading securities				
Listed equity securities				
- in Hong Kong	$ 7,090,170	$ —	$ 7,090,170	$ —
- outside Hong Kong	2,427,424	—	2,427,424	—
Unlisted mutual fund outside Hong Kong (quoted)	11,820,600	—	8,897,000	—
Unlisted debts securities outside Hong Kong (quoted)	24,483,941	—	19,460,684	—
	$45,822,135	$ —	$37,875,278	$ —
	$68,026,553	$65,376,697	$38,923,696	$52,711,972

	The group 2005	The group 2004	The company 2005	The company 2004
Market value of listed securities	$ 9,517,594	$ —	$ 9,517,594	$ —

14 INVENTORIES

	The group 2005	The group 2004
Raw materials	$18,353,568	$20,304,752
Work-in-progress	1,805,248	1,308,403
Finished goods	6,500,376	5,795,930
	$26,659,192	$27,409,085

15 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2005	2004	2005	2004
Amounts due from subsidiaries	$ —	$ —	$144,742,497	$141,537,827
Trade and other receivables	42,646,552	36,647,513	486,916	1,402,973
	$42,646,552	$36,647,513	$145,229,413	$142,940,800

As at 31 December 2005 the group's trade and other receivables expected to be recovered after more than one year amounted to $1,564,777 (2004: $2,001,764).

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2005	2004	2005	2004
The People's Republic of China Renminbi	RMB16,346,517	RMB13,099,798	RMB702,111	RMB874,700
Canadian Dollars	CAD—	CAD—	CAD201,382	CAD201,722
Malaysian Ringgit	MYR183,600	MYR91,800	MYR183,600	MYR91,800

The group's credit policy is set out in note 21.

16 CASH AND CASH EQUIVALENTS

	The group		The company	
	2005	2004	2005	2004
Deposits with banks and other financial institutions	$ 98,583,493	$ 99,307,121	$58,578,768	$30,889,135
Cash at bank and in hand	22,757,575	21,642,997	640,442	556,589
Cash and cash equivalents	$121,341,068	$120,950,118	$59,219,210	$31,445,724

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2005	2004	2005	2004
United States Dollars	USD9,589,006	USD4,158,311	USD5,660,794	USD1,969,810
The People's Republic of China Renminbi	RMB13,239,848	RMB15,463,431	RMB—	RMB—
New Zealand Dollars	NZD1,226,650	NZD474,298	NZD1,200,545	NZD553
Australian Dollars	AUD801,481	AUD22,678	AUD517,318	AUD14,199
Singapore Dollars	SGD808,520	SGD9,231,699	SGD310,282	SGD368,308
Japanese Yen	JPY15,680,714	JPY—	JPY—	JPY—

17 BANK LOANS

At 31 December 2005, the bank loans were as follows:

	The group	
	2005	**2004**
Bank loans — secured	$ 7,000,000	$13,300,000

As at 31 December 2005, the bank loans were repayable within one year.

One (2004: two) of the subsidiary companies has mortgaged certain properties with an aggregate carrying value of $229,878,598 (2004: $183,096,225) to secure banking facilities granted to the company and certain subsidiaries of the group. The banking facilities, amounting to $55,000,000 (2004: $55,476,000) were utilised to the extent of $7,621,192 (2004: $14,175,641) at 31 December 2005.

18 TRADE AND OTHER PAYABLES

	The group		The company	
	2005	**2004**	**2005**	**2004**
Amounts due to subsidiaries	$ —	$ —	$37,067,733	$22,740,270
Creditors and accrued charges	49,343,678	41,254,024	6,231,830	5,524,109
Bills payable	621,192	875,641	—	—
	$49,964,870	$42,129,665	$43,299,563	$28,264,379

All of the trade and other payables (including amounts due to subsidiaries) are expected to be settled within one year.

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The group		The company	
	2005	**2004**	**2005**	**2004**
The People's Republic of China Renminbi	RMB19,358,725	RMB14,705,380	RMB—	RMB—
United States Dollars	USD487,518	USD205,837	USD40	USD56

19 PROVISIONS

	The group			The company		
	Long service payments	**Other staff benefits**	**Total**	**Long service payments**	**Other staff benefits**	**Total**
At 1 January 2005	$ 2,296,386	$ 1,993,864	$ 4,290,250	$ 1,213,196	$ —	$ 1,213,196
Additional provisions made	—	939,311	939,311	—	—	—
Provisions utilised	(390,581)	(453,534)	(844,115)	—	—	—
At 31 December 2005	$ 1,905,805	$ 2,479,641	$ 4,385,446	$ 1,213,196	$ —	$ 1,213,196

(a) **Long service payments**

Under the Hong Kong Employment Ordinance, the group and the company are required to make long service payments to their employees upon the termination of their employment or retirement when the employees fulfill certain conditions and the termination meets the required circumstances. Provision is therefore made for the best estimate of the long service payment that is required to be made to the employees in respect of their service to date, less any amounts that would be expected to be met out of the retirement scheme and contributions to Mandatory Provident Fund. The amount of provision takes into account the group's and the company's past experience and is provided where a long service payment is probable.

(b) **Other staff benefits**

Under the articles of association of the company, directors' resolution and local statutory requirements, the group and the company are required to make benefit payments to certain employees when the employees fulfil certain conditions of their employment and when the group's financial performance is satisfactory at the opinion of the group's and the company's management. Provisions are therefore made for the best estimate of the staff benefit payments that is required to be made to the employees in respect of their job performance and the group's financial performance. The amount of provision takes into account the group's and the company's past experience and is provided where the staff benefit payments are probable.

20 CAPITAL AND RESERVES

(a) The group

	Attributable to equity shareholders of the company												
							Revaluation reserves						
	Share capital	Share premium	Capital redemption reserves	Capital reserves	General reserves	Exchange reserves	Land and buildings	Investments properties	Fair value reserve	Retained profits	Total	Minority interest	Total equity
At 1 January 2004													
- as previously reported	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(6,108,949)	$ 1,731,110	$ 78,264,883	$ 3,977,500	$267,792,612	$434,859,591	$6,250,000	$441,109,591
- prior period adjustments in respect of:													
- HKAS 16	—	—	—	—	—	—	(1,731,110)	(4,384,362)	—	287,872	(5,827,600)	—	(5,827,600)
- HKAS 40	—	—	—	—	—	(26,375)	—	(73,880,521)	—	60,649,877	(13,257,019)	—	(13,257,019)
- as restated	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(6,135,324)	$ —	$ —	$ 3,977,500	$328,730,361	$415,774,972	$6,250,000	$422,024,972
Dividend approved in respect of the previous year	—	—	—	—	—	—	—	—	—	(7,787,250)	(7,787,250)	—	(7,787,250)
Available-for-sale securities													
- change in fair value	—	—	—	—	—	—	—	—	2,503,494	—	2,503,494	—	2,503,494
- transfer to income statement on disposal	—	—	—	—	—	—	—	—	(3,977,500)	—	(3,977,500)	—	(3,977,500)
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	2,596,535	—	—	—	—	2,596,535	—	2,596,535
Profit for the year (restated)	—	—	—	—	—	—	—	—	—	51,740,539	51,740,539	—	51,740,539
At 31 December 2004 (as restated)	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(3,538,789)	$ —	$ —	$ 2,503,494	$372,683,650	$460,850,790	$6,250,000	$467,100,790
At 1 January 2005													
- as previously reported	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(3,512,414)	$ 1,731,110	$ 135,408,820	$ 2,503,494	$269,354,700	$494,688,145	$6,250,000	$500,938,145
- prior period adjustments in respect of:													
- HKAS 16	—	—	—	—	—	—	(1,731,110)	(9,579,362)	—	14,532	(11,295,940)	—	(11,295,940)
- HKAS 40	—	—	—	—	—	(26,375)	—	(125,829,458)	—	103,314,418	(22,541,415)	—	(22,541,415)
	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(3,538,789)	$ —	$ —	$ 2,503,494	$372,683,650	$460,850,790	$6,250,000	$467,100,790
- as restated, before opening balance adjustments													
- HKAS 39	—	—	—	—	—	—	—	—	—	—	—	—	—
- At 1 January 2005, after prior period and opening balance adjustments	$31,149,000	$ —	$1,251,000	$6,377,336	$50,425,099	$(3,538,789)	$ —	$ —	$ 2,503,494	$372,683,650	$460,850,790	$6,250,000	$467,100,790
Dividend approved in respect of the previous year	—	—	—	—	—	—	—	—	—	(9,344,700)	(9,344,700)	—	(9,344,700)
Available-for-sale securities													
- changes in fair value	—	—	—	—	—	—	—	—	(1,397,648)	—	(1,397,648)	—	(1,397,648)
- transfer to income statement on disposal	—	—	—	—	—	—	—	—	(2,192,173)	—	(2,192,173)	—	(2,192,173)
Shares issued under share option scheme	200,000	1,800,000	—	—	—	—	—	—	—	—	2,000,000	—	2,000,000
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	230,862	—	—	—	—	230,862	—	230,862
Profit for the year	—	—	—	—	—	—	—	—	—	64,829,017	64,829,017	—	64,829,017
At 31 December 2005	$31,349,000	$1,800,000	$1,251,000	$6,377,336	$50,425,099	$(3,307,927)	$ —	$ —	$(1,086,327)	$428,167,967	$514,976,148	$6,250,000	$521,226,148

(b) **The company**

	Share capital	Share premium	Reserves: Capital redemption reserves	Reserves: General reserves	Reserves: Fair value reserves	Reserves: Retained profits	Reserves: Sub-Total	Total
At 1 January 2004	$31,149,000	$ —	$1,251,000	$100,418,873	$ 3,977,500	$86,467,204	$192,114,577	$223,263,577
Dividend approved in respect of previous year	—	—	—	—	—	(7,787,250)	(7,787,250)	(7,787,250)
Transfer to income statement on disposal	—	—	—	—	(3,977,500)	—	(3,977,500)	(3,977,500)
Revaluation surplus, net of deferred tax	—	—	—	—	2,510,927	—	2,510,927	2,510,927
Profit for the year	—	—	—	—	—	9,596,068	9,596,068	9,596,068
At 31 December 2004	$31,149,000	$ —	$1,251,000	$100,418,873	$ 2,510,927	$88,276,022	$192,456,822	$223,605,822
At 1 January 2005	$31,149,000	$ —	$1,251,000	$100,418,873	$ 2,510,927	$88,276,022	$192,456,822	$223,605,822
Dividend approved in respect of previous year	—	—	—	—	—	(9,344,700)	(9,344,700)	(9,344,700)
Available-for-sale securities								
— changes in fair value	—	—	—	—	(201,708)	—	(201,708)	(201,708)
— transfer to income statement on disposal	—	—	—	—	(2,197,173)	—	(2,197,173)	(2,197,173)
Shares issued under share option scheme	200,000	1,800,000	—	—	—	—	1,800,000	2,000,000
Profit for the year	—	—	—	—	—	9,575,724	9,575,724	9,575,724
At 31 December 2005	$31,349,000	$1,800,000	$1,251,000	$100,418,873	$ 112,046	$88,507,046	$192,088,965	$223,437,965

(c) **Share capital**

	2005 No. of shares	2005 Amount	2004 No. of shares	2004 Amount
Authorised:				
Ordinary shares of $100 each	30,000	$ 3,000,000	18,000	$ 1,800,000
Qualified shares of $100 each*	342,000	34,200,000	342,000	34,200,000
	372,000	$ 37,200,000	360,000	$ 36,000,000
Ordinary shares, issued and fully paid:				
At 1 January	18,000	$ 1,800,000	18,000	$ 1,800,000
Shares issued under share option scheme	2,000	200,000	—	—
	20,000	$ 2,000,000	18,000	$ 1,800,000
Qualified shares, issued and fully paid:				
293,490 qualified shares of $100 each*	293,490	29,349,000	293,490	29,349,000
At 31 December	313,490	$ 31,349,000	311,490	$ 31,149,000

* Qualified shares are non-voting.

(i) By an ordinary resolution on 1 September 2005, the company's authorised ordinary share capital was increased to $3,000,000 by the creation of an additional 2,000 ordinary shares of $100 each, ranking pari passu with the existing ordinary shares of the company in all respects.

(ii) On 1 December 2005, all options granted during the year were exercised to subscribe for 2,000 ordinary shares in the company at a consideration of $2,000,000 of which $200,000 was credited to share capital and the balance of $1,800,000 was credited to the share premium account.

(d) **Nature and purpose of reserves**

(i) *Share premium and capital redemption reserve*

The application of the share premium account and the capital redemption reserve is governed by Section 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) *Capital reserve*

The capital reserves have been set up and will be dealt with in accordance with the accounting policy adopted for goodwill arising on the acquisition of subsidiaries before 1 January 2001.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

(iv) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(f) and 1(i).

21 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

(a) **Credit risk**

The group's credit risk is primarily attributable to trade and other receivables, listed debt investments and derivative financial instruments held for investment purposes. The group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Investments are normally only in liquid securities (except where entered into for long term strategic purposes) and with counterparties that have a credit rating equal to or better than the group. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of trade and other receivable and each financial asset, including a loan to jointly controlled entities, in the balance sheet. Except for the financial guarantee given by the company in respect of a bank loan to jointly controlled entities of the company, the group does not provide any other guarantees which would expose the group to credit risk.

(b) **Liquidity risk**

In the management of liquidity risk, the group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the group's operations and mitigate the effects of fluctuations in cash flows.

(c) **Interest rate risk**

The group's exposure to interest rate through the impact of changes in market interest rates, relate primarily to interest bearing fixed deposit.

(d) **Foreign currency risk**

The group does not use foreign exchange contracts in managing its foreign exchange risk arising from cash flows from anticipated transactions and financing arrangements. Hence, forecast transaction risk is subjected to the fluctuation of foreign exchange rates.

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

All the group's borrowings are denominated the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the group's borrowings.

(e) **Fair values**

All financial instruments included in current and non-current assets are carried at their fair values at the balance sheet date.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) *Securities*

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction cost.

(ii) *Interest rates used for determining fair value*

The entity uses the prevailing bank borrowing interest rate at the balance sheet date to discount financial instruments. The interest rate used for the year ended 31 December 2005 is 5.7%.

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The company has a share option scheme which was adopted on 1 September 2005 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of the company, to take up options at $1 to subscribe for a total of up to 2,000 ordinary shares of the company. The options vest immediately from the date of grant and are then exercisable within a period of 118 days. Each option gives the holder the right to subscribe for one ordinary share in the company.

(a) **The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:**

	Number of instruments	**Contractual life of options**
Options granted to directors:		
- on 5 September 2005	2,000	118 days
Total share options	2,000	

(b) **The number and weighted average exercise prices of share options are as follows:**

	2005 Weighted average exercise price	2005 Number of options	2004 Weighted average exercise price	2004 Number of options
Granted during the year	$ 1,000	2,000	$ —	—
Exercised during the year	1,000	(2,000)	—	—
Outstanding at the end of the year	$ —	—	$ —	—
Exercisable at the end of the year	$ —	—	$ —	—

The weighted average share price at the date of exercise for share options exercised during the year was $1,000 (2004: not applicable).

(c) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2005
Fair value of share options and assumptions	
Fair value at measurement date	$ 0.026
Par value of Share	$ 100
Exercise price	$ 1,000
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	0.01%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	118 days
Expected dividends	3%
Risk-free interest rate (based on deposit rate quoted by United Overseas Bank)	3%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The group considered the fair value of the share option granted during the year is not material and therefore the amount is not recognised in the consolidated income statement.

23 CONTINGENT LIABILITY

At 31 December 2005, the group had contingent liabilities in respect of guarantee (the "Guarantee") of $7,000,000 (2004: $ Nil) given by a subsidiary of the group to a bank to secure facilities granted to a jointly controlled entity. The facility was fully utilised at the balance sheet date.

24 COMMITMENTS

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	The group	
	2005	**2004**
Within 1 year	$ 1,360,978	$ 1,793,333
After 1 year but within 5 years	1,737,167	2,688,536
After 5 years	14,294,850	16,526,720
	$17,392,995	$21,008,589

The group leases a number of properties under operating leases. The leases run for a period of one to thirty-eight years. Certain payments are increased annually to reflect market rentals. None of the leases includes contingent rentals.

25 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions:

	2005	**2004**
Management fee received from a jointly controlled entity	$1,301,292	$821,194
Sales to a jointly controlled entity	—	87,661
Delivery charges received from a jointly controlled entity	113,731	75,104
Royalty received from Asia Paint (Singapore) Pte. Ltd.	116,512	—
Interest income from a jointly controlled entity	539,262	—

26 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 28 February 2006, the company has proposed an off-market repurchase of ordinary shares and qualified shares (the "Proposed Share Repurchase"). In accordance with the provisions contained in the Company Ordinance (Chapter 32, Laws of Hong Kong) and the Codes on Takeovers and Mergers and Share Repurchases, the Proposed Share Repurchase is subject to the approval of the Securities and Futures Commission in Hong Kong and the company's shareholders.

(b) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 9.

27 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

3 PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET ASSET VALUE OF THE GROUP

	HK$ million
Audited consolidated net asset value as at 31 December 2005	521.23
Add: the subscription price for the issue of 3,600 Ordinary Shares at HK$500 per Ordinary Share on 25 January 2006	1.80
Less: payment of dividends for the year 2005	(9.51)
Less: amount of the share repurchase as stated in the Company's circular dated 24 March 2006 and related expenses	(31.3)
Unaudited adjusted consolidated net asset value of the Company immediately before the Share Repurchase	482.22
Less:	
Cost of Share Repurchase	(48.69)
Expenses incurred in the Share Repurchase	(0.8)
Proforma adjusted unaudited consolidated net asset value immediately following the Share Repurchase	432.73

4 STATEMENT OF INDEBTEDNESS

At the close of business on 30 September 2006, being the latest practicable date for preparing this statement prior to the printing of this circular, the Group has mortgaged certain properties to secure banking facilities granted to the Group. The banking facilities amounting to approximately HK$55 million was not utilised. There were no trust receipts and import loans. No bank deposit was pledged to secure general banking facilities of any subsidiary. Renminbi amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 September 2006.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 September 2006, neither the Company nor any of its subsidiaries had outstanding any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there have been no material changes in the above indebtedness and contingent liabilities position since 30 September 2006.

5 MATERIAL CHANGES

Save for the Last Share Repurchase, the Directors are not aware of any material changes in the financial or trading position or outlook of the Group since 31 December 2005, the date to which the latest audited financial statements of the Group were made up.

DTZ Debenham Tie Leung 戴德梁行
International Property Advisers
National Grade A Real Estate Valuation Company in China
National Land Valuation Company in China

10/F, Jardine House
1 Connaught Place
Hong Kong

20 November 2006

The Directors
The National Lacquer and Paint Products Company, Limited
6/F, Camelpaint Centre
No. 1 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

We refer to your instructions for us to carry out market valuations of certain properties held by The National Lacquer and Paint Products Company, Limited (the "Company") or its subsidiaries (hereinafter together referred to as the "Group") and companies in which any members of the Group has direct or indirect interests of 30% or more of the voting rights of such company ("Associated Companies") in Hong Kong, the PRC, Singapore and Canada. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of those properties as at 30 September 2006 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

As advised by the Company, other than stamp duty, there are no tax liabilities for disposal of property interests in Hong Kong. The tax liabilities for disposal of property interests in the PRC comprise sale tax (營業稅), stamp duty (印花稅), land appreciation tax (土地增值稅), deed tax (契稅), dam fee (堤圍費) and enterprise profit tax (企業所得稅). The tax liabilities for disposal of property interests in Singapore comprise goods and service tax. The tax liabilities for disposal of property interests in Canada comprise corporate income tax subject to recapture of capital cost allowance claimed (i.e. depreciation claimed for income tax purposes, if any). The tax liabilities are not likely to crystalise in the foreseeable future as the Group has no plan for disposal of those property interests yet.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, we have valued the properties by direct comparison approach by making reference to comparable sales transactions as available in the relevant market or where appropriate, by investment method where we arrive at the valuations by capitalising the rental income derived from the existing tenancies with due allowance for any reversionary income potential.

In valuing the properties, we have complied with the requirements set out in Rule 11 of the Takeovers Code and Practice Note 12 of the Rules Governing the listing of Securities on the Stock Exchange of Hong Kong Limited and Valuation Standards (First Edition 2005) on Properties published by the Hong Kong Institute of Surveyors.

We have caused searches to be made at the relevant Land Registries in Hong Kong, Singapore and Canada but we have not searched the original documents to ascertain ownership or to verify any lease amendments which may not appear on the copies handed to us.

We have relied to a very considerable extent on the information given by you and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of properties, particulars of occupancy, floor areas, interests attributable to the Company and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by you and are therefore only approximations. We have not been able to carry out on-site measurements to verify the floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reasons to doubt the truth and accuracy of the information provided to us by you which is material to the valuations. We were also advised by you that no material facts have been omitted from the information supplied.

We have not been provided with copies of the title documents relating to the properties in Hong Kong, Singapore and Canada but have caused searches to be made at the relevant Land Registry. We have not been able to cause title searches for the properties in the PRC but we have made reference to the copies of the title documents which have been made available to us by you. However, we have not searched or inspected the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

In valuing the properties situated in Hong Kong, the Government Leases of which expired before 30 June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance under which such leases have been extended without premium until 30 June 2047 and that rents of three per cent of the rateable value are charged per annum from the dates of extension.

In valuing the properties in the PRC, we have unless otherwise stated, assumed that transferable land use right in respect of each property at nominal land use fee has been granted and that any premium payable had already been fully settled. We have, unless otherwise stated, assumed that the grantees or the users of the properties have free and uninterrupted rights to use, occupy, underlet or assign the property for the whole of the respective unexpired terms as granted.

We have inspected the exterior and, wherever possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all money amounts stated in our valuations are in Hong Kong dollars. The exchange rates adopted in our valuations are HK$1=RMB1.02, S$1=HK$4.91 and CAD1=HK$6.97 which were the approximate exchange rates prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor
(General Practice Division)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 20 years' experience in valuation of properties in Hong Kong, the PRC, Singapore and Canada.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 30 September 2006 HK$	Attributable interest to the Group %	Capital value in existing state as at 30 September 2006 attributable to the Group HK$
Group I — Properties held by the Group for owner occupation in Hong Kong				
1.	Factories on Ground Floor (also known as Factories A, B and C on Ground Floor), Block II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon.	18,200,000	100	18,200,000
2.	Portion of Ground Floor (DG Storage) and Portions of Cockloft (DG Storage & Pump Room), Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	19,200,000	100	19,200,000
3.	Lorry Car Parking Space Nos. BL18 and BL20 on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	1,200,000	100	1,200,000
4.	Private Car Parking Space Nos. B2, B5, B6, B11, B26, B28, B36 and B37 on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	3,200,000	100	3,200,000
		Sub-total:		41,800,000

	Property	Capital value in existing state as at 30 September 2006 HK$	Attributable interest to the Group %	Capital value in existing state as at 30 September 2006 attributable to the Group HK$
Group II — Properties held by the Group for investment purpose in Hong Kong				
5.	Factory on Ground Floor (also known as Factories D1 and D2 on Ground Floor), Block II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon.	7,800,000	100	7,800,000
6.	Workshop Nos. F, G, H, I, J and K on 4th Floor, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	8,200,000	100	8,200,000
7.	Lorry Car Parking Space Nos. BL17 to BL41 (except BL18 and BL20) on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	14,600,000	100	14,600,000
8.	Private Car Parking Space Nos. B1 to B42 (except B2, B5, B6, B11, B26, B28, B36 and B37) on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon.	13,600,000	100	13,600,000
9.	Lorry Car Parking Space Nos. L32 and L33 on Basement, Blocks I and II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon.	1,200,000	100	1,200,000

	Property	Capital value in existing state as at 30 September 2006 HK$	Attributable interest to the Group %	Capital value in existing state as at 30 September 2006 attributable to the Group HK$
10.	Portion of Factory or Factories on Ground Floor (also known as Factory A on Ground Floor), Block I, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon.	15,200,000	100	15,200,000
11.	Portion of Factory or Factories on Ground Floor (also known as Factories B1, B2 and B3 on Ground Floor), Block I, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon.	18,000,000	100	18,000,000
12.	Camelpaint Centre (formerly known as Camelpaint Buildings Block IV), No. 1 Hing Yip Street, Kwun Tong, Kowloon. Note: 6th Floor of Camelpaint Centre is owner-occupied.	256,000,000	100	256,000,000
		Sub-total:		334,600,000

Group III — Property held by the Associated Company for owner occupation in the PRC

13.	An Industrial Complex situated in Yantian Village, Fenggang Town, Dongguan, the PRC.	No commercial value	50	No commercial value
		Sub-total:		No commercial value

	Property	Capital value in existing state as at 30 September 2006 HK$	Attributable interest to the Group %	Capital value in existing state as at 30 September 2006 attributable to the Group HK$
Group IV — Properties held by the Group for owner occupation in the PRC				
14.	An Industrial Complex situated in Dakan, Donger Village, Yantian Management Zone, Fenggang Town, Dongguan, the PRC.	4,850,000 (for Land A only*)	87.86	4,261,210
	** For details, please see valuation certificate of property No. 14*			
15.	Unit K on the 12th Floor, 728 Yianan Road West, Shanghai, the PRC.	7,000,000	100	7,000,000
		Sub-total:		11,261,210
Group V — Property held by the Group for investment purpose in Singapore				
16.	20 Tuas Avenue 8, Singapore 639235.	11,047,500	100	11,047,500
		Sub-total:		11,047,500
Group VI — Property held by the Group for owner occupation in Canada				
17.	95 Royal Crest Court Unit 10, Markham, Ontario L3R 9X5, Canada.	1,045,500	100	1,045,500
		Sub-total:		1,045,500
		Grand Total:		399,754,210

VALUATION CERTIFICATE

Group I — Properties held by the Group for owner occupation in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
1.	Factories on Ground Floor (also known as Factories A, B and C on Ground Floor), Block II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon. Portion of 118/5883rd shares of and in Kun Tong Inland Lot No. 72	The property comprises three industrial units on the ground floor of Block II, Camelpaint Buildings which is a 14-storey plus basement industrial building completed in 1981. The property has a gross floor area of approximately 8,911 sq.ft. (827.85 sq.m.). The property is held from the Government for terms of 21 years commencing from 1 July 1955 renewed for further terms of 21 years and statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	As advised by the Group, the property was occupied by the Group as a storage.	HK$18,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
2.	Portion of Ground Floor (DG Storage) and Portions of Cockloft (DG Storage & Pump Room), Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 237/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises portion of industrial units including portions of cockloft on the ground floor of Block III, Camelpaint Buildings which is a 13-storey plus basement industrial building completed in 1989. The property has a saleable area of approximately 9,843 sq.ft. (914.44 sq.m.) plus an aggregate cockloft area is approximately 3,460 sq.ft. (321.44 sq.m.) The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	As advised by the Group, the property was occupied by the Group as a storage.	HK$19,200,000

Notes:

(1) The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

(2) The property is subject to a Mortgage to secure general banking facilities in favour of The Hong Kong and Shanghai Banking Corporation Limited.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
3.	Lorry Car Parking Space Nos. BL18 and BL20 on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 6/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises 2 lorry parking spaces on the basement level of a 13-storey plus basement industrial building completed in 1989. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	As advised by the Group, the property was occupied by the Group.	HK$1,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
4.	Private Car Parking Space Nos. B2, B5, B6, B11, B26, B28, B36 and B37 on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 16/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises 8 private car parking spaces on the basement level of a 13-storey plus basement industrial building completed in 1989. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being for the property per annum.	As advised by the Group, the property was occupied by the Group.	HK$3,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

Group II — Properties held by the Group for investment purpose in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
5.	Factory on Ground Floor (also known as Factories D1 and D2 on Ground Floor), Block II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon. Portion of 118/5883rd shares of and in Kun Tong Inland Lot No. 72.	The property comprises 1 industrial unit on the ground floor of Block II, Camelpaint Buildings which is a 14-storey plus basement industrial building completed in 1981. The property has a gross floor area of approximately 3,790 sq.ft. (352.10 sq.m.). The property is held from the Government for terms of 21 years commencing from 1 July 1955 renewed for further terms of 21 years and statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is partly let for a term of 3 years due to expire on 31 July 2009 at a total monthly rent of HK$25,000, exclusive of rates and management fees whilst the remainder is vacant.	HK$7,800,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
6.	Workshop Nos. F, G, H, I, J and K on 4th Floor, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 38/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises 6 industrial units on the 4th floor of a 13-storey plus basement industrial building completed in 1989. The property has a total gross floor area and a total saleable area of approximately 5,632 sq.ft. (523.23 sq.m.) and 4,077 sq.ft. (378.76 sq.m.) respectively. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is fully let for terms of 1 to 2 years with the latest term due to expire on 1 July 2007 at a total monthly rent of about HK$38,945, exclusive of rates and management fees.	HK$8,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
7.	Lorry Car Parking Space Nos. BL17 to BL41 (except BL18 and BL20) on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 69/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises 23 lorry parking spaces on the basement level of a 13-storey plus basement industrial building completed in 1989. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	20 lorry parking spaces are currently licensed on monthly basis at a total license fee of HK$80,790 per month. The remaining lorry parking spaces are vacant.	HK$14,600,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
8.	Private Car Parking Space Nos. B1 to B42 (except B2, B5, B6, B11, B26, B28, B36 and B37) on Basement, Block III, Camelpaint Buildings, No. 60 Hoi Yuen Road, Kwun Tong, Kowloon. 68/2995th shares of and in Kun Tong Inland Lot No. 53 and 72.	The property comprises 34 private car parking spaces on the basement level of a 13-storey plus basement industrial building completed in 1989. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being for the property per annum.	The property is currently licensed on monthly basis at a total licence fee of HK$109,810 per month.	HK$13,600,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
9.	Lorry Car Parking Space Nos. L32 and L33 on Basement, Blocks I and II, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon. 2/4883rd shares of and in Kun Tong Inland Lot No. 72.	The property comprises 2 lorry parking spaces on the basement level of a 14-storey plus basement industrial building completed in 1981. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently licensed on monthly basis at a total licence fee of HK$8,200 per month.	HK$1,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
10.	Portion of Factory or Factories on Ground Floor (also known as Factory A on Ground Floor), Block I, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon. Portion of 109/5883rd shares of and in Kun Tong Inland Lot No. 72.	The property comprises portion of the industrial unit on the ground floor of Block I, Camelpaint Buildings which is a 14-storey plus basement industrial building completed in 1981. The property has a gross floor area of approximately 3,600 sq.ft. (334.45 sq.m.). The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being for the property per annum.	The property is currently let for a term of 3 years from 7 October 2003 to 6 October 2006 at a monthly rent of HK$105,000, exclusive of rates and management fees.	HK$15,200,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
11.	Portion of Factory or Factories on Ground Floor (also known as Factories B1, B2 and B3 on Ground Floor), Block I, Camelpaint Buildings, No. 62 Hoi Yuen Road, Kwun Tong, Kowloon. Portion of 109/5883rd shares of and in Kun Tong Inland Lot No. 72.	The property comprises an industrial unit on the ground floor of Block I, Camelpaint Buildings which is a 14-storey plus basement industrial building completed in 1981. The property has a gross floor area of approximately 7,834 sq.ft. (727.80 sq.m.). The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and further statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being for the property per annum.	Except a portion of the property with a gross floor area of 3,171 sq.ft. which is vacant, the property is currently let for a terms of 3 years with the latest term due to expire on 26 January, 2009 at a total monthly rent of HK$81,357, exclusive of rates and management fees.	HK$18,000,000

Note: The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
12.	Camelpaint Centre (formerly known as Camelpaint Buildings Block IV), No. 1 Hing Yip Street, Kwun Tong, Kowloon. 8207/14815th shares of and in Kun Tong Inland Lot No. 53.	The property comprises a 7-storey office /commercial building. It was completed in 1950's for industrial purpose and which was renovated in mid-1980's and refurnished and converted into a commercial building in 2002. The total gross floor area and saleable area of the property are approximately 88,694 sq.ft. (8,239.87 sq.m.) and 69,554 sq.ft. (6,461.72 sq.m.) respectively. The property is held from the Government for a term of 21 years commencing from 1 July 1955 renewed for a further term of 21 years and statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	Except the whole of the 6th floor with a gross floor area of approximately 12,225 sq.ft. (1,235.73 sq.m.) which is owner-occupied, the remaining portions of the property are fully let to various tenancies with the latest term due to expire on 17 August, 2011 at a total monthly rent of HK$1,059,948, exclusive of rates and management fees.	HK$256,000,000 *(Please see Note (3) below)*

Notes:

(1) The registered owner of the property is Benson Development Company Limited (formerly known as Benson R. and D. Company Limited), a wholly owned subsidiary of the Company.

(2) The property is subject to a Legal Charge/Mortgage in favour of Standard Chartered Bank for all moneys.

(3) The capital value as at 30 September 2006 of the constituent parts of the property is summarized below:-

Unit	Category	Capital Value
The whole of 6th Floor	Self-use	HK$33,000,000
The remainder	Investment	HK$223,000,000

Group III — Property held by the Associated Company for owner occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
13.	An Industrial Complex situated in Yantian Village, Fenggang Town, Dongguan, the PRC.	The property comprises an industrial complex with a site area of 157,585 sq.ft. (14,640 sq.m.) completed in 2004. The property has 3 buildings with a total gross floor area of approximately 48,890 sq.ft. (4,542 sq.m.).	The property is owner-occupied as workshop and ancillary office.	No commercial value (50% interest attributable to the Group) *(Please see Note (1) below)*

Use	Approximate Gross Floor Area (As advised by the Group) *sq.ft.*	*sq.m.*
Workshop	48,029	4,462
Electricity Room	700	65
Security Rom	161	15
Total	48,890	4,542

The land use rights of the property have been transferred for a term from 10 December 2003 to 31 August 2042 for industrial and staff quarters uses.

(Please see Note (1) below)

Notes:

(1) The relevant title certificates of the property have not been issued, we have assigned no commercial value to the property. On the assumption that the relevant title certificates of the property have been issued, the capital value in existing state as at 30 September 2006 was HK$9,640,000.

(2) According to the Transfer Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Orica Camel Powder Coatings (Dongguan) Limited (Party B) in which the Group holds an attributable interest of 50%, Party A has agreed to transfer the land use rights of the property to Party B as follows:-

(i)	Location	:	Yantian Village, Fenggang Town, Dongguan, the PRC
(ii)	Site area	:	14,640 sq.m.
(iii)	Uses	:	Industrial and staff quarters
(iv)	Term	:	From 10 December 2003 to 31 August 2042
(v)	Consideration	:	RMB1,903,200

(3) According to the Business Licence, Orica Camel Powder Coatings (Dongguan) Limited was incorporated with a registered capital of HK$31,000,000 for a valid operation period from 18 December 2003 to 18 December 2028.

(4) According to the PRC legal opinion:-

(i) According to the Transfer Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Orica Camel Powder Coatings (Dongguan) Limited (Party B), Party B has acquired the land use rights of the land comprising a site area of 14,640 sq.m. for a term from 10 December 2003 to 31 August 2042 for industrial and staff quarters uses from Party A.

(ii) Dongguan Yantian Industrial Zone Development Company Limited has not obtained the approval of the transferal of the land use rights of the property. Thus, the said land transaction is void and Orica Camel Powder Coatings (Dongguan) Limited has not legally obtained the land use rights of the property, comprising a site with a site area of 14,640 sq.m..

(iii) Orica Camel Powder Coatings (Dongguan) Limited has not performed the statutory procedures in the process of construction of the building works and the company has not applied for the relevant Building Ownership Certificate of the property. Orica Camel Powder Coatings (Dongguan) Limited has not legally obtained the building ownership of the property.

(5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:-

Certificate for State-owned Land Use Rights	No
Transfer Contract of Land Use Rights	Yes
Building Ownership Certificate	No
Business Licence	Yes

Group IV — Properties held by the Group for owner occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
14.	An Industrial Complex situated in Dakan, Donger Village, Yantian Management Zone, Fenggang Town, Dongguan, the PRC.	The property comprises an industrial complex erected on 4 pieces of contiguous sites, namely Land A, B, C, and D with a total site area of approximately 282,820 sq.ft. (26,274.66 sq.m.) completed in 1992, 1994 and 2004 respectively. The property has 9 single-storey buildings with a total gross floor area of approximately 167,305 sq.ft. (15,543 sq.m.).	The property is owner-occupied as workshop, recreation center and ancillary office.	HK$4,850,000 (Land A Only) (87.86% interest attributable to the Group: HK$4,261,210) *(Please see Note (1) below)*

Use	Approximate Gross Floor Area (As advised by the Group) *sq.ft.*	*sq.m.*
Main Workshop	92,032	8,550
Composite Building	25,188	2,340
Electricity Building	9,365	870
Painting Workshop	8,611	800
Warehouse for Hazard Material	15,608	1,450
Shack	1,292	120
Warehouse	3,111	289
Security Room	667	62
Recreation Center	11,431	1,062
Total	167,305	15,543

The land use rights of the property have been granted/transferred/leased for various terms for industrial and industrial and ancillary facilities respectively.

(Please see Notes (2) — (5) below)

Notes:

(1) The relevant title certificates of Land B, C and D of the property and the buildings erected within the industrial complex with gross floor area of 15,543 sq.m. have not been issued, we have assigned no commercial value to the said portion of the property.

On the assumption that the relevant title certificates of Land B and C only of the property and the buildings with gross floor area of 15,543 sq.m. have been issued, the capital value in existing state of these portions as at 30 September 2006 was HK$13,480,000.

(2) Land A:

According to Certificate for State-owned Land Use Rights No. (1993) 350 issued by Dongguan People's Government on 19 July 1993, the land use rights of portion of the property, comprising a site area of 20,886 sq.m. have been granted to Dongguan Benson Paint Company Limited in which the Group holds an attributable interest of 87.86% for a land use term from May 1993 to September 2042 for industrial and ancillary facility uses.

According to the Transfer Contract of Land Use Rights No. (1993) 001 entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Dongguan Benson Paint Company Limited (Party B), Party A has agreed to grant the land use rights of portion of the property to Party B as follows:-

(i)	Location	:	Dakan, Donger Village, Yantian Management Zone, Fenggang Town, Dongguan, the PRC
(ii)	Site area	:	20,885.7 sq.m.
(iii)	Uses	:	Industrial
(iv)	Land use term	:	From 5 May 1993 to 30 September 2042
(v)	Consideration	:	RMB3,633,990

(3) Land B:

According to the Transfer Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Dongguan Benson Paint Company Limited (Party B), Party A has agreed to transfer the land use rights of portion of the property to Party B as follows:-

(i)	Location	:	Yantian Village, Fenggang Town, Dongguan, the PRC
(ii)	Site area	:	3,756 sq.m.
(iii)	Uses	:	Industrial and staff quarters
(iv)	Term	:	From 10 December 2003 to 31 August 2042
(v)	Consideration	:	RMB488,280

(4) Land C:

According to the Lease Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Dongguan Benson Paint Company Limited (Party B), Party B has agreed to lease the land use rights of portion of the property as follows:-

(i)	Location	:	Yantian Village, Fenggang Town, Dongguan, the PRC
(ii)	Site area	:	1,032.66 sq.m.
(iii)	Uses	:	Industrial and staff quarters
(iv)	Term	:	From 18 December 2003 to 31 August 2042
(v)	Consideration	:	RMB134,245

(5) Land D:

As advised by the Group, a land situated in Yantian Village, Fenggang Town, Dongguan comprising a site area of approximately 600 sq.m. is occupied by Dongguan Benson Paint Company Limited for factory road use. However, no document regarding Land D is available to us.

(6) According to the Business Licence, Dongguan Benson Paint Company Limited was incorporated with a registered capital of HK$51,500,000 for a valid operation period from 19 May 1992 to 18 May 2007.

(7) According to the PRC legal opinion:-

(i) Dongguan Benson Paint Company Limited has legally obtained the land use rights of Land A, comprising a site with a site area of 20,886 sq.m. for a land use term from May 2003 to September 2042 for industrial and ancillary facilities uses.

(ii) According to the Transfer Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Dongguan Benson Paint Company Limited (Party B), Party B has acquired the land use rights of Land B comprising a site area of 3,756 sq.m. for a term from 20 December 2003 to 31 August 2042 for industrial and staff quarters uses from Party A. Dongguan Yantian Industrial Zone Development Company Limited has not obtained the approval of the transferal of the land use rights of the property. Thus, the said land transaction is void and Dongguan Benson Paint Company Limited has not legally obtained the land use rights of Land B, comprising a site with a site area of 3,756 sq.m..

(iii) According to the Lease Contract of Land Use Rights entered into between Dongguan Yantian Industrial Zone Development Company Limited (Party A) and Dongguan Benson Paint Company Limited (Party B), Party B has agreed to lease Land C, comprising a site area of 1,032.66 sq.m. for a term from 18 December 2003 to 31 August 2042 for industrial and staff quarters uses. Although the lease is not registered in relevant government authority, it does not affect the performance of the said lease.

(iv) Dongguan Benson Paint Company Limited has not applied for the statutory procedures of the transferal/registration of the ownership of the land use rights of Land D. Dongguan Benson Paint Company Limited has not legally obtained the land use rights of Land D, comprising a site with a site area of approximately 600 sq.m..

(v) Dongguan Benson Paint Company Limited has not performed the statutory procedures in the process of construction of the building works and the company has not applied for the relevant Building Ownership Certificate of the property. Dongguan Benson Paint Company Limited has not legally obtained the building ownership of the property.

(8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:-

Certificate for State-owned Land Use Rights	Yes (For Land A only)
Transfer Contract of Land Use Rights	Yes (For Land A, B only)
Lease Contract of Land Use Rights	Yes (For Land C only)
Building Ownership Certificate	No
Business Licence	Yes

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
15.	Unit K on the 12th Floor, 728 Yianan Road West, Shanghai, the PRC.	The property comprises an office unit on the 12th level of a 28-storey office building completed in 2004. The property has a gross floor area of approximately 3,333 sq.ft. (309.67 sq.m.). The land use rights of the property have been granted for a term from 22 May 2001 to 21 May 2051 for composite (office) use.	The property is owner-occupied as workshop and ancillary office.	HK$7,000,000

Notes:

(1) According to Certificate of Real Estate Ownership No. (2005) 003024 issued by Shanghai Housing and Land Resources Administration Bureau on 22 January 2005, the title of the property, comprising a total gross floor area of 309.67 sq.m., is vested in Camelpaint (China) Company Limited, a wholly owned subsidiary of the Company for a term from 22 May 2001 to 21 May 2051.

(2) According to the Sale and Purchase Contract entered into between Shanghai Huaminzhiye (Group) Company Limited (Party A) and Camelpaint (China) Company Limited (Party B), Party B has agreed to purchase the property with gross floor area of 309.67 sq.m. at a consideration of RMB6,750,800.

(3) According to the PRC legal opinion:

(i) Camelpaint (China) Company Limited has legally obtained the land use rights and also the building ownership of the property comprises a total gross floor area of 309.67 sq.m. for a term from 22 May 2001 to 21 May 2051.

(ii) The property is not subject to any mortgage.

(iii) Camelpaint (China) Company Limited is entitled to occupy, use, lease and dispose of the property.

(4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:-

Certificate of Real Estate Ownership	Yes
Sale and Purchase Contract	Yes

Group V — Property held by the Group for investment purpose in Singapore

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
16.	20 Tuas Avenue 8, Singapore 639235. Lot 1187L Mukim 7	The property comprises a JTC standard "C6" detached factory with rear and side extension. The property has a site area of 56,844 sq.ft. (5,280.9 sq.m.) and gross floor area of approximately 30,290 sq.ft. (2,814 sq.m.). The property is held for a 30+30 years lease commencing on 16 July 1990. The current land rent payable is S$58,089.96 per annum.	The property is let for a term of 5 years from 1 April 2004 at an annual rent of S$188,000.	S$2,250,000 (HK$11,047,500)

Note: The registered owner of the property is Camelpaint (Singapore) Private Limited, a wholly owned subsidiary of the Company.

Group VI — Property held by the Group for owner occupation in Canada

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
17.	95 Royal Crest Court Unit 10, Markham, Ontario L3R 9X5, Canada	The property comprises one of the industrial/office units of a single storey industrial building completed in about 1990. The property has an area of approximately 940 sq.ft. (87.33 sq.m.). The property is held under freehold interest.	The property is currently owner-occupied as workshop and ancillary office.	CAD150,000 (HK$1,045,500)

Note: The registered owner of the property is Benson R & D Canada Inc., a wholly owned subsidiary of the Company.

1 SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon Completion are as follows:

Authorised		*HK$*
372,000	Shares (comprising 30,000 Ordinary Shares and 342,000 Qualified Shares)	37,200,000
Issued and to be cancelled		
286,603	Shares in issue as at the Latest Practicable Date (comprising 22,293 Ordinary Shares and 264,310 Qualified Shares)	28,660,300
48,693	Shares to be cancelled after Completion (comprising 2,280 Ordinary Shares and 46,413 Qualified Shares)	4,869,300
237,910	Shares in issue after Completion (comprising 20,013 Ordinary Shares and 217,897 Qualified Shares)	23,791,000

During the period from 31 December 2005 and up to the Latest Practicable Date, the Company has not issued or repurchased any Shares (save for (i) the allotment of Ordinary Shares under the general mandate granted to the Directors on 1 September 2005 as stated in the paragraph headed "Reorganisation of share capital of the Company" in this Appendix; and (ii) the repurchase of 30,487 Shares (comprising 1,307 Ordinary Shares and 29,180 Qualified Shares) as stated in the Company's circular dated 24 March 2006).

As at the Latest Practicable Date, a total of 286,603 Shares (comprising 22,293 Ordinary Shares and 264,310 Qualified Shares) were in issue.

All the Ordinary Shares in issue are fully paid up or credited as fully paid and rank pari passu in all respects including all rights as to dividends, voting and capital. All the Qualified Shares in issue are fully paid or credited as full paid and rank pari passu in all respects with the Ordinary Shares save for that the Qualified Shares are non-voting and do not qualify any holders of them to be a Director.

2 OPTIONS

Pursuant to the Scheme adopted by the Company on 1 September 2005, the Board may at its discretion grant Options to any employees of the Group (including Directors).

No Option has been granted, exercised, lapsed or cancelled during the period from 31 December 2005 up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company has no Options outstanding entitling the holders to subscribe for Ordinary Shares and has no warrants, convertible securities or derivatives in respect of securities which carry voting rights in the Company.

3 REORGANISATION OF SHARE CAPITAL OF THE COMPANY

The following table shows the reorganisation of the share capital of the Company during the two financial years prior to the Latest Practicable Date (being 1 January 2004 up to the Latest Practicable Date):

3.1 Issue of new Shares

Allottee	Date of allotment	Number of Ordinary Shares allotted	Consideration per Ordinary Share *(HK$)*	Number of Qualified Shares allotted	Consideration per Qualified Share *(HK$)*	Total Consideration *(HK$)*
Yan Yuen Cheong	9 December 2005	350	1,000	—	—	350,000
Yan Yuen Fai	9 December 2005	325	1,000	—	—	325,000
Yan Yuen Chiu	9 December 2005	350	1,000	—	—	350,000
Yan Tin Yau Howard	9 December 2005	325	1,000	—	—	325,000
Yan Kerwin	9 December 2005	325	1,000	—	—	325,000
Yan Ray	9 December 2005	325	1,000	—	—	325,000
Yan Tin Yau Howard	25 January 2006	1200	500	—	—	600,000
Yan Kerwin	25 January 2006	1200	500	—	—	600,000
Yan Ray	25 January 2006	1200	500	—	—	600,000

Note: The Shares were issued to the relevant allottees pursuant to the Options granted under the Scheme on 5 September 2005.

3.2 Shares repurchased

Transferor	Transferee	Date of repurchase	Number of Ordinary Shares repurchased	Consideration per Ordinary Share *(HK$)*	Number of Qualified Shares repurchased	Consideration per Qualified Share *(HK$)*	Total Consideration *(HK$)*
Chan Kam Sheung, Lou Wing Yiu and Lau Wing Hang	Company	19 April 2006	20	1,000	214	1,000	234,000
Chang Chin	Company	19 April 2006	30	1,000	330	1,000	360,000
Luey Chun Chang	Company	19 April 2006	90	1,000	990	1,000	1,080,000
Cheung Hoi Ming	Company	19 April 2006	50	1,000	1,150	1,000	1,200,000
Cheung Hoi Tat	Company	19 April 2006	50	1,000	1,144	1,000	1,194,000
Chung Ka Yee	Company	19 April 2006	100	1,000	1,097	1,000	1,197,000
Kan Wing Kwan Ophelia	Company	19 April 2006	0	1,000	12	1,000	12,000
Lam Kit Wan and Wong Tsz Ling	Company	19 April 2006	6	1,000	282	1,000	288,000
She Sin Chong	Company	19 April 2006	10	1,000	224	1,000	234,000
Tse Chi Him Dawson	Company	19 April 2006	0	1,000	2,783	1,000	2,783,000
Tse Wai Yin Irene	Company	19 April 2006	0	1,000	2,133	1,000	2,133,000

Transferor	Transferee	Date of repurchase	Number of Ordinary Shares repurchased	Consideration per Ordinary Share (HK$)	Number of Qualified Shares repurchased	Consideration per Qualified Share (HK$)	Total Consideration (HK$)
Cheong, Wisdom Tse	Company	19 April 2006	0	1,000	2,134	1,000	2,134,000
Kulavit Wanitprapha	Company	19 April 2006	200	1,000	2,194	1,000	2,394,000
Yan Alfia	Company	19 April 2006	0	1,000	4,073	1,000	4,073,000
The Administrator of the estate of Yan Cheung Hung (deceased)	Company	19 April 2006	8	1,000	370	1,000	378,000
Yan Kwok Ming Benjamin	Company	19 April 2006	0	1,000	324	1,000	324,000
Yan Kwok Wai Kelvin	Company	19 April 2006	0	1,000	450	1,000	450,000
Yan Lai Ting Bernice	Company	19 April 2006	33	1,000	576	1,000	609,000
Yan Lui Shai Ying Fanny	Company	19 April 2006	0	1,000	450	1,000	450,000
Yan Ping Sing Benito	Company	19 April 2006	250	1,000	2,150	1,000	2,400,000
Yan Vincent	Company	19 April 2006	250	1,000	2,350	1,000	2,600,000
The Bank of East Asia (Nominees) Limited	Company	19 April 2006	210	1,000	3,750	1,000	3,960,000

3.3 Transfer of Shares

Transferor	Transferee	Date of transfer	Number of Ordinary Shares transferred	Consideration per Ordinary Share (HK$)	Number of Qualified Shares transferred	Consideration per Qualified Share (HK$)	Total Consideration (HK$)
Tong Leung Chan	Tong San Man Simon	16 February 2004	15	0	165	0	By way of gift
Tong Leung Chan	Tong Yin Man Augustine	16 February 2004	15	0	165	0	By way of gift
Wong Wing Heu	Yuen Tat Keung	16 February 2004	20	1,200	—	—	24,000
Wong Wing Heu	Yan Kerwin	16 February 2004	247	1,000	—	—	247,000
Hui Chai Fau	Xu Wen Hui	29 July 2004	60	0	1,020	0	Transmission of Shares
Yan Man Lan	She Sin Chong	29 July 2004	10	1	224	1	234

Transferor	Transferee	Date of transfer	Number of Ordinary Shares transferred	Consideration per Ordinary Share (HK$)	Number of Qualified Shares transferred	Consideration per Qualified Share (HK$)	Total Consideration (HK$)
Chang Kit	Chang Chun	31 December 2004	30	0	330	0	By way of gift
Chan Len Chuy	Chan Kam Sheung, Lou Wing Yiu and Lau Wing Hang	3 March 2005	20	100	214	100	23,400
Wong Man Wai	Wong Chi Keung Frederick	3 March 2005	10	0	68	0	By way of gift
Yan Mary Bin Hian	Yan Karen	3 March 2005	30	0	2,000	0	By way of gift
Yan Mary Bin Hian	Yan Tak Fai	8 July 2005	—	—	300	800	240,000
Yan Tak Fai	Yan Kerwin	8 July 2005	300	800	—	—	240,000
Seck Goon Gin	Yan Wai Kuen Grace	8 July 2005	150	200	2,604	200	550,800
Ng Chun Man	Ng Ka Wing Kevin	8 July 2005	65	0	835	0	By way of gift
Yan Kwan Yuk	Weltsun Limited	1 August 2005	—	—	6,223	1,000	6,223,000
Yan Kwan Yuk	Yan Kerwin	22 August 2005	73	1,000	—	—	73,000
Yan Kwan Yuk	Yan Ray	22 August 2005	74	1,000	—	—	74,000
Yan Kwan Yuk	Yan Dick Sang	22 August 2005	74	1,000	—	—	74,000
So Sun Tim	Weltsun Limited	22 August 2005	20	950	354	950	355,300
Yan Li Pui Ha	Yan Wai Man Lilian	30 August 2005	20	0	—	—	By way of gift
Yan Kwan Yuk	New Celebration Overseas Limited	30 August 2005	74	1,000	—	—	74,000
Oi Kim Lee	George Ming Lee	9 December 2005	9	1,000	394	885.79	358,000
Yan Tin Yau Howard	New Celebration Overseas Limited	28 December 2005	325	1,000	—	—	325,000
Lee Hon	Weltsun Limited	28 December 2005	5	1,000	49	1,000	54,000
Yan Alfia	Weltsun Limited	28 December 2005	250	1,000	—	—	250,000
Tse Chi Him Dawson	New Celebration Overseas Limited	25 January 2006	154	1,000	—	—	154,000
Cheong, Wisdom Tse	New Celebration Overseas Limited	25 January 2006	89	1,000	—	—	89,000
Tse Wai Yin Irene	New Celebration Overseas Limited	25 January 2006	90	1,000	—	—	90,000
Fung Chen	Wong Nancy Pui Yuet and Wong Chung Hon	22 May 2006	13	0	287	0	By way of gift
Fung Chen	Wong Patrick Fu Yuen	22 May 2006	12	0	286	0	By way of gift

Transferor	Transferee	Date of transfer	Number of Ordinary Shares transferred	Consideration per Ordinary Share *(HK$)*	Number of Qualified Shares transferred	Consideration per Qualified Share *(HK$)*	Total Consideration *(HK$)*
Fung Chen	Wong Sung Fai	22 May 2006	13	0	287	0	By way of gift
Fung Chen	Wong Sun Man	22 May 2006	12	0	287	0	By way of gift
Yu Kwok Lam	Weltsun Limited	22 May 2006	12	1,000	276	1,000	288,000
Yan Tin Yau Howard	New Celebration Overseas Limited	24 July 2006	1,200	500	—	—	600,000
New Celebration Overseas Limited	Yan Yuen Chiu	24 July 2006	83	1,000	—	—	83,000
New Celebration Overseas Limited	Yan Kerwin	24 July 2006	83	1,000	—	—	83,000
New Celebration Overseas Limited	Yan Ray	24 July 2006	83	1,000	—	—	83,000
Yan Cheung	Yan Siu Ho	20 September 2006	40	0	469	0	Transmission of Shares

Save for the above, the Company has not repurchased any Shares during the 12 month period immediately preceding the Latest Practicable Date, issued any Shares during the two year period immediately preceding the Latest Practicable Date or undergone any other reorganisation of the capital of the Company.

4 INTERESTS IN THE COMPANY AND DEALINGS IN SECURITIES

4.1 Interests of various shareholding groups in the Company as at the Latest Practicable Date.

The table below sets out the shareholding structure of the Company in respect of various shareholding groups as at the Latest Practicable Date:

4.1.1 *Directors*

	As at the Latest Practicable Date						Immediately after Completion *(Note 1)*					
Holders of Shares	Number of Ordinary Shares (with voting rights)	% of the total issued Ordinary Shares and voting rights	Number of Qualified Shares	% of the total issued Qualified Shares	Total number of Shares (being Ordinary Shares and Qualified Shares)	% of the total issued Shares	Number of Ordinary Shares (with voting rights)	% of the total issued Ordinary Shares and voting rights	Number of Qualified Shares	% of the total issued Qualified Shares	Total number of Shares (being Ordinary Shares and Qualified Shares)	% of the total issued Shares
Yan Yuen Cheong	1,078	4.84%	0	0%	1,078	0.37%	1,078	5.39%	0	0%	1,078	0.45%
Yan Yuen Fai	625	2.80%	0	0%	625	0.22%	625	3.12%	0	0%	625	0.26%
Yan Yuen Chiu	1,751	7.85%	0	0%	1,751	0.61%	1,751	8.75%	0	0%	1,751	0.74%
Lau Leung Wai Ray	32	0.14%	96	0.04%	128	0.04%	32	0.16%	96	0.04%	128	0.05%
Yan Tin Yau Howard	20	0.09%	0	0%	20	0.01%	20	0.10%	0	0%	20	0.01%
Wong Man Dock	40	0.18%	554	0.21%	594	0.21%	40	0.20%	554	0.25%	594	0.25%
Yan Kerwin	2,494	11.19%	2,799	1.06%	5,293	1.85%	2,494	12.46%	2,799	1.29%	5,293	2.23%
Yan Ray	1,864	8.36%	0	0%	1,864	0.65%	1,864	9.32%	0	0%	1,864	0.78%
Yan Wai Man Lilian	20	0.09%	0	0%	20	0.01%	20	0.10%	0	0%	20	0.01%
Directors	**7,924**	**35.54%**	**3,449**	**1.31%**	**11,373**	**3.97%**	**7,924**	**39.60%**	**3,449**	**1.58%**	**11,373**	**4.78%**

Notes:

(1) Assuming the number of Shares held by the holders of the Shares remain the same and no Ordinary Shares are to be issued or repurchased from the Latest Practicable Date up to Completion.

(2) The Directors are Lau Leung Wai Ray, Wong Man Dock, Yan Kerwin, Yan Ray, Yan Tin Yau Howard, Yan Wai Man Lilian, Yan Yuen Cheong, Yan Yuen Chiu and Yan Yuen Fai. All of them are Parties to the Deed. As at the Latest Practicable Date, the Directors held a total of 7,924 Ordinary Shares and 3,449 Qualified Shares.

4.1.2 *Parties acting in concert with the Directors*

(a) Parties to the Deed

	As at the Latest Practicable Date						Immediately after Completion *(Note 1)*					
Holders of Shares	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**
Faiman Holdings Inc. *(Note 2)*	660	2.96%	0	0%	660	0.23%	660	3.30%	0	0%	660	0.28%
Lau Leung Wai Ray	32	0.14%	96	0.04%	128	0.04%	32	0.16%	96	0.04%	128	0.05%
New Celebration Overseas Limited *(Note 3)*	5,106	22.90%	39,105	14.80%	44,211	15.43%	5,106	25.51%	39,105	17.95%	44,211	18.58%
Tse Vicky	90	0.40%	2,133	0.81%	2,223	0.77%	90	0.45%	2,133	0.98%	2,223	0.94%
Rebecca MK Wong	215	0.97%	0	0%	215	0.07%	215	1.07%	0	0%	215	0.09%
Wong Man Dock	40	0.18%	554	0.21%	594	0.21%	40	0.20%	554	0.25%	594	0.25%
Yan Dick Sang	117	0.53%	1,075	0.40%	1,192	0.41%	117	0.59%	1,075	0.49%	1,192	0.50%
The Administrator of the estate of Yan Gar Cheong (deceased)	120	0.54%	1,622	0.61%	1,742	0.61%	120	0.60%	1,622	0.74%	1,742	0.73%
Yan Karen	30	0.14%	2,000	0.75%	2,030	0.71%	30	0.15%	2,000	0.92%	2,030	0.85%
Yan Kerwin	2,494	11.19%	2,799	1.06%	5,293	1.85%	2,494	12.46%	2,799	1.29%	5,293	2.23%
Yan Mary Bin Hian	335	1.50%	1,933	0.73%	2,268	0.79%	335	1.67%	1,933	0.89%	2,268	0.95%
Yan Ray	1,864	8.36%	0	0%	1,864	0.65%	1,864	9.32%	0	0%	1,864	0.78%
Yan Tin Yau Howard	20	0.09%	0	0%	20	0.01%	20	0.10%	0	0%	20	0.01%
Yan Wai Man Lilian	20	0.09%	0	0%	20	0.01%	20	0.10%	0	0%	20	0.01%
Yan Wing Chiu	100	0.45%	1,610	0.61%	1,710	0.60%	100	0.50%	1,610	0.74%	1,710	0.72%
Yan Wing Hei Gary	110	0.49%	1,600	0.61%	1,710	0.60%	110	0.55%	1,600	0.73%	1,710	0.72%
Yan Wing Hui Tommy	100	0.45%	1,610	0.61%	1,710	0.60%	100	0.50%	1,610	0.74%	1,710	0.72%
Yan Yuen Cheong	1,078	4.84%	0	0%	1,078	0.37%	1,078	5.39%	0	0%	1,078	0.45%
Yan Yuen Chiu	1,751	7.85%	0	0%	1,751	0.61%	1,751	8.75%	0	0%	1,751	0.74%
Yan Yuen Fai	625	2.80%	0	0%	625	0.22%	625	3.12%	0	0%	625	0.26%
Yue Fung Sen	100	0.45%	1,713	0.65%	1,813	0.63%	100	0.50%	1,713	0.78%	1,813	0.76%
Yue Yuet Ming	520	2.33%	7,904	2.99%	8,424	2.94%	520	2.60%	7,904	3.63%	8,424	3.54%
Yuen Kwok Wai Simon	20	0.09%	0	0%	20	0.01%	20	0.10%	0	0%	20	0.01%
Parties to the Deed *(Note 4)*	**15,547**	**69.74%**	**65,754**	**24.88%**	**81,301**	**28.37%**	**15,547**	**77.69%**	**65,754**	**30.17%**	**81,301**	**34.17%**

Notes:

(1) Assuming the number of Shares held by the holders of the Shares remain the same and no Ordinary Shares are to be issued or repurchased from the Latest Practicable Date up to Completion.

(2) Faiman Holdings Inc is a company owned by Yan Yuen Fai and his family members.

(3) New Celebration Overseas Limited is a company wholly-owned by the trustees of discretionary trusts which Yan Wai Man Lilian and her family members are eligible beneficiaries.

(4) Under the Deed, the parties have entered into certain arrangements with regard to their shareholdings in the Company. Messrs. Yan Yuen Cheong (Chairman), Yan Yuen Fai (Honorary Chairman), Yan Yuen Chiu (Vice-chairman), Lau Leung Wai Ray (Vice-chairman) and other Parties to the Deed are regarded as persons acting in concert. As at the Latest Practicable Date, they held a total of 15,547 Ordinary Shares and 65,754 Qualified Shares.

(b) Other parties acting in concert with Directors

	As at the Latest Practicable Date						Immediately after Completion *(Note 1)*					
Holders of Shares	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**
Chiu Yan Company Limited *(Note 2)*	0	0%	18,182	6.88%	18,182	6.34%	0	0%	18,182	8.34%	18,182	7.64%
PMA Investment Inc. *(Note 3)*	0	0%	19,144	7.24%	19,144	6.68%	0	0%	19,144	8.79%	19,144	8.05%
Weltsun Limited *(Note 4)*	287	1.29%	6,902	2.61%	7,189	2.51%	287	1.43%	6,902	3.17%	7,189	3.02%
Wyse Company, Ltd. *(Note 5)*	0	0%	12,682	4.80%	12,682	4.43%	0	0%	12,682	5.82%	12,682	5.33%
Other parties acting in concert with Directors	**287**	**1.29%**	**56,910**	**21.53%**	**51,197**	**19.96%**	**287**	**1.43%**	**56,910**	**26.12%**	**57,197**	**24.04%**

Notes:

(1) Assuming the number of Shares held by the holders of the Shares remain the same and no Ordinary Shares are to be issued or repurchased from the Latest Practicable Date up to Completion.

(2) Chiu Yan Company Limited is a company wholly-owned by the trustee of a discretionary trust which the family members of Yan Yuen Chiu are eligible beneficiaries.

(3) PMA Investment Inc. is a company wholly-owned by the trustee of a discretionary trust which Yan Ray and his family members are eligible beneficiaries.

(4) Weltsun Limited is a company wholly-owned by Yan Yuen Chiu, Yan Karen, Yan Kerwin, Yan Ray and New Celebration Overseas Limited.

(5) Wyse Company, Ltd is a company wholly-owned by the trustee of a discretionary trust which the family members of Yan Yuen Cheong are eligible beneficiaries.

Save for the persons disclosed in the tables in paragraphs 4.1.2(a) and (b), there are no other persons who are persons acting in concert with the Directors who hold any Shares as at the Latest Practicable Date.

4.1.3 *Sellers*

The number of Shares held by each of the Sellers and the percentage shareholdings in the Company as at the Latest Practicable Date are set out on pages 5 to 6 of this circular.

4.1.4 *Holders of 10% or more of the Ordinary Shares (with voting rights)*

	As at the Latest Practicable Date						Immediately after Completion *(Note 1)*					
Holders of Shares	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**	**Number of Ordinary Shares (with voting rights)**	**% of the total issued Ordinary Shares and voting rights**	**Number of Qualified Shares**	**% of the total issued Qualified Shares**	**Total number of Shares (being Ordinary Shares and Qualified Shares)**	**% of the total issued Shares**
Yan Kerwin	2,494	11.19%	2,799	1.06%	5,293	1.85%	2,494	12.46%	2,799	1.29%	5,293	2.23%
New Celebration Overseas Limited *(Note 2)*	5,106	22.90%	39,105	14.80%	44,211	15.43%	5,106	25.51%	39,105	17.95%	44,211	18.58%
Holders of 10% or more of the Ordinary Shares (with voting rights) *(Note 3)*	**7,600**	**34.09%**	**41,904**	**15.86%**	**49,504**	**17.28%**	**7,600**	**37.97%**	**41,904**	**19.24%**	**49,504**	**20.81%**

Notes:

(1) Assuming the number of Shares held by the holders of the Shares remain the same and no Ordinary Shares are to be issued or repurchased from the Latest Practicable Date up to Completion.

(2) New Celebration Overseas Limited is a company wholly-owned by the trustees of discretionary trusts which Yan Wai Man Lilian and her family members are eligible beneficiaries.

(3) As at the Latest Practicable Date, Yan Kerwin and New Celebration Overseas Limited (both being Parties to the Deed) held (i) 2,494 Ordinary Shares and 5,106 Ordinary Shares respectively, representing approximately 11.19% and 22.90% of the total issued Ordinary Shares and (ii) held 2,799 Qualified Shares and 39,105 Qualified Shares respectively, representing approximately 1.06% and 14.80% of the total issued Qualified Shares.

4.2 **Dealings in securities of the Company**

4.2.1 *Directors*

Save as stated in the following table, none of the Directors or their respective associates had dealt in any securities of the Company during the Relevant Period.

Transferor	Transferee/ Allottee	Date of transfer/ allotment	Number of Ordinary Shares transferred/ allotted	Consideration per Ordinary Share (*HK$*)	Number of Qualified Shares transferred/ allotted	Consideration per Qualified Share (*HK$*)	Total consideration (*HK$*)
Yu Kwok Lam	Weltsun Limited	22 May 2006	12	1,000	276	1,000	288,000
Yan Tin Yau Howard	New Celebration Overseas Limited	24 July 2006	1,200	500	—	—	600,000
New Celebration Overseas Limited	Yan Yuen Chiu	24 July 2006	83	1,000	—	—	83,000
New Celebration Overseas Limited	Yan Kerwin	24 July 2006	83	1,000	—	—	83,000
New Celebration Overseas Limited	Yan Ray	24 July 2006	83	1,000	—	—	83,000

4.2.2 *Parties acting in concert with the Directors*

The dealings in the securities by parties acting in concert with the Directors during the Relevant Period are set out in the above table. Save as disclosed in the above table, none of the parties acting in concert with the Directors (including the Parties to the Deed) had dealt with any of the securities of the Company during the Relevant Period.

4.2.3 *Sellers*

None of the Sellers had dealt with any of the securities of the Company during the Relevant Period.

4.2.4 *Holders of 10% or more of the Ordinary Shares*

Save for (i) Yan Kerwin and (ii) New Celebration Overseas Limited as disclosed in the table in paragraph 4.2.1 above, none of the holders of 10% or more of the Ordinary Shares with voting rights had dealt with any of the securities of the Company during the Relevant Period.

5 CONSENTS

Both Taifook and DTZ Debenham Tie Leung Limited have given and have not withdrawn their respective consent to the issue of this circular with the inclusion herein of their letter and the references to their names, in the forms and contexts in which they respectively appear.

6 QUALIFICATION

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	**Qualification**
Taifook	a corporation licensed to conduct type 6 (corporate advisory) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
DTZ Debenham Tie Leung Limited	a firm of professional property valuer

7 MISCELLANEOUS

(a) Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and, so far as the Directors are aware, no litigation or arbitration or claim of material importance is pending or threatened by or against the Company or any of its subsidiaries.

(b) The Agreements will be available for inspection, as required by section 49G(4) of the Companies Ordinance, at the registered office of the Company for 10 years from the date of signing of the Agreements which is currently intended to be the date of the EGM.

(c) The English text of this circular and proxy form shall prevail over the Chinese text.

8 RESPONSIBILITY STATEMENT

The information in this circular has been supplied by the Directors. The issue of this circular has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on weekdays (Saturday and public holidays excepted) at the principal place of business of the Company in Hong Kong at 6th Floor, Camelpaint Centre, No.1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM (and any adjournment thereof) and will also be available at the EGM, the Company's transaction specific website at www. nlppgroup.com and the SFC's website at www.sfc.hk.

1 the Memorandum and Articles of Association of the Company;

2 the draft form of the Agreements;

3 the letter from the Independent Board Committee;

4 the letter from Taifook, the text of which is set out on pages 16 to 24 of this circular;

5 written consents from the experts referred to in paragraph 5 of this Appendix;

6 the annual reports of the Company for the year ended 31 December 2004 and 2005;

7 the offer letters signed by the Sellers; and

8 the letter, summary of valuation and valuation certificates issued by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix II to this circular.

THE NATIONAL LACQUER AND PAINT PRODUCTS COMPANY, LIMITED

國民製煉漆油有限公司

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at 6th Floor, Camelpaint Centre, No.1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong on Friday, 15 December 2006 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution of the Company:

SPECIAL RESOLUTION

"THAT:

(a) the terms of the draft agreements (the "Agreements") proposed to be entered into between the Company and each of the Sellers (as defined in the circular (the "Circular") of the Company dated 20 November 2006) (the "Sellers") (a copy of which is produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) pursuant to which the Sellers will sell, or procure the sale, to the Company of a total of 2,280 Ordinary Shares (as defined in the Circular) of HK$100 each and 46,413 Qualified Shares (as defined in the Circular) of HK$100 each (collectively the "Sale Shares") in the share capital of the Company (the "Share Repurchase") at a price of HK$1,000 per Sale Share be and are hereby approved and, accordingly, that a sum of up to HK$48,693,000 be applied from the distributable profits of the Company to satisfy the Share Repurchase; and

(b) any two directors of the Company be and are hereby authorised to execute the Agreements on behalf of the Company and to do all such acts and things as they consider necessary or expedient to give effect to the Agreements and the Share Repurchase."

By Order of the Board
Agnes P.L. Wong
Company Secretary

Hong Kong, 20 November 2006

Registered office:
6th Floor, Camelpaint Centre
No.1 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

Notes:

1. Any holder of Ordinary Shares of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy must be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy of that power of attorney or authority, must be deposited at the Company's registered office at 6th Floor, Camelpaint Centre, No.1 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment of it.

3. Where there are joint holders of any Ordinary Share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such Ordinary Share as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of member of the Company in respect of such Ordinary Share shall alone be entitled to vote in respect of it.

4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a holder of Ordinary Shares attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.