

Notes to the Financial Statements

For the year ended 31st December, 2002

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 15th January, 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's ultimate holding company is Mulpha International Bhd. ("Mulpha"), a public company listed on the Main Board of the Kuala Lumpur Stock Exchange.

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

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 9th April, 2002. Details of the Group Reorganisation had been set out in the prospectus issued by the Company dated 18th April, 2002 (the "Prospectus"). The shares of the Company were listed on the Stock Exchange on 30th April, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st December, 2002 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

Since the Company remains inactive before the Group Reorganisation, the Company's financial statements for the period from 15th January, 2001 (date of incorporation) to 31st December, 2001 was not prepared.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity. The adoption of the following new and revised accounting policies has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows and financing cash flows, respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Notes to the Financial Statements

For the year ended 31st December, 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition on or after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Notes to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arises. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill excess the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

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

Interests in associates

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

Turnover

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

Revenue recognition

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

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

Property, plant and equipment

Property, plant and equipment other than construction in progress is stated at cost less accumulated depreciation, amortisation and impairment losses.

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

Notes to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

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

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

Investments in securities

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

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

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

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

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Notes to the Financial Statements

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

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

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

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

Retirement benefits costs

Contributions payable by the Group to its defined contribution retirement benefits are charged to the income statement as an expense as they fall due.

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SEGMENTAL INFORMATION

Business segments

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

Principal activities are as follows:

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

Segmental information about these business is presented below:

INCOME STATEMENT

For the year ended 31st December, 2002

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
TURNOVER					
External sales	173,395	26,659	36,824	–	236,878
Inter-segment sales	82,037	15,545	15,544	(113,126)	–
Total sales	255,432	42,204	52,368	(113,126)	236,878
CONTRIBUTION TO PROFIT					
FROM OPERATIONS	28,647	1,234	5,223	–	35,104
Finance costs					(8)
Share of results of associates					6,541
Profit before taxation					41,637
Income tax expense					(4,998)
Profit before minority interests					36,639

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

ASSETS AND LIABILITIES

At 31st December, 2002

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Elimination HK\$'000	Total HK\$'000
ASSETS					
Segmental assets	102,645	15,781	21,800	–	140,226
Interests in associates					7,904
Unallocated corporate assets					80,117
Consolidated total assets					228,247
LIABILITIES					
Segmental liabilities	30,449	4,681	6,468	–	41,598
Unallocated corporate liabilities					9,121
Consolidated total liabilities					50,719
OTHER INFORMATION					
For the year ended 31st December, 2002					
Capital expenditure	5,685	874	1,208		7,767
Depreciation and amortisation	2,713	417	576		3,706
Allowance for bad and doubtful debts	2,493	383	530		3,406

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

INCOME STATEMENT

For the year ended 31st December, 2001

	Liquid coatings	Powder coatings	Solvents	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External sales	140,600	29,389	26,576	–	196,565
Inter segment sales	78,578	17,722	15,656	(111,956)	–
Total sales	219,178	47,111	42,232	(111,956)	196,565

Inter-segment sales are charged at prevailing market rates.

CONTRIBUTION TO PROFIT

FROM OPERATIONS	27,757	770	4,998	–	33,525
Finance costs					(7)
Share of results of associates					1,367
Gain on disposal of subsidiaries					2,722
Profit before taxation					37,607
Income tax expense					(2,945)
Profit before minority interests					34,662

Notes to the Financial Statements

For the year ended 31st December, 2002

4. SEGMENTAL INFORMATION *(continued)*

Business segments *(continued)*

ASSETS AND LIABILITIES

At 31st December, 2001

	Liquid coatings	Powder coatings	Solvents	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS					
Segmental assets	82,643	17,275	15,621	–	115,539
Interests in associates					2,734
Unallocated corporate assets					65,045
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Consolidated total assets					183,318
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LIABILITIES					
Segmental liabilities	18,476	3,862	3,492	–	25,830
Unallocated corporate liabilities					836
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Consolidated total liabilities					26,666
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OTHER INFORMATION

For the year ended 31st December, 2001

Capital expenditure	4,950	1,035	936		6,921
Depreciation and amortisation	2,578	539	487		3,604
Allowance for bad and doubtful debts	602	126	113		841
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Notes to the Financial Statements

For the year ended 31st December, 2002

4. SEGMENTAL INFORMATION *(continued)*

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The following table provide analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover by geographical market	
	Year ended 31st December, 2002 HK\$'000	Year ended 31st December, 2001 HK\$'000
Hong Kong	176,501	173,278
PRC	60,377	23,287
	236,878	196,565

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31st December,		Year ended 31st December,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	170,551	156,898	5,804	5,922
PRC	57,696	26,420	1,963	999
	228,247	183,318	7,767	6,921

Notes to the Financial Statements

For the year ended 31st December, 2002

5. PROFIT FROM OPERATIONS

	2002	2001
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs:		
Staff costs, including Directors' remuneration	36,413	35,338
Retirement benefits scheme contributions, including amounts in Directors' remuneration and net of forfeited contributions	813	768
Total staff costs	37,226	36,106
Auditors' remuneration	551	751
Depreciation and amortisation of property, plant and equipment	3,706	3,604
Directors' remuneration		
– fees	120	–
– other emoluments	5,022	5,210
	5,142	5,210
Loss on disposal of property, plant and equipment	1,701	346
Allowance for bad and doubtful debts	3,406	841
Unrealised holding gain on investment in securities	89	–
Technical fee paid to an associate	9,362	–
and after crediting:		
Bank interest income	951	1,694
Interest income from ultimate holding company	–	82
Interest income from related parties	142	253
Gain on disposal of investments in securities	160	–

Notes to the Financial Statements

For the year ended 31st December, 2002

6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) DIRECTORS' REMUNERATION

	2002	2001
	HK\$'000	HK\$'000
Directors' fees		
Executive	–	–
Independent Non-executive	120	–
Other emoluments of Executive Directors:		
Salaries and other benefits	3,233	3,362
Retirement benefits scheme contribution	237	237
Bonus	1,789	1,848
	5,379	5,447

The Directors' remuneration were within the following bands:

	2002	2001
	Number of Directors	Number of Directors
Nil to HK\$1,000,000	6	4
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31st December, 2002

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

(b) EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2001: three) were Directors of the Company whose emoluments are included in the disclosures in note 6(a) above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	1,615	1,545
Retirement benefits scheme contribution	67	67
	1,682	1,612

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	–

Notes to the Financial Statements

For the year ended 31st December, 2002

7. INCOME TAX EXPENSE

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit		
– current year	2,272	2,510
– underprovision in prior years	25	63
Income tax calculated at the rates prevailing in the PRC	1,330	184
Share of taxation of an associate	1,371	188
	4,998	2,945

In the opinion of the Directors, a substantial portion of the Group's profit neither arose in, nor was derived from, Hong Kong and accordingly is not subject to Hong Kong Profits Tax.

Deferred taxation has not been provided for in the financial statements as the amounts involved are not significant.

8. DIVIDENDS

During the year, a subsidiary of the Company paid a dividend of HK\$40,000,000 (2001: HK\$27,000,000) to its then shareholders prior to the Group Reorganisation.

In addition, at a board meeting held on 10th September, 2002, the Directors of the Company declared an interim dividend of HK2 cents (2001: Nil) per share amounting to HK\$5,000,000 (2001: Nil) for the year.

The final dividend of HK2 cents (2001: Nil) per share and a special dividend of HK3 cents (2001: Nil) per share have been proposed by the Directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2002 is based on the profit for the year of HK\$36,640,000 (2001: HK\$34,666,000) and on the weighted average of 236,095,890 (2001: 206,250,000) shares that would have been in issue during the year as if the Group Reorganisation and the capitalisation issue of 206,249,800 shares of the Company had been completed on 1st January, 2001.

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

Notes to the Financial Statements

For the year ended 31st December, 2002

10. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1st January, 2002	1,448	22,821	3,867	8,691	4,960	13,442	55,229
Additions	2,431	542	164	1,063	459	3,108	7,767
Disposals	(1,378)	-	(3)	(329)	(193)	(255)	(2,158)
At 31st December, 2002	2,501	23,363	4,028	9,425	5,226	16,295	60,838
DEPRECIATION AND AMORTISATION							
At 1st January, 2002	-	5,149	1,201	6,559	3,194	5,258	21,361
Provided for the year	-	860	344	705	676	1,121	3,706
Eliminated on disposals	-	-	(1)	(279)	(122)	(36)	(438)
At 31st December, 2002	-	6,009	1,544	6,985	3,748	6,343	24,629
NET BOOK VALUES							
At 31st December, 2002	2,501	17,354	2,484	2,440	1,478	9,952	36,209
At 31st December, 2001	1,448	17,672	2,666	2,132	1,766	8,184	33,868

An analysis of the locations of the properties held at 31st December, 2002 is as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Medium term leases in the PRC	13,431	13,641
Medium term leases in Hong Kong	3,923	4,031
	17,354	17,672

Notes to the Financial Statements

For the year ended 31st December, 2002

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY
	<i>HK\$'000</i>
Unlisted shares	119,072
Amount due from a subsidiary	29,189
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	148,261

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown in the balance sheet as non-current.

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

Details of the Company's subsidiaries at 31st December, 2002 are set out in note 28.

12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets of associates	7,904	2,734
Amount due from an associate	-	2,368
Amount due to an associate	9,121	-

The amount due from (to) an associate is unsecured, interest-free and repayable on demand.

Details of the Group's associates at 31st December, 2002 are set out in note 29.

Notes to the Financial Statements

For the year ended 31st December, 2002

13. ADVANCE TO AN ASSOCIATE

	THE GROUP 2002 & 2001 <i>HK\$'000</i>
Advance to an associate	1,640

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

14. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Other investments:		
Unlisted equity interests	10	10
Unlisted bonds	10,284	5,009
	10,294	5,019
Carrying amount analysed for reporting purposes as:		
Non-current	10	5,019
Current	10,284	–
	10,294	5,019

15. INVENTORIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	30,459	21,854
Work in progress	2,886	3,358
Finished goods	3,135	2,560
	36,480	27,772

All inventories were carried at cost at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2002

16. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$63,565,000 (2001: HK\$48,900,000), an aged analysis of which is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	18,748	12,720
31 – 60 days	21,740	13,219
61 – 90 days	13,646	9,398
Over 90 days	9,431	13,563
	63,565	48,900

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$37,120,000 (2001: HK\$22,270,000) an aged analysis of which is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	12,931	8,768
31 – 60 days	11,775	6,576
61 – 90 days	10,075	6,117
Over 90 days	2,339	809
	37,120	22,270

18. AMOUNT DUE TO A RELATED COMPANY

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

Notes to the Financial Statements

For the year ended 31st December, 2002

19. SHARE CAPITAL

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.1 each		
<i>Authorised:</i>		
On date of incorporation	3,900,000	390,000
Increase in authorised share capital	996,100,000	99,610,000
At 31st December, 2002	1,000,000,000	100,000,000
<i>Issued and fully paid:</i>		
Allotted and issued to initial subscriber		
on the date of incorporation	1	0.1
Issue of shares before Group Reorganisation	99	9.9
Issue of shares on Group Reorganisation	100	10
Issue of shares by capitalisation of share premium account	206,249,800	20,624,980
Issue of shares to the public	43,750,000	4,375,000
At 31st December, 2002	250,000,000	25,000,000

For the purpose of the preparation of the consolidated financial statements, the balance of the share capital shown in the consolidated balance sheet at 31st December, 2001 represented the issued share capital of Manfield Coatings Company Limited, which was the holding company of members of the Group prior to the Group Reorganisation.

The Company was incorporated on 15th January, 2001 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each, of which 1 share was allotted, for cash at par, to the subscriber. On 22nd October, 2001, the 1 issued share was transferred to Pacific Orchid Investments Limited ("Pacific Orchid").

Pursuant to the written resolutions passed by the then shareholder of the Company on 22nd October, 2001:

- (a) the authorised share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 996,100,000 shares of HK\$0.1 each which rank pari passu with the then existing shares in all respects; and
- (b) the Directors of the Company were authorised to allot and issue to Pacific Orchid 99 shares of HK\$0.1 each for cash at par.

Notes to the Financial Statements

For the year ended 31st December, 2002

19. SHARE CAPITAL (continued)

Pursuant to the Group Reorganisation, the Company acquired a then subsidiary of Pacific Orchid by the issuance of 100 shares of HK\$0.1 each, credited as fully paid at par, to Pacific Orchid as consideration. As a result, the Company became the holding company of the Group.

Pursuant to the written resolutions of the sole shareholder of the Company on 9th April, 2002, conditional on the share premium account of the Company being credited as a result of the issue of shares to the public, the Directors were authorised to capitalise a sum of HK\$20,625,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 206,249,800 shares for allotment and issue to shareholders whose names appeared on the register of members of the Company at the close of business on 18th April, 2002 in proportion to their then existing shareholdings in the Company.

On 26th April, 2002, by means of new issue of shares to the public, the Company issued a total of 43,750,000 shares of HK\$0.1 each at a price of HK\$0.8 per share. At the same time, the Company credited as fully paid at par of 206,249,800 shares of HK\$0.1 each, capitalised pursuant to a resolution in writing passed by the sole shareholder of the Company on 9th April, 2002.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

20. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
Premium arising on issues of shares to the public	30,625	–	–	30,625
Expenses incurred in connection with the issue of shares	(5,758)	–	–	(5,758)
Transfer upon capitalisation issue	(20,625)	–	–	(20,625)
Surplus arising from Group Reorganisation	–	119,071	–	119,071
Profit for the period	–	–	212	212
At 31st December, 2002	4,242	119,071	212	123,525

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

Notes to the Financial Statements

For the year ended 31st December, 2002

21. DISPOSAL OF SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	2,004
Inventories	–	198
Trade and other receivables	–	1,669
Amount due from immediate holding company	–	4,403
Bank balances and cash	–	845
Trade and other payables	–	(283)
Loans from immediate holding company	–	(1,768)
Amount due to a group company	–	(1,026)
Loans from shareholders	–	(80)
Minority interests	–	(78)
	–	5,884
Net assets	–	5,884
Goodwill realised on disposal	–	2,495
Translation reserve realised on disposal	–	3,534
Gain on disposal of subsidiaries	–	2,722
	–	14,635
Satisfied by:		
Cash consideration received	–	14,635

Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:

	2002	2001
	HK\$'000	HK\$'000
Cash consideration received	–	14,635
Bank balances and cash disposed of	–	(845)
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	–	13,790

The subsidiaries disposed of during the year ended 31st December, 2001 did not have any significant impact on the Group's operating results and cash flows.

Notes to the Financial Statements

For the year ended 31st December, 2002

22. PLEDGE OF ASSETS

At 31st December, 2002, the Group and the Company had pledged certain of its land and buildings with a net book value of approximately HK\$2.7 million (2001: HK\$2.8 million) to a bank to secure credit facilities granted to the Group.

23. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the financial statements	596	3,210

24. OPERATING LEASE COMMITMENTS

The Group has made HK\$99,000 (2001: HK\$122,000) minimum lease payments under operating leases during the year in respect of office premises.

The Group and the Company as lessee

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

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Within one year	90	60
In the second to fifth year inclusive	53	-
	143	60

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

Notes to the Financial Statements

For the year ended 31st December, 2002

25. CONTINGENT LIABILITIES

At 31st December, 2002, the Company had given guarantees to banks in respect of credit facilities granted to subsidiaries amounting to HK\$19,000,000 (2001: Nil). The extent of such facilities utilised by subsidiaries amounted to HK\$145,000 as at 31st December, 2002 (2001: Nil).

26. RETIREMENT BENEFITS SCHEME

The Group operates a mandatory provident fund scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the financial statements represent contributions payable to the funds by the Group at the rates specified in the rules of the scheme.

Employees in the Group's PRC subsidiary are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiary is required to contribute from 5% to 12% of the employee payroll to the scheme to fund the retirement benefits of the employees.

The details of pension scheme contributions for the Directors and employees, which have been dealt with in the income statement of the Group for the year ended 31st December, 2002 is HK\$813,000 (2001: HK\$768,000).

Notes to the Financial Statements

For the year ended 31st December, 2002

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

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

(I) Connected parties

Name of company	Nature of transactions/balances	2002 HK\$'000	2001 HK\$'000
<i>Substantial shareholders of the Company:</i>			
Mulpha and its subsidiaries, associates and jointly controlled entities other than the members of the Group	Interest income received by the Group <i>(note a)</i>	–	95
	Sales of goods by the Group <i>(note b)</i>	–	490
	Acquisition of property, plant and equipment by the Group <i>(note c)</i>	–	143
	Disposal of subsidiaries <i>(note d)</i>	–	14,635
	Disposal of properties <i>(note e)</i>	–	1,554
<i>Company in which Messrs. Yuen Shu Wah and Ko Jack Lum, Directors of the Company, have beneficial interests:</i>			
Manfield Industrial Company	Management fee paid by the Group <i>(note f)</i>	6	6

Notes to the Financial Statements

For the year ended 31st December, 2002

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(I) Connected parties *(continued)*

Name of company	Nature of transactions/balances	2002 HK\$'000	2001 HK\$'000
<i>Companies in which Mr. Yuen Shu Wah, Director of the Company, has beneficial interests:</i>			
Chemfield Trading Company Limited ("Chemfield")	Interest income received by the Group <i>(note a)</i>	131	131
	Balance due from Chemfield <i>(note g)</i>	1,640	1,640
Sheffield Chemical Company Limited ("Sheffield")	Technical assistance fee paid by the Group <i>(note h)</i>	155	147
	Balance due to Sheffield <i>(note i)</i>	155	147
Shenzhen Wisdom Computer Software Technology Limited	Interest income received by the Group <i>(note a)</i>	-	34
<i>Joint venture partner of a subsidiary:</i>			
Tang Xia Chong Economic Development Company ("Tang Xia Chong")	Management fee paid by the Group <i>(note f)</i>	30	30

Notes to the Financial Statements

For the year ended 31st December, 2002

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(II) Related parties, other than connected parties

Name of company	Nature of transactions/balances	2002 HK\$'000	2001 HK\$'000
<i>Associate:</i>			
Weilburger Manfield Limited ("Weilburger")	Commission paid by the Group <i>(note h)</i>	378	824
	Commission received by the Group <i>(note j)</i>	216	72
	Interest income received by the Group <i>(note a)</i>	11	75
	Management fee income received by the Group <i>(note k)</i>	1,056	543
	Royalty fee paid by the Group <i>(note l)</i>	1,538	–
	Royalty income received by the Group <i>(note l)</i>	68	39
	Sales of goods by the Group <i>(note b)</i>	12,252	9,182
	Technical assistance fee income received by the Group <i>(note h)</i>	578	168
	Technical fee paid by the Group <i>(note m)</i>	9,362	–
	Transportation charges received by the Group <i>(note n)</i>	42	106
	Balance due from Weilburger <i>(note i)</i>	–	2,368
	Balance due to Weilburger <i>(note i)</i>	9,121	–

Notes to the Financial Statements

For the year ended 31st December, 2002

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

Notes:

- (a) Interest income was determined with reference to the prevailing market interest rates.
- (b) The transactions were carried out at market prices, or where no market prices were available, at cost plus a percentage of profit mark-up.
- (c) Property, plant and equipment was acquired at its net book value at 31st December, 2001.
- (d) The subsidiaries disposed of during the year ended 31st December, 2001 included Hip Hing Spraying and Manufacturing Limited which was disposed of at its net asset value at 1st January, 2001 and Pinefield Coatings Company Limited and Springfield Coatings Company Limited which were disposed of at their net asset values at 31st July, 2001.
- (e) The properties were disposed of at their net book values at 31st July, 2001.
- (f) The management fees were paid in accordance with terms of the relevant agreement.
- (g) The terms of the balance are set out in notes 12 and 13 to the financial statements.
- (h) These transactions were determined by terms agreed by both parties.
- (i) The amount is unsecured, interest-free and repayable on demand.
- (j) Pursuant to the agreement entered into between the Group and Weilburger in September 2000, the Group received commission from Weilburger which was charged at pre-agreed rate. The commission was paid to the Group for obtaining the exclusive right to sell certain specialty industrial coatings in Hong Kong and in the PRC.
- (k) The management fee was determined by terms agreed by both parties and charged at pre-agreed monthly rate.
- (l) The amounts were charged at pre-agreed rate and in accordance with terms of the licence agreements.
- (m) Pursuant to the agreement entered into between the Group and Weilburger dated 11th June, 2002, Weilburger transferred its technical know-how to the Group at pre-agreed rate.
- (n) The transportation charges represent reimbursement of the actual amounts incurred by the Group on behalf of Weilburger.

In addition, at 31st December, 2001, Messrs. Yuen Shu Wah and Ko Jack Lum, Directors of the Company, had given joint and several guarantees amounting to approximately HK\$19,000,000 to banks in respect of banking facilities granted to the Group which were subsequently replaced by the corporate guarantees given by the Company.

Notes to the Financial Statements

For the year ended 31st December, 2002

28. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2002 are as follows:

Name of company	Place of incorporation or establishment/ operations	Nominal value of issued ordinary capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Rookwood Investments Limited	British Virgin Islands	Ordinary US\$100	100%	–	Investment holding
Kenfield Printing Inks Limited	Hong Kong	Ordinary HK\$200,000	–	55%	Inactive
Manfield Chemical Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Investment holding
Manfield Coatings Company Limited	Hong Kong	Ordinary HK\$1,000; Non-voting deferred HK\$32,000,000 (note i)	–	100%	Investment holding and trading in paints products
Shenzhen Pinefield Chemical Enterprises Co., Ltd. ("Shenzhen Pinefield")	PRC	Ordinary US\$1,500,000	–	100% (note ii)	Manufacture of paints and trading in petrochemical products

Notes:

- (i) The non-voting deferred shares practically carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up.
- (ii) Shenzhen Pinefield was established as a sino-foreign co-operative joint venture in the PRC under a joint venture agreement between the Group and Tang Xia Chong (the "PRC Partner"). Under the joint venture agreement, the Group is responsible for the management, overall operations and the production process of Shenzhen Pinefield. The profit sharing between the Group and the PRC Partner was 70% and 30% respectively. Until 20th March, 2001, the Group and the PRC Partner have agreed to amend the joint venture agreement whereby the profit sharing between the Group and the PRC Partner are 91.6% and 8.4% respectively. However, by giving unconditional and irrevocable undertakings that it voluntarily waived its entitlement to profits in Shenzhen Pinefield, the PRC Partner had not withdrawn any of the profits to which it was entitled during the period from 1990 to 2002 and such entitlements have been retained by Shenzhen Pinefield.

Notes to the Financial Statements

For the year ended 31st December, 2002

29. ASSOCIATES

Details of the Group's associates at 31st December, 2002 are as follows:

Name of company	Place of incorporation/ operations	Attributable equity interest to the Group	Principal activities
Anshan Eastern Chemicals Co. Ltd.	PRC	25%	Manufacture of and trading in paints and related products
Chemfield Trading Company Limited	Hong Kong	49%	Trading in paints
Weilburger Manfield Limited	Hong Kong	45%	Trading in paints and related products