

Notes to the Accounts

1 GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 30th April 2002 as an exempted Company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands (the “Cayman Companies Law”).
- (b) Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of Wing Shing Group Limited through a share swap and became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 31st October 2002. The Company’s shares were listed on the Stock Exchange on 13th November 2002.
- (c) The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice (“SSAP”) 2.127, “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the year ended 31st March 2003, including comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (d) No balance sheet of the Company as at 31st March 2002 is presented in the accounts as the Company was not yet incorporated as at that date.
- (e) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the Board of Directors; or to cast majority of votes at the meetings of the board of Directors.

Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Properties under development

Properties under development are interests in leasehold land and buildings on which construction work has not been completed and which, upon completion, will be held for their intended use. Properties under development are included in fixed assets and are carried at cost which includes development and construction expenditure incurred and other direct costs attributable to the development, less accumulated impairment losses, if any. On completion, the properties are transferred to other fixed asset categories at cost less accumulated impairment losses, if any.

(c) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings are depreciated over the shorter of the period of the lease and their estimated useful lives while other fixed assets are depreciated at rates sufficient to write off their cost less any accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	10-20%
Furniture, fixtures and equipment	20%
Motor vehicles	20-30%

Major costs incurred in restoring the fixed assets to their normal working condition to allow continued use of the overall asset are charged to the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)***(c) Other fixed assets** *(continued)*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(d) Assets under leases**(i) Finance leases**

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investment in associated company is stated at cost less any provision for impairment losses. The results of associated company are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Account receivables

Provision is made against account receivables to the extent they are considered to be doubtful. Account receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise bank balances and cash and bank overdrafts.

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(j) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred. For the current and prior years, all borrowing costs were charged to the profit and loss account.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst profit and loss items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon disposal of a foreign subsidiary, the related cumulative exchange differences are included in the profit and loss account as part of the gain or loss on disposal.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)***(l) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group operates a number of defined contribution plans in Hong Kong and the PRC, the assets of which are held in separate trustee-administered funds.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, where appropriate.

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

Notes to the Accounts

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Handling income is recognised when the underlying services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised on a straight-line basis over the terms of the lease.

(p) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. All development costs for the current and prior years were charged to the profit and loss account.

(q) Segmental reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude certain corporate assets and investment in associated company. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segments reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are where the assets are located.

3 TURNOVER AND REVENUES

The Group is principally engaged in the manufacture and trading of paints, blended solvents, plastic colorants and chemical materials. Revenues recognised during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods	265,789	197,933
Other revenues		
Handling income	280	970
Interest income from		
- banks	93	99
- a related company (<i>Note 29</i>)	130	376
Rental income	47	23
Other income	747	250
	1,297	1,718
Total revenues	267,086	199,651

Notes to the Accounts

3 TURNOVER AND REVENUES *(continued)*

Primary reporting format - business segments

	2003				
	Paints and blended solvents <i>HK\$'000</i>	Plastic colorants <i>HK\$'000</i>	Chemical materials <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group total <i>HK\$'000</i>
Segment revenues					
Turnover					
External revenue	235,488	11,344	18,957	—	265,789
Inter segment revenue	781	1	980	(1,762)	—
Other revenues excluding interest income	2,382	27	32	(1,367)	1,074
	<u>238,651</u>	<u>11,372</u>	<u>19,969</u>	<u>(3,129)</u>	<u>266,863</u>
Segment results	<u>21,389</u>	<u>193</u>	<u>751</u>		22,333
Unallocated costs					(898)
Interest income					223
Operating profit					21,658
Finance costs					(2,807)
Profit before taxation					18,851
Taxation					(730)
Profit after taxation					<u>18,121</u>
Segment assets	120,248	7,121	6,277	—	133,646
Unallocated corporate assets					34,107
					<u>167,753</u>
Segment liabilities	76,218	2,867	2,261	—	81,346
Unallocated corporate liabilities					4,730
					<u>86,076</u>
Capital expenditure	16,903	98	—	—	17,001
Depreciation charge	4,667	559	6	—	5,232

3 TURNOVER AND REVENUES (continued)

Primary reporting format - business segments (continued)

	2002				
	Paints and blended solvents	Plastic colorants	Chemical materials	Elimination	Group total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenues					
Turnover					
External revenue	160,401	13,431	24,101	—	197,933
Inter segment revenue	114	5	1,051	(1,170)	—
Other revenues excluding interest income	4,018	—	5	(2,780)	1,243
	<u>164,533</u>	<u>13,436</u>	<u>25,157</u>	<u>(3,950)</u>	<u>199,176</u>
Segment results	<u>31,308</u>	<u>138</u>	<u>2,412</u>		33,858
Unallocated costs					(10)
Interest income					475
Operating profit					34,323
Finance costs					(2,822)
Profit before taxation					31,501
Taxation					(2,203)
Profit after taxation					<u>29,298</u>
Segment assets	88,694	7,269	5,481	—	101,444
Unallocated corporate assets					16,811
					<u>118,255</u>
Segment liabilities	41,912	2,805	2,969	—	47,686
Unallocated corporate liabilities					28,209
					<u>75,895</u>
Capital expenditure	14,076	1,637	—	—	15,713
Depreciation charge	4,998	544	6	—	5,548

Notes to the Accounts

3 TURNOVER AND REVENUES *(continued)*

Secondary reporting format - geographical segments

No geographical segment analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to customers located outside the People's Republic of China (the "PRC").

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Crediting		
Gain on disposal of fixed assets	129	58
Net exchange gain	17	—
	<u>146</u>	<u>58</u>
Charging		
Auditors' remuneration	825	472
Bad debts written off	796	394
Cost of inventories sold	184,116	120,480
Depreciation		
- owned fixed assets	4,586	4,681
- leased fixed assets	646	867
Net exchange losses	—	53
Operating leases in respect of land and buildings	769	1,091
Provision for doubtful debts	1,260	116
Provision for slow moving inventories	—	148
Research and development costs <i>(see note below)</i>	1,780	1,322
Staff costs (including Directors' emoluments) <i>(Note 9)</i>	33,580	23,199
	<u>38,586</u>	<u>33,182</u>

Note: Included in the research and development costs were staff costs of HK\$1,229,000 (2002: HK\$963,000) which had also been included in staff costs disclosed above.

5 FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on bank loans and overdrafts	1,481	1,523
Interest on loan from a minority shareholder - wholly repayable within five years	—	196
Interest element of finance leases	213	300
Interest on trust receipt loans	1,113	803
	<u>2,807</u>	<u>2,822</u>

6 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax (<i>note a</i>)	260	2,145
PRC income tax (<i>note b</i>)	470	58
	<u>730</u>	<u>2,203</u>

- (a) Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year.
- (b) PRC income tax has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC. In accordance with the relevant tax laws applicable, the Company's subsidiary operating in the PRC is entitled to a 50% reduction of PRC income tax for the year ended 31st December 2001 at the rate of 12%. Commencing 1st January 2002, PRC income tax has been provided at the rate of 24% on the estimated assessable profit.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of a loss of approximately HK\$812,000.

Notes to the Accounts

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$17,503,000 (2002: HK\$28,709,000) and the weighted average number of 369,938,630 shares deemed to be in issue during the year (2002: 346,800,000 shares deemed to be issued on 1st April 2001), after taking into consideration of the 520,000 shares issued in relation to the Reorganisation and the capitalisation issue of 346,280,000 shares, as referred to in notes 21(d) and 21(f), respectively.

Diluted earnings per share for the year ended 31st March 2003 is not presented as the exercise of the outstanding warrants of the Company would have an anti-dilutive effect. For the year ended 31st March 2002, no dilutive earnings per share is presented because there was no dilutive instrument issued.

9 STAFF COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Wages and salaries	33,156	22,625
Pension cost - defined contribution plans (<i>see Note below</i>)	424	574
	<hr/>	<hr/>
Total including Directors' emoluments	<u>33,580</u>	<u>23,199</u>

Note:

The details of pension cost for the Directors and employees are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Gross scheme contributions	480	608
Less: Forfeited contributions utilised to offset contributions for the year	(56)	(34)
	<hr/>	<hr/>
Net scheme contributions	<u>424</u>	<u>574</u>

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors of the Company are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	100	—
Salaries, allowances and benefits in kind	2,866	1,895
Retirement benefit scheme contributions	82	52
Other emoluments	245	175
	<u>3,293</u>	<u>2,122</u>

Directors' fees disclosed above include HK\$100,000 (2002: Nil) paid to the independent non-executive Directors.

None of the Directors of the Company waived any emoluments paid by the Group during the year (2002: Nil).

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
Nil to HK\$1,000,000	5	3
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	—
	<u>6</u>	<u>4</u>

Notes to the Accounts

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: one) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: four) individuals during the year are as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,377	3,168
Retirement benefit scheme contributions	86	112
	<u>3,463</u>	<u>3,280</u>

The emoluments of the above individuals fell within the following bands:

	Number of individuals	
	2003	2002
Emolument bands		
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$2,000,001 to HK\$2,500,000	1	—
	<u>3</u>	<u>4</u>

- (c) During the current and prior years, no emoluments were paid by the Group to any of the above Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 FIXED ASSETS

	Group					
	Leasehold land and buildings <i>HK\$'000</i>	Properties under development <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost						
At 1st April 2002	9,419	8,778	19,868	12,031	9,175	59,271
Additions	3,841	6,708	2,713	1,937	1,802	17,001
Disposals	—	—	—	—	(1,552)	(1,552)
Transfer	12,757	(15,201)	(5,483)	7,927	—	—
At 31st March 2003	26,017	285	17,098	21,895	9,425	74,720
Accumulated depreciation						
At 1st April 2002	902	—	10,520	8,926	4,869	25,217
Charge for the year	203	—	1,380	2,439	1,210	5,232
Disposals	—	—	—	—	(1,250)	(1,250)
Transfer	1	—	(4,288)	4,287	—	—
At 31st March 2003	1,106	—	7,612	15,652	4,829	29,199
Net book value						
At 31st March 2003	24,911	285	9,486	6,243	4,596	45,521
At 31st March 2002	8,517	8,778	9,348	3,105	4,306	34,054
Net book value of leased assets:						
At 31st March 2003	—	—	4,002	534	2,290	6,826
At 31st March 2002	—	—	2,095	—	3,107	5,202

Notes to the Accounts

11 FIXED ASSETS (continued)

Notes:

- (a) The Group's interests in leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	5,768	5,902
Outside Hong Kong, held on:		
Leases less than 10 years	3,739	—
Leases between 10 to 50 years	15,404	2,615
	<u>24,911</u>	<u>8,517</u>

- (b) Properties under development are situated in the PRC under a lease of less than 50 years.
- (c) Leasehold land and buildings with an aggregate net book value of approximately HK\$5,295,000 (2002: HK\$5,418,000) were pledged as part of the securities for banking facilities granted to the Group (note 28).

12 INTERESTS IN SUBSIDIARIES

	Company
	2003
	HK\$'000
Unlisted investments at cost (Note (a))	57,942
Due from subsidiaries (Note (b))	13,628
	<u>71,570</u>

12 INTERESTS IN SUBSIDIARIES (continued)

(a) The following is a list of the significant subsidiaries at 31st March 2003:

<u>Name</u>	<u>Place of incorporation/ establishment</u>	<u>Principal activities and place of operation</u>	<u>Particulars of issued/ registered and fully paid share capital</u>	<u>Attributable equity interest held</u>
<i>Shares held directly:</i>				
Wing Shing Group Limited ("WSGL")	British Virgin Islands ("BVI")	Investment holding in Hong Kong	52,000 ordinary shares of US\$1 each	100%
<i>Shares held indirectly:</i>				
Dongguan Tung Shing Fat Chemical Company Limited	PRC	Manufacture of paints and blended solvents in the PRC	Fully paid registered capital of HK\$26,000,000	Note (i)
Hai Yue Chemicals Company Limited	Hong Kong	Trading of chemical materials in Hong Kong	1,000,000 ordinary shares of HK\$1 each	75%
Wing Shing Chemical Company Limited	Hong Kong	Trading of paints, lacquer, enamel and polyurethane in Hong Kong	3,000,000 ordinary shares of HK\$1 each	100%
Wing Shing Chemical International Limited	BVI	Inactive	1 ordinary share of US\$1 each	100%
Wing Shing Colours Limited	Hong Kong	Manufacture and trading of plastic colorants in Hong Kong	100,000 ordinary shares of HK\$1 each	70%
Wing Shing Chemical Macao Commercial Offshore Company Limited	Macau	Trading of paints and blended solvents in Macau	Issued capital of MOP 500,000	100%

Notes to the Accounts

12 INTERESTS IN SUBSIDIARIES *(continued)*

(i) Dongguan Tung Shing Fat Chemical Company Limited was established under a co-operative joint venture agreement entered into between Wing Shing Chemical Company Limited, a subsidiary of the Company, and a third party (the “PRC party”) in the PRC. This joint venture was for a term of ten years commencing from 18th November 1991. On 8th May 2001, the joint venture partners agreed to extend the terms of the joint venture for three years up to 22nd October 2004. On 30th August 2002, a supplemental agreement was entered into between Wing Shing Chemical Company Limited and the PRC party, pursuant to which, among other things, the terms of the joint venture agreement were further extended for five years up to 22nd October 2009. The Group’s profit entitlement in the joint venture is 65% of the retained profits. On 10th October 2002, a further supplemental agreement was entered into by the said parties, pursuant to which upon the expiry of the term of the joint venture, the Group will own all the remaining assets including plant and machinery of the joint venture.

(b) The amounts due are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

13 INTEREST IN ASSOCIATED COMPANY

	Group	
	2003	2002
	HK\$’000	HK\$’000
Share of net assets	150	—
Unlisted shares, at cost	150	—

Particulars of the associated company at 31st March 2003 are as follows:

Name	Place of incorporation	Principal activity	Particulars of issued share held	Interest held
Kansai Chemicals (Dongguan) Limited	Hong Kong	Inactive	500,000 ordinary shares of HK\$1 each	30%

The associated company incurred only immaterial expenses for the year.

14 INVENTORIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	15,800	13,807
Work in progress	2,222	2,361
Finished goods	5,859	3,806
	<u>23,881</u>	<u>19,974</u>
Less: provision	—	(148)
	<u>23,881</u>	<u>19,826</u>

As at 31st March 2003, all inventories were stated at cost. As at 31st March 2002, a provision of approximately HK\$148,000 had been made against inventories of the same value.

15 DUE FROM/(TO) SHAREHOLDERS

	Group			
			Maximum amount outstanding at	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Mr. Poon Sau Tin	351	29	351	29
Mr. Poon Sum (Director of the Company)	(91)	29	679	29
	<u>260</u>	<u>58</u>		

Mr. Poon Sau Tin is the elder brother of Mr. Poon Sum. The amounts due are interest-free, unsecured and have no fixed terms of repayment.

Notes to the Accounts

16 DUE FROM RELATED COMPANIES

	2003	2002	Maximum amount outstanding at	
	<i>HK\$'000</i>	<i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Luen Yat Enterprises Company Limited ("Luen Yat")	—	7,057	—	7,402
WS Cosmetics Limited	—	570	—	570
	<u>—</u>	<u>7,627</u>	<u>—</u>	<u>7,972</u>

Mr. Poon Sau Tin and Mr. Poon Sum have beneficial interests in these companies. The amount due from Luen Yat was interest bearing at rates as mutually agreed by both parties, whereas the amount due from WS Cosmetics Limited was interest-free. These amounts were fully settled during the year.

17 TRADE AND OTHER RECEIVABLES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables (<i>Note below</i>)	65,825	44,685
Prepayments and deposits	3,224	2,817
Other receivables	2,297	1,954
	<u>71,346</u>	<u>49,456</u>

Note:

Majority of the Group's sales are entered into on credit terms ranging from 30 to 120 days. The ageing analysis of trade receivables is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	27,850	18,840
31-60 days	10,477	6,279
61-90 days	11,091	9,112
91-120 days	6,659	4,536
Over 120 days	9,748	5,918
	<u>65,825</u>	<u>44,685</u>

18 BANK BALANCES AND CASH

Bank balances and cash of approximately HK\$2,685,000 (2002: HK\$1,314,000) were denominated in Renminbi and kept in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange control restrictions imposed by the PRC government.

Notes to the Accounts

19 TRADE AND OTHER PAYABLES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade payables (<i>Note below</i>)	22,411	18,390
Other payables, deposits received and accruals	5,913	6,681
	<u>28,324</u>	<u>25,071</u>

Note:

The ageing analysis of trade payables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0-30 days	10,612	8,098
31-60 days	5,464	3,341
61-90 days	3,833	4,663
Over 90 days	2,502	2,288
	<u>22,411</u>	<u>18,390</u>

20 LONG-TERM LIABILITIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bank loans		
Secured (<i>Note (a)</i>)	15,898	16,593
Unsecured (<i>Note (a)</i>)	305	802
Obligations under finance leases (<i>Note (b)</i>)	5,602	3,070
	<u>21,805</u>	<u>20,465</u>
	-----	-----
Less: Current portion of long-term liabilities		
Bank loans, secured	(11,002)	(10,657)
Bank loan, unsecured	(305)	—
Obligations under finance leases	(2,847)	(1,558)
	<u>(14,154)</u>	<u>(12,215)</u>
	-----	-----
	<u>7,651</u>	<u>8,250</u>
	=====	=====
The analysis of the above is as follows:		
Wholly repayable within five years	<u>21,805</u>	<u>20,465</u>
	=====	=====

(a) At 31st March 2003, the Group's bank loans were repayable as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	11,307	10,657
In the second year	2,510	2,240
In the third to fifth year	2,386	4,498
	<u>16,203</u>	<u>17,395</u>
	=====	=====

The long-term bank loans bear interest at prevailing market rates. Details of securities for banking facilities are set out in note 28 below.

Notes to the Accounts

20 LONG-TERM LIABILITIES (continued)

(b) At 31st March 2003, the Group's finance lease liabilities were repayable as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	3,258	1,768
In the second year	2,423	935
In the third to fifth year	492	710
	<hr/>	<hr/>
	6,173	3,413
Future finance charges on finance leases	(571)	(343)
	<hr/>	<hr/>
	5,602	3,070
	<hr/> <hr/>	<hr/> <hr/>

The present value of finance lease liabilities is as follows:

Within one year	2,847	1,558
In the second year	2,286	840
In the third to fifth year	469	672
	<hr/>	<hr/>
	5,602	3,070
	<hr/> <hr/>	<hr/> <hr/>

21 SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At incorporation, 30th April 2002 (<i>Note (a)</i>)	1,000,000	100
Sub-division of each authorised share of HK\$0.10 into 10 shares of HK\$0.01 each (<i>Note (c)</i>)	9,000,000	—
Increase in authorised share capital (<i>Note (c)</i>)	1,990,000,000	19,900
	<hr/>	<hr/>
At 31st March 2003	2,000,000,000	20,000
	<hr/> <hr/>	<hr/> <hr/>
	Issued and fully paid ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Issued during the period and at 31st March 2003 (Notes (b), (d), (e) and (f))	408,000,000	4,080
	<hr/> <hr/>	<hr/> <hr/>
(a) The Company was incorporated on 30th April 2002 with authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each.		
(b) On 14th May 2002, one share of HK\$0.10 of the Company was allotted and issued at nil paid at par to the subscriber.		
(c) On 6th September 2002, pursuant to resolutions in writing passed by the sole shareholder of the Company, every issued and unissued share of HK\$0.10 each was subdivided into 10 shares of HK\$0.01 each, such that the Company had an authorised share capital of HK\$100,000, divided into 10,000,000 shares of HK\$0.01 each and the 1 share of the issued share capital of the Company became 10 shares of HK\$0.01 each. Besides, the authorised share capital of the Company was increased to HK\$20,000,000, divided into 2,000,000,000 shares of par value of HK\$0.01 each, by the creation of an additional 1,990,000,000 shares of par value of HK\$0.01 each.		
(d) On 21st October 2002, in consideration for the acquisition by the Company of the entire issued share capital of WSGL, now an intermediate holding company of the Group, an aggregate of 519,990 shares of the Company were issued, credited as fully paid to the then shareholders of the WSGL, and the existing 10 shares issued at nil paid as described in notes (b) and (c) above were credited as fully paid at par.		
(e) On 11th November 2002, 61,200,000 shares of HK\$0.01 each were issued at a price of HK\$0.5 per share for cash consideration of HK\$30,600,000. The excess over the par value of the shares issued was credited to the share premium account.		
(f) Also on 11th November 2002, 346,280,000 shares of HK\$0.01 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 26th October 2002. The amounts were paid up in full by applying an amount of HK\$3,462,800 standing to the credit of the share premium account of the Company.		
(g) The share capital presented in the consolidated balance sheet as at 31st March 2002 represented the share capital of the Company, arising on incorporation and from the share swap transactions described in notes (b) and (d) above, and the related shares of which are deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as referred to in note 1(c). The related reserve arising from the Reorganisation and share premium are deemed to have been in issue throughout the accounting periods presented in accordance with the basis of presentation referred to in note 1(c).		
(h) Under a share option scheme approved and adopted by the shareholders on 21st October 2002 (the "Share Option Scheme"), the Directors of the Company may, at their discretion, invite full-time employees including executive Directors to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the share option scheme). No options were granted during the year and up to the date of these accounts.		
(i) On 11th November 2002, warrants to subscribe for a total of 77,714,281 shares of the Company at subscription price of HK\$0.70 per share (subject to adjustment) before 31st October 2007 were issued to the Company's shareholders at nil consideration. No warrants have been exercised since the date of issue and up to the date of these accounts.		

Notes to the Accounts

22 RESERVES

(a) Group

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i> <i>(Note (i))</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2001	—	2,995	3,959	6,954
Issuance of shares by WSGL	—	253	—	253
Profit for the year	—	—	28,709	28,709
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2002	—	3,248	32,668	35,916
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1st April 2002	—	3,248	32,668	35,916
Issuance of shares <i>(Note 21(e))</i>	29,988	—	—	29,988
Share issuance expenses	(7,486)	—	—	(7,486)
Capitalisation issue <i>(Note 21(f))</i>	(3,463)	—	—	(3,463)
Profit for the year	—	—	17,503	17,503
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2003	19,039	3,248	50,171	72,458
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note:

Merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of the Company's shares issued in exchange thereof. The merger reserve of the Group is deemed to have been in issue throughout the accounting periods presented in the consolidated balance sheet in accordance with the basis of presentation referred to in note 1(c).

22 RESERVES (continued)

(b) Company

	Share premium <i>HK\$'000</i>	Accumulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30th April 2002 (date of incorporation)	—	—	—
Arising from Reorganisation (Note)	57,936	—	57,936
Issuance of shares (Note 21(e))	29,988	—	29,988
Share issuance expenses	(7,486)	—	(7,486)
Capitalisation issue (Note 21(f))	(3,463)	—	(3,463)
Loss for the period	—	(812)	(812)
	<hr/>	<hr/>	<hr/>
At 31st March 2003	76,975	(812)	76,163
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note:

The amount arising from Reorganisation of approximately HK\$57,936,000 of the Company represents the difference between the consolidated net assets of the subsidiaries acquired and the nominal value of the Company's shares issued, pursuant to the Reorganisation and has been credited to the share premium account of the Company.

23 DEFERRED TAXATION

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Brought forward and carried forward	438	438
	<hr/> <hr/>	<hr/> <hr/>

Deferred taxation was principally provided for in respect of accelerated depreciation allowances.

There was no material unprovided deferred taxation for the year or as at the balance sheet date.

Notes to the Accounts

24 MINORITY INTERESTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Equity interests	5,139	4,518
Loan	—	1,921
	5,139	6,439
	5,139	6,439

The loan was unsecured and interest bearing at the rate of 1.3% per month. It was fully settled during the year.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Operating profit	18,851	31,501
Interest expense	2,807	2,822
Interest income	(223)	(475)
Depreciation	5,232	5,548
Gain on disposal of fixed assets	(129)	(58)
	26,538	39,338
Operating profit before working capital changes	26,538	39,338
Increase in inventories	(4,055)	(3,335)
Increase in trade receivables	(21,140)	(14,022)
Increase in other receivables, deposits paid and prepayments	(750)	(3,585)
Increase in trade payables	4,021	2,364
(Decrease)/ increase in other payables, deposits received and accrued expenses	(918)	2,474
Increase in amounts due from shareholders	(202)	(7,224)
	3,494	16,010
Net cash inflow generated from operations	3,494	16,010

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium and merger reserve <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Bank loans and obligations under finance leases <i>HK\$'000</i>	Loans from shareholders <i>HK\$'000</i>	Pledged bank deposits <i>HK\$'000</i>
At 1st April 2001	3,000	3,929	30,998	8,000	2,641
Minority interests' share of profits	—	589	—	—	—
Inception of finance leases	—	—	3,062	—	—
Cash inflows/(outflows) from financing	253	1,921	5,950	(8,000)	82
At 31st March 2002	<u>3,253</u>	<u>6,439</u>	<u>40,010</u>	<u>—</u>	<u>2,723</u>
At 1st April 2002	3,253	6,439	40,010	—	2,723
Minority interests' share of profits	—	618	—	—	—
Inception of finance leases	—	—	691	—	—
Cash inflows/(outflows) from financing	23,114	(1,918)	11,638	—	6,326
At 31st March 2003	<u>26,367</u>	<u>5,139</u>	<u>52,339</u>	<u>—</u>	<u>9,049</u>

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$691,000 (2002: HK\$3,062,000).

26 CONTINGENT LIABILITIES

	Company 2003 <i>HK\$'000</i>
Guarantees for bank loans and overdrafts of subsidiaries	<u>117,000</u>

Notes to the Accounts

27 COMMITMENTS

(a) Capital expenditure commitments

The Group had capital expenditure commitments in respect of properties under development as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	918	8,594

(b) Commitments under operating leases

At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	698	1,265
Later than one year but not later than five years	1,538	12
Later than five years	3,219	—
	5,455	1,277

28 BANKING FACILITIES

As at 31st March 2003, the Group's banking facilities totalling approximately HK\$117,000,000 (2002: HK\$67,082,000) were secured by the followings:

- the Group's bank deposits totalling approximately HK\$9,049,000 (2002: HK\$2,723,000);
- first legal charges over a leasehold land and building with net book value of approximately HK\$5,295,000 (2002: HK\$5,418,000); and
- a corporate guarantee issued by the Company.

29 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the Group's business during the year are as follows:

	<i>Note</i>	Group	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses for quarters paid to Luen Yat in respect of:	(a)		
- Mr. Poon Sau Tin		(420)	(720)
- Mr. Poon Sum		(290)	—
Management fee charged by Dongguan Chemicals Import and Export Company, the minority shareholder of a subsidiary	(b)	(28)	(28)
Interest expense to Dongguan Chemicals Import and Export Company	(c)	—	(196)
Rental expenses charged by Mr. Poon Sau Tin, Mr. Poon Sum and Wing Shing Company	(d)	(288)	(796)
Interest received from Luen Yat	(e)	130	376

(a) Rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreement.

(b) Management fee was charged in accordance with the terms of the underlying agreement.

(c) Interest expense was charged at the rate of 1.3% per month according to the loan agreement.

(d) Rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreement. Mr. Poon Sau Tin and Mr. Poon Sum have beneficial interests in Wing Shing Company.

(e) Interest income was charged with reference to prevailing market interest rates.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 28th July 2003.