



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands 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., 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 29.

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 are set out in the prospectus issued by the Company dated 18th April, 2002. 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 ("HKSA").

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following revised Hong Kong Financial Reporting Standard ("HKFRS") issued by the HKSA, the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

### Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In adopting SSAP 12 (Revised), the Group has recorded a deferred tax asset of HK\$161,000 for the year ended 31st December, 2003. The deferred tax asset represents the tax effect of temporary differences arising as a result of the excess of depreciation charged in the financial statements over depreciation allowances claimed for tax purposes and the general allowance for bad and doubtful debts. The amount of deferred tax at 1st January, 2003 was not material and therefore no prior period adjustment is considered necessary.



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments 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.

### **Interests 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.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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.

### 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.

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.



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **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.

### **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**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Taxation** *(continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **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**

Payments to the Group's defined contribution retirement benefits plan, the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit scheme are charged to the income statement as an expense as they fall due.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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, 2003

	<b>Liquid coatings</b>	<b>Powder coatings</b>	<b>Solvents</b>	<b>Elimination</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>TURNOVER</b>					
External sales	<b>212,108</b>	<b>28,848</b>	<b>42,844</b>	<b>-</b>	<b>283,800</b>
Inter-segment sales	<b>87,302</b>	<b>15,001</b>	<b>13,600</b>	<b>(115,903)</b>	<b>-</b>
Total sales	<b>299,410</b>	<b>43,849</b>	<b>56,444</b>	<b>(115,903)</b>	<b>283,800</b>
<b>CONTRIBUTION TO PROFIT</b>					
FROM OPERATIONS	<b>43,107</b>	<b>1,172</b>	<b>5,375</b>	<b>-</b>	<b>49,654</b>
Finance costs					<b>(4)</b>
Loss on dissolution of a subsidiary					<b>(5)</b>
Share of results of associates					<b>7,529</b>
Profit before taxation					<b>57,174</b>
Income tax expense					<b>(6,594)</b>
Profit before minority interests					<b>50,580</b>

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 4. SEGMENTAL INFORMATION (continued)

### Business segments (continued)

#### ASSETS AND LIABILITIES

At 31st December, 2003

	Liquid coatings HK\$'000	Powder coatings HK\$'000	Solvents HK\$'000	Total HK\$'000
ASSETS				
Segment assets	106,487	14,482	21,509	142,478
Interests in associates				9,138
Unallocated corporate assets				104,178
Consolidated total assets				<u>255,794</u>
LIABILITIES				
Segmental liabilities	34,776	4,730	7,024	46,530
Unallocated corporate liabilities				1,450
Consolidated total liabilities				<u>47,980</u>

#### OTHER INFORMATION

For the year ended 31st December, 2003

Capital expenditure	8,871	1,188	1,765	11,824
Depreciation and amortisation	3,536	481	715	4,732
Allowance for bad and doubtful debts	2,548	347	515	<u>3,410</u>

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 4. SEGMENTAL INFORMATION (continued)

### Business segments (continued)

#### INCOME STATEMENT

For the year ended 31st December, 2002

	<b>Liquid coatings</b>	<b>Powder coatings</b>	<b>Solvents</b>	<b>Elimination</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
Inter-segment sales are charged at prevailing market rates.					
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, 2003

## 4. SEGMENTAL INFORMATION (continued)

### Business segments (continued)

#### ASSETS AND LIABILITIES

At 31st December, 2002

	<b>Liquid coatings</b>	<b>Powder coatings</b>	<b>Solvents</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Segmental assets	102,645	15,781	21,800	140,226
Interests in associates				7,904
Unallocated corporate assets				80,117
				<hr/>
Consolidated total assets				228,247
LIABILITIES				
Segmental liabilities	30,449	4,681	6,468	41,598
Unallocated corporate liabilities				9,121
				<hr/>
Consolidated total liabilities				50,719

#### OTHER INFORMATION

For the year ended 31st December, 2002

	<b>Liquid coatings</b>	<b>Powder coatings</b>	<b>Solvents</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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

#### Geographical segments

The Group's activities and operations are based in the PRC including Hong Kong. Accordingly, a geographical analysis is not presented.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 5. PROFIT FROM OPERATIONS

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Staff costs:		
Staff costs, including directors' remuneration	<b>43,443</b>	36,413
Retirement benefits scheme contributions, including amounts in directors' remuneration and net of forfeited contributions	<b>1,653</b>	813
Total staff costs	<b>45,096</b>	37,226
Auditors' remuneration	<b>574</b>	551
Depreciation and amortisation of property, plant and equipment	<b>4,732</b>	3,706
Directors' remuneration		
– fees	<b>200</b>	120
– other emoluments	<b>8,124</b>	5,259
	<b>8,324</b>	5,379
Loss on disposal of property, plant and equipment	<b>9</b>	1,701
Allowance for bad and doubtful debts	<b>3,410</b>	3,406
and after crediting:		
Interest income from other investments	<b>242</b>	103
Bank interest income	<b>508</b>	848
Interest income from related parties	<b>131</b>	142
Gain on disposal of other investments	<b>2,480</b>	160
Unrealised holding gain on other investments	<b>457</b>	89
Dividend income from other investments, listed	<b>400</b>	–

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 6. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

### (a) DIRECTORS' REMUNERATION

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors' fees		
Executive	–	–
Independent Non-executive	<b>200</b>	120
Other emoluments of Executive Directors:		
Salaries and other benefits	<b>3,557</b>	3,233
Retirement benefits scheme contribution	<b>239</b>	237
Bonus	<b>4,328</b>	1,789
	<b>8,324</b>	5,379

The Directors' remuneration were within the following bands:

	<b>2003</b> <b>Number of</b> <b>Directors</b>	2002 Number of Directors
Nil to HK\$1,000,000	<b>8</b>	6
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	–

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, 2003

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

### (b) EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2002: three) were Directors of the Company whose emoluments are included in the disclosures in note 6(a) above. The emoluments of the remaining two (2002: two) individuals were as follows:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and other benefits	<b>1,679</b>	1,615
Retirement benefits scheme contribution	<b>68</b>	67
	<b>1,747</b>	1,682

Their emoluments were within the following bands:

	<b>2003</b> <b>Number of employees</b>	2002 Number of employees
Nil to HK\$1,000,000	<b>1</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1

## 7. INCOME TAX EXPENSE

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profit		
– current year	<b>4,368</b>	2,272
– (over)underprovision in prior years	<b>(163)</b>	25
Income tax calculated at the rates prevailing in the PRC	<b>758</b>	1,330
Share of taxation of an associate	<b>1,792</b>	1,371
Deferred taxation ( <i>note 19</i> )	<b>(161)</b>	–
	<b>6,594</b>	4,998

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 7. INCOME TAX EXPENSE (continued)

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.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>57,174</b>		41,637	
Tax at the domestic income tax rate	<b>10,005</b>	<b>17.5</b>	6,662	16.0
Tax effect of expenses not deductible for tax purpose	<b>3,062</b>	<b>5.4</b>	2,805	6.7
Tax effect of income not taxable for tax purpose	<b>(8,034)</b>	<b>(14.1)</b>	(5,862)	(14.1)
Tax effect of utilisation of tax losses previously not recognised	<b>(34)</b>	<b>(0.1)</b>	(41)	(0.1)
Tax effect of tax losses not recognised	<b>207</b>	<b>0.4</b>	127	0.3
Effect of tax exemptions granted to PRC subsidiaries	<b>(916)</b>	<b>(1.6)</b>	(1,330)	(3.2)
Effect of different tax rates of subsidiaries operating in the PRC	<b>675</b>	<b>1.2</b>	1,241	3.0
Share of taxation of an associate	<b>1,792</b>	<b>3.1</b>	1,371	3.3
(Over)underprovision in respect of prior year	<b>(163)</b>	<b>(0.3)</b>	25	0.1
Tax expense and effective tax rate for the year	<b>6,594</b>	<b>11.5</b>	4,998	12.0

Details of deferred taxation are set out in note 19.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 8. DIVIDENDS

At a board meeting held on 22nd September, 2003, the Directors of the Company declared an interim dividend of HK3 cents per share (2002 interim dividend: HK2 cents per share) amounting to HK\$7,500,000 (2002 interim dividend: HK\$5,000,000). The interim dividend was paid on 10th October, 2003 to shareholders whose names appeared on the register of members of the Company on 9th October, 2003.

During the current year, dividends of HK2 cents per share and HK3 cents per share, amounting to HK\$5,000,000 and HK\$7,500,000, were paid to shareholders as the final dividend and the special dividend for the year ended 31st December, 2002, respectively. In addition, for the year ended 31st December, 2002, a subsidiary of the Company paid a dividend of HK\$40,000,000 to its then shareholders prior to the Group Reorganisation.

A final dividend of HK3 cents per share and a special dividend of HK3 cents per share have been proposed by the Directors and is 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, 2003 is based on the profit for the year of HK\$50,580,000 (2002: HK\$36,640,000) and on the weighted average of 250,000,000 (2002: 236,095,890) shares in issue throughout the year. The weighted average of 236,095,890 shares that would have been in issue for the year ended 31st December, 2002 was based on the assumption that 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, 2003

## 10. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land and buildings	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Plant, machinery and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
COST							
At 1st January, 2003	2,501	23,363	4,028	9,425	5,226	16,295	60,838
Currency realignment	(11)	(75)	(18)	(35)	(17)	(72)	(228)
Additions	2,658	2,675	1,735	1,949	1,386	1,421	11,824
Reclassification	(4,693)	3,986	-	650	-	57	-
Disposals	-	-	-	(505)	(430)	(33)	(968)
<b>At 31st December, 2003</b>	<b>455</b>	<b>29,949</b>	<b>5,745</b>	<b>11,484</b>	<b>6,165</b>	<b>17,668</b>	<b>71,466</b>
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	-	6,009	1,544	6,985	3,748	6,343	24,629
Current realignment	-	(19)	(8)	(24)	(12)	(28)	(91)
Provided for the year	-	997	548	961	875	1,351	4,732
Eliminated on disposals	-	-	-	(449)	(391)	(25)	(865)
<b>At 31st December, 2003</b>	<b>-</b>	<b>6,987</b>	<b>2,084</b>	<b>7,473</b>	<b>4,220</b>	<b>7,641</b>	<b>28,405</b>
NET BOOK VALUE							
<b>At 31st December, 2003</b>	<b>455</b>	<b>22,962</b>	<b>3,661</b>	<b>4,011</b>	<b>1,945</b>	<b>10,027</b>	<b>43,061</b>
At 31st December, 2002	2,501	17,354	2,484	2,440	1,478	9,952	36,209

An analysis of the locations of the properties held at 31st December, 2003 is as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Medium term leases in Hong Kong	<b>3,814</b>	3,923
Medium term leases in the PRC	<b>17,534</b>	13,431
Short term leases in the PRC	<b>1,614</b>	-
	<b>22,962</b>	17,354

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares	<b>119,072</b>	119,072
Amounts due from subsidiaries	<b>43,696</b>	29,189
	<b>162,768</b>	148,261

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of Directors, the amounts will not be repayable within twelve months from the balance sheet date and are 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 the Group Reorganisation.

Details of the Company's subsidiaries at 31st December, 2003 are set out in note 29.

## 12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets of associates	<b>9,138</b>	7,904
Amount due from an associate	<b>20,956</b>	–
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, 2003 are set out in note 30.



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 13. ADVANCE TO AN ASSOCIATE

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Advance to an associate	<b>1,440</b>	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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Other investments:		
Unlisted equity interests	<b>10</b>	10
Unlisted bonds	<b>9,945</b>	10,284
	<b>9,955</b>	10,294
Carrying amount analysed for reporting purposes as:		
Non-current	<b>10</b>	10
Current	<b>9,945</b>	10,284
	<b>9,955</b>	10,294

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 15. INVENTORIES

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	<b>29,674</b>	30,459
Work in progress	<b>3,195</b>	2,886
Finished goods	<b>3,298</b>	3,135
	<b>36,167</b>	36,480

Inventories were carried at cost at the balance sheet date.

## 16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period from 30 days to 60 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$59,158,000 (2002: HK\$63,565,000), an aged analysis of which is as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	<b>18,067</b>	18,748
31 – 60 days	<b>18,022</b>	21,740
61 – 90 days	<b>9,903</b>	13,646
Over 90 days	<b>13,166</b>	9,431
	<b>59,158</b>	63,565

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables of HK\$40,421,000 (2002: HK\$37,120,000), an aged analysis of which is as follows:

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	<b>17,190</b>	12,931
31 – 60 days	<b>13,476</b>	11,775
61 – 90 days	<b>8,935</b>	10,075
Over 90 days	<b>820</b>	2,339
	<b>40,421</b>	37,120

## 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.

## 19. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the current and prior reporting periods:

### THE GROUP

	<b>Difference between accounting and tax depreciation</b> <i>HK\$'000</i>	<b>General allowance for bad and doubtful debts</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st January, 2002, 31st December, 2002 and 1st January, 2003	–	–	–
Credit to income for the year	73	88	161
<b>At 31st December, 2003</b>	<b>73</b>	<b>88</b>	<b>161</b>

The Group and the Company had no other material provided and unprovided deferred taxation during the year or at the balance sheet date.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 20. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$</i>
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
	<hr/>	<hr/>
<b>At 31st December, 2002 and 31st December, 2003</b>	<b>1,000,000,000</b>	<b>100,000,000</b>
<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	10.0
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
	<hr/>	<hr/>
<b>At 31st December, 2002 and 31st December, 2003</b>	<b>250,000,000</b>	<b>25,000,000</b>

Pursuant to the Group Reorganisation, the Company acquired a then subsidiary of Pacific Orchid Investments Limited ("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\$20,624,980 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.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 20. SHARE CAPITAL (continued)

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.

There was no movements in the share capital of the Company during the year.

## 21. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
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 year	–	–	212	212
At 31st December, 2002	4,242	119,071	212	123,525
Profit for the year	–	–	34,818	34,818
Dividends paid	–	–	(20,000)	(20,000)
<b>At 31st December, 2003</b>	<b>4,242</b>	<b>119,071</b>	<b>15,030</b>	<b>138,343</b>

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, 2003

## 22. DISSOLUTION OF A SUBSIDIARY

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Net assets disposed of		
Bank balance	<b>200</b>	–
Minority interest	<b>(85)</b>	–
Net assets	<b>115</b>	–
Loss on dissolution of a subsidiary	<b>(5)</b>	–
	<b>110</b>	–
Residual value received:		
Cash	<b>110</b>	–
Net cash outflow arising on disposal:		
Cash received	<b>110</b>	–
Bank balance disposed of	<b>(200)</b>	–
Net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary	<b>(90)</b>	–

The subsidiary dissolved during the year did not contribute significantly to the turnover, operating results and cash flows of the Group.

## 23. PLEDGE OF ASSETS

At 31st December, 2003, the Group had pledged certain of its land and buildings with a net book value of approximately HK\$2,700,000 (2002: HK\$2,700,000) to a bank to secure credit facilities granted to the Group.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 24. CAPITAL COMMITMENTS

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Capital expenditure in connection with the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>4,622</b>	596

## 25. OPERATING LEASE COMMITMENTS

The Group has paid approximately HK\$156,000 (2002: HK\$99,000) minimum lease payments under operating leases during the year in respect of office premises.

### The Group as lessee

At the balance sheet date, the Group 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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	<b>123</b>	90
In the second to fifth year inclusive	<b>60</b>	53
	<b>183</b>	143

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.

At 31st December, 2003, the Company had no commitment for future minimum lease payment in respect of land and building (2002: Nil).

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 26. CONTINGENT LIABILITIES

At 31st December, 2003, the Company had given guarantees to banks in respect of credit facilities granted to subsidiaries amounting to HK\$19,000,000 (2002: HK\$19,000,000). The subsidiaries had not utilised the facilities at 31st December, 2003. The extent of such facilities utilised by the subsidiaries as at 31st December, 2002 amounted to approximately HK\$145,000.

## 27. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and the MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions for the Group at 7% of the employee's basic salary.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was HK\$16,991 (2002: Nil).

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 8% of the employee payroll to such 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, 2003, is approximately HK\$1,653,000 (2002: HK\$813,000).



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 28. 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 balances	2003	2002
		HK\$'000	HK\$'000
<i>Companies in which Mr. Yuen Shu Wah, a Director of the Company, has beneficial interests:</i>			
Chemfield Trading Company Limited ("Chemfield")	Balance due from Chemfield (note a)	<b>1,440</b>	1,640

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 28. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (II) Related parties, other than connected parties

Name of company	Nature of transactions/balances	2003	2002
		HK\$'000	HK\$'000
<i>Associate:</i>			
Weilburger Manfield Limited ("Weilburger")	Management fee income received by the Group (note b)	2,084	1,056
	Royalty fee paid by the Group (note c)	891	1,538
	Sales of goods by the Group (note d)	15,002	12,252
	Technical assistance fee income received by the Group (note e)	210	578
	Technical transfer fee paid by the Group (note f)	-	9,362
	Balance due from Weilburger (note g)	5,976	-
	Balance due to Weilburger (note g)	-	9,121
Weilburger Manfield Chemical (Shenzhen) Ltd. ("Weilburger Shenzhen")	Sales of goods by the Group (note d)	12,316	-
	Balance due from Weilburger Shenzhen (note g)	14,980	-

*Notes:*

- (a) The terms of the balance are set out in note 13.
- (b) The management fee was determined by terms agreed by both parties and charged at pre-agreed monthly rate.
- (c) The amounts were charged at pre-agreed rate and in accordance with terms of the licence agreements.
- (d) The transactions were carried out at market prices, or where no market prices were available, at cost plus a percentage of profit mark-up.
- (e) The transactions were determined by terms agreed by both parties.
- (f) 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.
- (g) The amounts are unsecured, interest-free and repayable on demand.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 29. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2003 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
Manfield Coatings Company Limited	Hong Kong	Ordinary HK\$1,000 Non-voting class A HK\$32,000,000 (note i)	–	100%	Investment holding and trading in paints products
Manfield Chemical Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Investment holding
Shenzhen Pinefield Chemical Enterprises Co., Ltd. ("Shenzhen Pinefield")	PRC (note ii)	US\$1,500,000	–	100% (note ii)	Manufacture of paints and trading in petrochemical products
Champion Chemical (Guangzhou) Company Limited	PRC (note iii)	HK\$3,000,000	–	100%	Manufacture of paints and trading in petrochemical products

Notes:

- (i) The non-voting class A 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 Economic Development Company (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. On 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 2003 and such entitlements have been retained by Shenzhen Pinefield. On 18th November, 2003, the Group entered into an agreement for transfer of the PRC Partner's interest, under which the PRC Partner agreed to dispose of its entire interest in Shenzhen Pinefield to the Group for a consideration of approximately HK\$670,000. Completion of the agreement is subject to payment of the consideration and upon fulfilment of the other terms and conditions as set out in the agreement.
- (iii) The company is registered in the form of wholly-owned foreign investment enterprises.

# Notes to the Financial Statements

For the year ended 31st December, 2003

## 30. ASSOCIATES

Details of the Group's associates at 31st December, 2003 are as follows:

Name of company	Place of incorporation or establishment operations	Attributable equity interest to the Group		Principal activities
		Directly	Indirectly	
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
Weilburger Manfield Chemical (Shenzhen) Ltd.	PRC	–	45%	Trading in paints and related products