

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

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.

The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reorganisations” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the year ended 31st March 2003 are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (revised)	:	Income taxes
SSAP 34 (revised)	:	Employee’s benefits

The adoption of the above revised SSAPs does not have any material effect on the consolidated accounts of the Group for the year ended 31st March 2004 and the prior year.

The principal accounting policies adopted in the preparation of these accounts and the changes to the Group’s accounting policies and the effect of adopting these revised SSAPs are set out in the following paragraphs.

(b) 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.

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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Consolidation *(continued)*

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

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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated company

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 on acquisition.

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

Equity accounting is discontinued when the carrying amount of the investment in the associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(d) Goodwill

Goodwill arose on the acquisition of minority interests of certain subsidiaries by the Group. Goodwill represents the excess of the cost of acquisition over the share of the net assets attributable to the acquired minority equity interests of these subsidiaries at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 10 years.

Where an indication of impairment exists, the carrying amount of goodwill on acquisitions is assessed and written down immediately to its recoverable amount.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Other investments

Other investments are carried at cost less any provision for impairment losses. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Fixed assets

(i) 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 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. On completion, the properties are transferred to other fixed asset categories at cost less accumulated impairment losses.

(ii) Other fixed assets

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

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 costs less accumulated impairment losses and residue value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land and buildings	2 - 2.38%
Plant and machinery	9 - 20%
Furniture, fixtures and equipment	18 - 20%
Motor vehicles	9 - 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.

(iii) Impairment of fixed assets

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.

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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) **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.

(h) **Inventories**

Inventories comprise raw materials, work in progress and finished goods and 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.

(i) **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.

(j) **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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP 12 has no significant effect on the Company's results for the prior accounting years.

(l) **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.

(m) **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.

(n) **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.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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 pension plans are generally funded by payments from employees and by the relevant Group companies.

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

(p) 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 outflow is probable, they will then be recognised as a provision.

(q) 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.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) **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. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(s) **Segmental reporting**

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

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

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

Notes to the Accounts

2 TURNOVER AND REVENUES

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale of goods	291,598	265,789
Other revenues		
Handling income	1,171	280
Interest income from		
- banks	128	93
- a related company	—	130
Rental income	93	47
Other income	592	747
	1,984	1,297
Total revenues	293,582	267,086

2 TURNOVER AND REVENUES (continued)

Primary report format - business segment

	Paints and blended solvents 2004 HK\$'000	Plastic colorants 2004 HK\$'000	Chemical materials 2004 HK\$'000	Elimination 2004 HK\$'000	Group total 2004 HK\$'000
Segment revenues					
Turnover					
External revenues	264,309	8,478	18,811	—	291,598
Inter segment revenues	—	—	1,139	(1,139)	—
Other revenues excluding interest income	1,921	82	1,164	(1,311)	1,856
	<u>266,230</u>	<u>8,560</u>	<u>21,114</u>	<u>(2,450)</u>	<u>293,454</u>
Segment results	<u>16,905</u>	<u>636</u>	<u>1,808</u>		19,349
Unallocated costs					(1,226)
Interest income					128
Operating profit					18,251
Finance costs					(2,528)
Profit before taxation					15,723
Taxation					(584)
Profit after taxation					<u>15,139</u>
Segment assets	146,238	6,097	5,880		158,215
Unallocated corporate assets					34,128
					<u>192,343</u>
Segment liabilities	94,223	1,700	2,130		98,053
Unallocated corporate liabilities					1,344
					<u>99,397</u>
Capital expenditure	13,523	578	—		14,101
Depreciation charge	5,605	584	6		6,195
Amortisation charge	112	—	—		112

Notes to the Accounts

2 TURNOVER AND REVENUES (continued)

Primary report format - business segment (continued)

	Paints and blended solvents 2003 HK\$'000	Plastic colorants 2003 HK\$'000	Chemical materials 2003 HK\$'000	Elimination 2003 HK\$'000	Group total 2003 HK\$'000
Segment revenues					
Turnover					
External revenues	235,488	11,344	18,957	—	265,789
Inter segment revenues	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		<u>5,232</u>

2 TURNOVER AND REVENUES *(continued)***Secondary reporting format - geographical segment**

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 PRC.

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2004	2003
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of fixed assets	83	129
Net exchange gain	92	17
	<u> </u>	<u> </u>
Charging		
Auditors' remuneration	721	825
Amortisation of intangible assets	112	—
Bad debts written off	44	796
Cost of inventories sold	206,738	184,116
Depreciation		
- owned fixed assets	4,615	4,586
- leased fixed assets	1,580	646
Operating leases in respect of land and buildings	1,347	769
Provision for doubtful debts	1,139	1,260
Research and development costs <i>(see note below)</i>	1,494	1,780
Staff costs (including directors' emoluments) <i>(Note 9)</i>	37,522	33,580
	<u> </u>	<u> </u>

Note: Included in the research and development costs were staff costs of HK\$1,400,000 (2003: HK\$1,229,000) which had also been included in staff costs disclosed above.

Notes to the Accounts

4 FINANCE COSTS

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	984	1,481
Interest element of finance leases	405	213
Interest on trust receipt loans	1,139	1,113
	<u>2,528</u>	<u>2,807</u>

5 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
- Hong Kong profits tax (<i>Note (a)</i>)	801	260
- PRC income tax (<i>Note (b)</i>)	—	470
- Over provisions for PRC income tax in prior year	(285)	—
- Under provisions in prior year	68	—
	<u>584</u>	<u>730</u>
Taxation charges	<u>584</u>	<u>730</u>

(a) Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year.

5 TAXATION (continued)

- (b) PRC income tax has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the People's Republic of China (the "PRC"). In accordance with the relevant tax laws applicable, the Company's subsidiary operating in the PRC is entitled to full exemption from income tax for two years from 1st January 1997, followed by a 50% reduction of the PRC income tax for the three years ended 31st December 2001. The reduced income tax rate applicable to that subsidiary is 12%. Commencing 1st January 2002, the PRC income tax has been provided at the rate of 24% on the estimated assessable profit.
- (c) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>15,723</u>	<u>18,851</u>
Calculated at a taxation rate of 17.5% (2003: 16%)	2,752	3,016
Effect of different taxation rates in other countries	—	146
Timing differences not recognised	(9)	(27)
Under/(over) provision for profits tax	108	(68)
Income not subject to taxation	(3,040)	(2,929)
Expenses not deductible for taxation purpose	787	611
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	—	(2)
Others	<u>(14)</u>	<u>(17)</u>
Taxation charge	<u><u>584</u></u>	<u><u>730</u></u>

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$18,645,000 (2003: loss of HK\$812,000), including dividends received from subsidiaries of HK\$20,000,000 (2003: Nil).

Notes to the Accounts

7 DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim, paid, of HK\$0.005 (2003: Nil) per ordinary share	2,080	—
Final, proposed, of HK\$0.005 (2003: Nil) per ordinary share	2,080	—
	<u>4,160</u>	<u>—</u>

At a meeting held on 26th July 2004, the Directors proposed a final dividend of HK\$0.005 per ordinary share. The Directors have also recommended that final dividend be paid in cash, with shareholders being given the option to receive scrip in lieu of cash in respect of part or all such dividend. The proposed option to elect for scrip in lieu of cash dividend is conditional upon The Stock Exchange of Hong Kong Limited, granting listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend option. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

8 EARNINGS PER SHARE

The calculation of basis earnings per share is based on the Group's profit attributable to shareholders of HK\$15,029,000 (2003: HK\$17,503,000) and the weighted average number of 409,884,932 (2003: 369,938,630) shares in issued during the year.

Diluted earnings per share for the year ended 31st March 2004 and 2003 is not presented as the exercise of the outstanding options and warrants of the Company would have an anti-dilutive effect.

9 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Wages and salaries	37,052	33,156
Pension cost - defined contribution plans (<i>see note below</i>)	470	424
	<u>37,522</u>	<u>33,580</u>

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Gross scheme contributions	470	480
Less: Forfeited contributions utilised to offset contributions for the year	—	(56)
Net scheme contributions	<u>470</u>	<u>424</u>

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	240	100
Salaries, allowances and benefits in kind	3,482	2,866
Retirement benefit scheme contributions	52	82
Other emoluments	—	245
	<u>3,774</u>	<u>3,293</u>

Directors' fees disclosed above include HK\$240,000 (2003: HK\$100,000) paid to the independent non-executive Directors.

None of the Directors of the Company waived any emoluments paid by the Group during the year (2003: Nil).

The emoluments of the Directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands		
Nil to HK\$1,000,000	5	5
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	1	—
	<u>6</u>	<u>6</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 (2003: two) Directors whose emoluments are reflected to the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—
Salaries, allowances and benefits in kind	2,610	3,377
Retirement benefit scheme contributions	49	86
	<u>2,659</u>	<u>3,463</u>

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
Nil to HK\$1,000,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	—	1
	<u>3</u>	<u>3</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 2003	26,017	285	17,098	21,895	9,425	74,720
Additions	1,733	5,570	4,157	1,792	849	14,101
Disposals	—	—	—	—	(450)	(450)
Transfer	181	(285)	—	104	—	—
At 31st March 2004	27,931	5,570	21,255	23,791	9,824	88,371
Accumulated depreciation						
At 1st April 2003	1,106	—	7,612	15,652	4,829	29,199
Charge for the year	561	—	1,786	2,446	1,402	6,195
Disposals	—	—	—	—	(450)	(450)
At 31st March 2004	1,667	—	9,398	18,098	5,781	34,944
Net book value						
At 31st March 2004	26,264	5,570	11,857	5,693	4,043	53,427
At 31st March 2003	24,911	285	9,486	6,243	4,596	45,521
Net book value of leased assets:						
At 31st March 2004	—	—	2,982	497	1,742	5,221
At 31st March 2003	—	—	4,002	534	2,290	6,826

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	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong, held on:		
Leases of between 10 to 50 years	7,140	5,768
Outside Hong Kong, held on:		
Leases of less than 10 years	3,664	3,739
Leases of between 10 to 50 years	15,460	15,404
	<u>26,264</u>	<u>24,911</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\$6,514,000 (2003: HK\$5,295,000) have been pledged for part of the securities for banking facilities granted to the Group (note 29).

12 INTANGIBLE ASSETS

	Group		
	Goodwill on	Development	Total
	acquisitions	costs	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31st March 2004			
Opening net book amount	—	—	—
Development costs recognised as an asset	—	259	259
Acquisition of minority interests of subsidiaries	5,168	—	5,168
	<u>5,168</u>	<u>259</u>	<u>5,427</u>
Closing net book amount	<u>5,168</u>	<u>259</u>	<u>5,427</u>
At 31st March 2004			
Cost	5,280	259	5,539
Amortisation for the year	(112)	—	(112)
	<u>5,168</u>	<u>259</u>	<u>5,427</u>
Net book amount	<u>5,168</u>	<u>259</u>	<u>5,427</u>

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments at costs (<i>note (a)</i>)	57,942	57,942
Due from subsidiaries (<i>note (b)</i>)	36,157	13,628
	94,099	71,570

(a) The following is a list of the principal subsidiaries at 31st March 2004:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered and fully paid share capital	Attributable equity interest held
<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	The PRC	Manufacture of paints and blended solvents in the PRC	Fully paid registered capital of HK\$26,000,000	100% <i>Note (i)</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 Colours Limited	Hong Kong	Manufacture and trading of plastic colorants in Hong Kong	100,000 ordinary shares of HK\$1 each	100% <i>Note (ii)</i>

Notes to the Accounts

13 INVESTMENTS IN SUBSIDIARIES (continued)

(a) The following is a list of the principal subsidiaries at 31st March 2004:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/registered and fully paid share capital	Attributable equity interest held
Wing Shing Chemical Macao Commercial Offshore Company Limited	Macau	Trading of paints and blended solvents in Macau	Issued capital of MOP 500,000	100%
Borex Limited (Formerly known as Dragon Regal International Limited)	Hong Kong	Inactive	2 ordinary shares of HK\$1 each	100% <i>Note (iii)</i>

- (i) Dongguan Tung Shing Fat Chemical Company Limited (“TSF”) was established under a co-operative joint venture agreement entered into between Wing Shing Chemical Company Limited, a subsidiary of the Company (“WSCCL”), 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 earnings. 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. On 16th October 2003, WSCCL also entered into an agreement with the PRC party whereby WSCCL agreed to acquire from the PRC party its entire interests in TSF. The consideration for the acquisition is HK\$8,000,000. Upon completion of the acquisition, TSF has become an indirectly wholly-owned subsidiary of the Company.
- (ii) On 8th October 2003, Wing Shing Group Limited, a directly wholly-owned subsidiary of the Company, acquired from Mr. Lok Wai Man, Joe his 30% interests in Wing Shing Colours Limited, a subsidiary of the Company in which the Company holds an indirect 70% interests. The consideration for the acquisition was HK\$979,190. Upon completion of the acquisition, Wing Shing Colours Limited had become an indirectly wholly-owned subsidiary of the Company.

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

(iii) By an ordinary resolution passed at the extraordinary general meeting held on 3rd June 2004, Borex Limited's authorised share capital was increased to HK\$1,300,000 by the creation of an additional 1,290,000 ordinary shares of HK\$1 each, ranking pari passu with the existing shares of Borex Limited. On the same day, 1,039,998 shares and 260,000 shares of HK\$1 each were issued at par as fully paid to WSCCL and Grandtai Limited respectively. Upon completion of the issue, the Company holds indirectly 80% interest in Borex Limited.

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

14 INTERESTS IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>150</u>	<u>150</u>
Unlisted shares, at cost	<u>150</u>	<u>150</u>

Particulars of the associated company at 31st March 2004 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activity</u>	<u>Particulars of issued share held</u>	<u>Interest held</u>
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 current and prior years.

15 OTHER INVESTMENT

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other investment, unlisted	<u>400</u>	<u>—</u>

Notes to the Accounts

16 INVENTORIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	17,116	15,800
Work in progress	2,698	2,222
Finished goods	5,043	5,859
	24,857	23,881
	24,857	23,881

Note:

As at 31st March 2004 and 31st March 2003, all inventories were stated at cost.

17 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	72,035	65,825	—	—
Prepayments and deposits	5,293	3,224	35	—
Other receivables	11,276	2,297	—	—
	88,604	71,346	35	—
	88,604	71,346	35	—

Note:

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-30 days	25,810	27,850
31-60 days	18,786	10,477
61-90 days	10,844	11,091
91-120 days	7,379	6,659
Over 120 days	9,216	9,748
	72,035	65,825
	72,035	65,825

18 BANK BALANCES AND CASH

Bank balances and cash of approximately HK\$3,388,000 (2003: HK\$2,685,000) 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.

19 DUE TO SHAREHOLDERS

The amounts due are interest-free, unsecured and have no fixed terms of repayment.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Trade payables (<i>note</i>)	30,135	22,411	—	—
Other payables and accruals	5,927	5,913	116	246
	<u>36,062</u>	<u>28,324</u>	<u>116</u>	<u>246</u>

Note:

The ageing analysis of the trade payables is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0-30 days	10,637	10,612
31-60 days	8,951	5,464
61-90 days	3,635	3,833
Over 90 days	6,912	2,502
	<u>30,135</u>	<u>22,411</u>

Notes to the Accounts

21 LONG-TERM LIABILITIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans		
Secured (<i>note (a)</i>)	19,251	15,898
Unsecured (<i>note (a)</i>)	—	305
Obligations under finance leases (<i>note (b)</i>)	2,826	5,602
	<u>22,077</u>	<u>21,805</u>
Less: Current portion of long-term liabilities		
Bank loans, secured	(11,924)	(11,002)
Bank loan, unsecured	—	(305)
Obligations under finance leases	(2,318)	(2,847)
	<u>(14,242)</u>	<u>(14,154)</u>
	<u>7,835</u>	<u>7,651</u>
The analysis of the above is as follows:		
Wholly repayable within five years	<u>22,077</u>	<u>21,805</u>

(a) At 31st March 2004, the Group's bank loans are repayable as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	11,924	11,307
In the second year	5,406	2,510
In the third to fifth year	1,921	2,386
	<u>19,251</u>	<u>16,203</u>

The long-term bank loans bear interest at prevailing market rates. Details of securities for banking facilities are set out in note 29 below.

21 LONG-TERM LIABILITIES *(continued)*

(b) At 31st March 2004, the Group's finance leases liabilities were repayable as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,495	3,258
In the second year	534	2,423
In the third to fifth year	—	492
	<hr/>	<hr/>
	3,029	6,173
Future finance charges on finance leases	(203)	(571)
	<hr/>	<hr/>
	2,826	5,602
	<hr/> <hr/>	<hr/> <hr/>

The present value of finance lease liabilities is as follows:

Within one year	2,318	2,847
In the second year	508	2,286
In the third to fifth year	—	469
	<hr/>	<hr/>
	2,826	5,602
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

22 SHARE CAPITAL

	Authorised ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31st March 2004	2,000,000,000	20,000
At incorporation, 30th April 2002	1,000,000	100
Sub-division of each authorised share of HK\$0.10 into 10 shares of HK\$0.01 each	9,000,000	—
Increase in authorised share capital	1,990,000,000	19,900
At 31st March 2003	2,000,000,000	20,000
	Issued and fully paid ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Issued during the period ended 31st March 2003 and at 1st April 2003	408,000,000	4,080
Issue of shares upon exercise of share options (<i>Note (b)</i>)	8,000,000	80
At 31st March 2004	416,000,000	4,160
<p>(a) 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.</p> <p>(b) 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 (excluding shares issued on exercise of options under the share option scheme).</p> <p>Movements in the number of share options outstanding during the year are as follows:</p>		
	Number of options	
	2004	2003
Granted (<i>Note (i)</i>)	17,500,000	—
Exercised (<i>Note (ii)</i>)	(8,000,000)	—
At the end of the year (<i>Note (iii)</i>)	9,500,000	—
<p>(i) Share options were granted on 24th November 2003 at an exercise price of HK\$0.301 per share and expire on 23rd November 2008.</p> <p>(ii) Options were exercised by employees on 5th January 2004 for 8,000,000 new shares of the Company at HK\$0.301 each, totalling HK\$2,408,000. The difference between the nominal value of shares issued and the proceeds from exercise of the options, totalling HK\$2,328,000, is recognised as share premium.</p>		
		<i>HK\$</i>
Fair value of shares issued on the exercise date of 5th January 2004		0.355

22 SHARE CAPITAL (continued)

(iii) Share options outstanding at the end of the year have the following terms:

	Exercise price	2004	2003	2004	2003
		Number of options		Vested percentage	
Continuous contract employees					
23rd November 2008	HK\$0.301	<u>9,500,000</u>	<u>—</u>	<u>46%</u>	<u>—</u>

No share options were cancelled during the year (2003: Nil).

23 RESERVES(a) **Group**

	Group			
	Share premium	Merger reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note)		
At 1st April 2002	—	3,248	32,668	35,916
Issuance of shares	29,988	—	—	29,988
Share issuance expenses	(7,486)	—	—	(7,486)
Capitalisation issue	(3,463)	—	—	(3,463)
Profit for the year	—	—	17,503	17,503
At 31st March 2003	<u>19,039</u>	<u>3,248</u>	<u>50,171</u>	<u>72,458</u>
At 1st April 2003	19,039	3,248	50,171	72,458
Exercise of share options (note 22(b)(ii))	2,328	—	—	2,328
Profit for the year	—	—	15,029	15,029
Dividends	—	—	(2,080)	(2,080)
At 31st March 2004	<u>21,367</u>	<u>3,248</u>	<u>63,120</u>	<u>87,735</u>
Representing:				
2004 Final dividend proposed			2,080	
Others			61,040	
Retained earnings as at 31st March 2004			<u>63,120</u>	

Note:

Merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of shares issued by WSGL, the then holding company of the subsidiaries in exchange thereof.

Notes to the Accounts

23 RESERVES (continued)

(b) Company

	Company		
	Share premium	(Accumulated losses)/ retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2002	—	—	—
Amount arising from Reorganisation	57,936	—	57,936
Issuance of shares	29,988	—	29,988
Share issuance expenses	(7,486)	—	(7,486)
Capitalisation issue	(3,463)	—	(3,463)
Loss for the year	—	(812)	(812)
	<hr/>	<hr/>	<hr/>
At 31st March 2003	76,975	(812)	76,163
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1st April 2003	76,975	(812)	76,163
Exercise of share options	2,328	—	2,328
Profit for the year	—	18,645	18,645
Dividends	—	(2,080)	(2,080)
	<hr/>	<hr/>	<hr/>
At 31st March 2004	79,303	15,753	95,056
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Representing:			
2004 Final dividend proposed		2,080	
Others		13,673	
		<hr/>	
Retained earnings as at 31st March 2004		15,753	
		<hr/> <hr/>	

24 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

24 DEFERRED TAXATION *(continued)*

The analysis of deferred tax liabilities is as follows:

	Accelerated tax depreciation		Others		Total	
	2004	2003	2004	2003	2004	2003
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1st April 2003 and 31st March 2004	<u>449</u>	<u>449</u>	<u>(11)</u>	<u>(11)</u>	<u>438</u>	<u>438</u>

25 CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash inflow from operating activities**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating profit	18,251	21,658
Interest received	(128)	(223)
Depreciation	6,195	5,232
Amortisation of intangible assets	112	—
Gain on disposal of fixed assets	(83)	(129)
Provision for doubtful debts	1,139	1,260
	<hr/>	<hr/>
Operating profit before working capital changes	25,486	27,798
Increase in inventories	(976)	(4,055)
Increase in trade receivables	(7,349)	(22,400)
Increase in other receivables, deposits and prepayments	(11,048)	(750)
Increase in trade payables	7,724	4,021
Increase/(decrease) in other payables and accruals	14	(918)
Decrease/(increase) in due from shareholders	351	(202)
Increase in due to shareholders	327	—
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>14,529</u>	<u>3,494</u>

Notes to the Accounts

25 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium <i>HK\$ '000</i>	Minority interests <i>HK\$ '000</i>	Bank loans and obligations under finance leases <i>HK\$ '000</i>	Pledged bank deposits <i>HK\$ '000</i>
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
	<u>26,367</u>	<u>5,139</u>	<u>52,339</u>	<u>9,049</u>
At 31st March 2003	26,367	5,139	52,339	9,049
At 1st April 2003	26,367	5,139	52,339	9,049
Minority interests' share of profits	—	110	—	—
Acquisition of minority interests in subsidiaries by the Group	—	(3,698)	—	—
Cash inflows/(outflows) from financing	2,408	(500)	4,688	(9,049)
	<u>28,775</u>	<u>1,051</u>	<u>57,027</u>	<u>—</u>

26 MINORITY INTERESTS

	Group	
	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Equity interests	<u>1,051</u>	<u>5,139</u>

27 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st March 2004 and 31st March 2003.

Contingent liabilities of the Company are as follows:

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for bank loans and overdrafts of subsidiaries	<u>132,960</u>	<u>117,000</u>

28 COMMITMENTS**(a) Capital expenditure commitments**

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	<u>3,849</u>	<u>918</u>

(b) Commitments under operating leases

At 31st March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	744	698
Later than one year but not later than five years	1,577	1,538
Later than five years	<u>2,979</u>	<u>3,219</u>
	<u>5,300</u>	<u>5,455</u>

Notes to the Accounts

29 BANKING FACILITIES

As at 31st March 2004, the Group's banking facilities totalling approximately HK\$132,960,000 (2003: HK\$117,000,000) were secured by the following:

- (a) first legal charges over leasehold land and buildings with net book value of HK\$6,514,000 at 31st March 2004 (2003: HK\$5,295,000); and
- (b) corporate guarantees issued by the Company.

30 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 are as follows:

	<i>Note</i>	Group 2004 HK\$'000	2003 HK\$'000
Rental expenses for a directors' quarter paid to Luen Yat Enterprises Company Limited ("Luen Yat")	(a)	(766)	(710)
Purchase of a property from Mr. Poon Sau Tin, a substantial shareholder of the Company, and Mr. Poon Sum, a Director and substantial shareholder of the Company	(b)	(1,500)	—
Rental expenses charged by Mr. Poon Sau Tin and Mr. Poon Sum	(c)	(384)	(288)
Interest received from Luen Yat	(d)	—	130
Purchase of a motor vehicle from Mr. Poon Sau Tin	(e)	(150)	—

- (a) Mr. Poon Sau Tin and Mr. Poon Sum have beneficial interests in Luen Yat. Rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreements.
- (b) The property is used by the Group as warehouse for storage purposes. The consideration was arrived at after arm's length negotiations and was based on the value of the property as at 23rd July 2003 as valued by C. L. Tsang Surveyors Limited, an independent property valuer appointed by the Company, which is not associated with any Director, chief executive and substantial shareholder of the Company or any of its subsidiaries or an associate of any of them.
- (c) Rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreement.
- (d) Interest income was charged with reference to prevailing market interest rates.
- (e) The consideration for the purchase of a motor vehicle was determined and agreed between the parties.

31 SUBSEQUENT EVENTS

On 7th May 2004, WSCCL, an indirectly wholly-owned subsidiary of the Company, signed and accepted a facility letter given by certain banks whereby subject to the terms of the facility letter, the lender has agreed to make available to the Group certain banking facilities in the aggregate amount of HK\$68,000,000. The letter of undertaking was entered into by the Company pursuant to the facility letter whereby certain obligations were imposed on the Company relating to specific performance of Mr. Poon Sum (an executive Director and chairman of the Company) and Mr. Poon Sau Tin, the controlling shareholders of the Company who in aggregate beneficially hold approximately 66.88% of the issued share capital of the Company, in relation to the ownership and control of the Company and/or the management of the Group, the breach of which may affect the operations of the Company.

32 APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 26th July 2004.