

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Group continued in the trading of polyurethane materials.

## 2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

In the current year, the Company adopted the following revised SSAP issued by the Hong Kong Society of Accountants (“HKSA”) which is effective for the accounting period commencing on or after 1 January 2003:

SSAP 12 (revised) : Income taxes

The principle effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous year, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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 the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Group’s financial statements in prior years and comparative figures have not been restated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

### (c) Subsidiaries

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

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group.

Investment in subsidiaries in the Company's balance sheet is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company.

### (d) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the assets recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the consolidated income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the consolidated income statement in the period in which it arises.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the reducing balance basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	: 20% – 30%
Furniture, fixtures and equipment	: 20% – 30%
Motor vehicles	: 30%

The gain or loss on disposal or retirement of a fixed asset recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### (f) Leased Assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Current Assets and Current Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

### (i) Cash Equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### (j) Borrowing Costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the year in which the costs are incurred.

### (k) Foreign Currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the balance sheet items of overseas subsidiaries, and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income and expense items are translated at the average rate for that period. The resulting translation differences are dealt with in the exchange reserve.

### (l) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Contingent Liabilities and Contingent Assets

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (n) Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### (o) Related Party Transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (p) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Retirement Benefits Schemes

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.
- (iii) The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) 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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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 bases 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 difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than 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 investment in subsidiaries and associates, except where the Company 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 profits 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 year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts.
- (b) PU foam and related products segment comprises the manufacture and sales of PU foam and PU foam products, molded and unmolded, and was discontinued in prior year.



# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 4. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed prices.

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	(Discontinued operation) PU foam and related							
	PU materials		products		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	453,344	418,688	-	102,169	-	-	453,344	520,857
Intersegment sales	-	41,155	-	-	-	(41,155)	-	-
Total revenue	453,344	459,843	-	102,169	-	(41,155)	453,344	520,857
Segment results	17,772	8,843	-	3,346	-	-	17,772	12,189
Interest income							45	157
Unallocated expenses							(2,335)	(3,453)
Profit from operating activities							15,482	8,893
Profit from disposal of subsidiaries							-	1,973
Profit before finance costs and tax							15,482	10,866
Finance costs							(92)	(138)
Profit before tax							15,390	10,728
Tax							(2,528)	(2,179)
Net profit from ordinary activities attributable to shareholders							12,862	8,549

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

#### Group

	PU materials		(Discontinued operation) PU foam and related products		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	238,360	241,484	–	–	–	–	238,360	241,484
Unallocated assets	21,222	364	–	–	–	–	21,222	364
Total assets							259,582	241,848
Segment liabilities	83,546	131,689	–	–	–	–	83,546	131,689
Unallocated liabilities	13,812	217	–	–	–	–	13,812	217
Total liabilities							97,358	131,906
Other segment information:								
Depreciation	178	295	–	1,494	–	–	178	1,789
Other non-cash expenses	9	6	–	–	–	–	9	6
Capital expenditure	21	895	–	5,785	–	–	21	6,680

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 4. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

#### Group

	PRC		Hong Kong		Others		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:								
Sales to external customers	<b>357,238</b>	402,897	<b>96,106</b>	101,473	–	16,487	<b>453,344</b>	520,857
Segment results*	<b>15,584</b>	6,722	<b>2,188</b>	4,554	–	913	<b>17,772</b>	12,189
Other segment information:								
Segment assets	<b>101,508</b>	144,203	<b>158,074</b>	96,379	–	1,266	<b>259,582</b>	241,848
Capital expenditure	–	4,789	<b>21</b>	1,891	–	–	<b>21</b>	6,680

\* Disclosed pursuant to the requirements of the Listing Rules.

# NOTES TO FINANCIAL STATEMENTS

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## 5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
<i>Continuing:</i>		
Sale of goods	<b>453,344</b>	418,688
<i>Discontinued:</i>		
Sale of goods	–	102,169
	<b>453,344</b>	520,857
<b>Other revenue</b>		
<i>Continuing:</i>		
Bank interest income	<b>45</b>	153
Others	<b>1,839</b>	230
	<b>1,884</b>	383
<i>Discontinued:</i>		
Bank interest income	–	4
Others	–	1,070
	–	1,074
	<b>1,884</b>	1,457
	<b>455,228</b>	522,314

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	419,879	494,549
Auditors' remuneration	400	366
Depreciation	642	1,789
Minimum lease payments under operating leases in respect of land and buildings	1,802	1,227
Exchange losses, net	5	184
Loss on disposal of fixed assets	9	6
Staff costs (including Directors' remuneration – Note 7):		
Salaries and wages	4,234	5,823
Mandatory provident fund contributions	113	186

The cost of inventories sold does not include any costs which are also included in the respective amounts disclosed separately above (2003: HK\$4,663,000 relating to staff costs, write off of inventories and depreciation).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 7. DIRECTORS' REMUNERATION

Details of remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees	<b>180</b>	20
Other emoluments		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>900</b>	1,100
Mandatory provident fund scheme contributions	<b>12</b>	26
	<b>912</b>	1,126
	<b>1,092</b>	1,146

Included in the directors' remuneration were fees of HK\$120,000 (2003: HK\$20,000) paid to independent non-executive directors and HK\$60,000 paid to an executive director during the year.

The remuneration of all of the directors fell within the nil to HK\$1,000,000 band for the years ended 31 March 2003 and 2004.

During the year, bonuses of HK\$120,000 (2003: Nil) were paid or payable to the directors. No director waived or agreed to waive any remuneration during the year (2003: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2003: Nil).

During the year, a total of 8,000,000 (2003: 32,000,000 as adjusted for the subdivision of the Company's shares) share options to subscribe for ordinary shares of the Company were granted to a director under the Company's share option scheme. The details of these benefits in kind are disclosed in Note 26 to financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included one (2003: three) director, details of whose remuneration are set out in Note 7 above. The remuneration of the remaining four (2003: two) non-director, highest paid individuals, which each fell within the nil to HK\$1,000,000 band, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,449	1,224
Mandatory provident fund contributions	52	29
	<b>2,501</b>	1,253

During the year, bonuses of HK\$120,000 (2003: Nil) were paid to one of the five highest paid individuals of the Group. No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2003: Nil).

During the year, no (2003: 60,000,000 as adjusted for the subdivision of the Company's shares) share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme.

## 9. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on trust receipt loans wholly repayable within five years	42	54
Finance charges on obligations under finance leases	50	84
	<b>92</b>	138

# NOTES TO FINANCIAL STATEMENTS

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## 10. TAXATION

(a) Taxation in the consolidated income statement represents:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current year provision:		
Hong Kong	<b>129</b>	–
Overseas	<b>2,399</b>	2,602
Overprovision in prior years	–	(423)
<b>Tax charge for the year</b>	<b>2,528</b>	2,179

Hong Kong profits tax has been calculated at 17.5% (2003: Nil) of the assessable profits for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>15,390</b>	10,728
Tax at the domestic income tax rate of 17.5% (2003: 16%)	<b>34</b>	3
Macau tax	<b>2,431</b>	1,713
Tax effect of expenses that are not deductible in determining taxable profit	<b>1,537</b>	463
Tax effect of income that are not taxable in determining taxable profit	<b>(1,474)</b>	–
<b>Tax charge for the year</b>	<b>2,528</b>	2,179



# NOTES TO FINANCIAL STATEMENTS

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## 11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 March 2004 was HK\$1,552,000 (2003: HK\$379,000).

## 12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2004 (2003: Nil).

## 13. EARNINGS PER SHARE

	2004 HK\$'000	2003 HK\$'000
Profit attributable to shareholders	12,862	8,549
	No. of shares in thousand	No. of shares in thousand
Weighted average number of ordinary shares in issue	1,084,172	1,000,000
Incremental shares from assumed exercise of share options	56,046	–
Diluted weighted average number of shares	1,140,218	1,000,000
Basic earnings per share	HK1.2 cent	HK0.9 cent
Diluted earning per share	HK1.1 cent	N/A

Diluted earnings per share amount for the year ended 31 March 2003 has not been presented as the effect of the assumed conversion of the Company's outstanding share options would be anti-dilutive.

# NOTES TO FINANCIAL STATEMENTS

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## 14. FIXED ASSETS

Group	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost:</b>			
At 1 April 2003	1,343	1,417	2,760
Additions	629	–	629
Disposals	(540)	(383)	(923)
At 31 March 2004	1,432	1,034	2,466
<b>Accumulated depreciation:</b>			
At 1 April 2003	766	490	1,256
Charges during the year	418	224	642
Written back on disposals	(517)	(78)	(595)
At 31 March 2004	667	636	1,303
<b>Net book value:</b>			
At 31 March 2004	765	398	1,163
At 31 March 2003	577	927	1,504

The net book values of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2004, amounted to HK\$398,000 (2003: HK\$713,000).

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	54,245	54,245
Due from subsidiaries	56,843	36,822
	111,088	91,067

The amounts due from subsidiaries are unsecured, interest-free and are not repayable in the next twelve months.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries of the Company as at 31 March 2004 were as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Market Reach Group Limited	British Virgin Island ("BVI")	Ordinary US\$10,000	100	–	Investment holding
Wah Tat Industrial Limited	BVI	Ordinary US\$10	–	100	Trading of polyurethane materials
Wah Tat Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred (Note) HK\$1,480,000	–	100	Trading of polyurethane materials
Wah Tat Industrial Trading Limited	BVI	Ordinary US\$10	–	100	Trading of polyurethane materials
Kurow Agents Limited	BVI	Ordinary US\$10	–	100	Provision of transportation services in the PRC
Revolving Maze Trading Limited	BVI	Ordinary US\$10	–	100	Provision of marketing and technical support services in the PRC
Harvest Star Investment Limited	BVI	Ordinary US\$1	100	–	Investment holding
Prime Rose Limited	BVI	Ordinary US\$10	–	100	Trading of polyurethane materials
Minglun Industrial Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of administrative services to fellow subsidiaries in Hong Kong

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 15. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Minglun Industrial (H.K.) Limited	Hong Kong	Ordinary HK\$2	–	100	Trading of polyurethane materials
Wah Tat PU Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK\$10,000	–	100	Trading of polyurethane materials
Panaview Trading Limited	BVI	Ordinary US\$1	–	100	General trading
Panaview (Macao Commercial Offshore) Company Limited	Macao	Ordinary HK\$10,000	–	100	Dormant

*Note:* The non-voting deferred shares 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 (other than one half of the balance of such assets after the sum of HK\$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company in such winding-up).

## 16. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Goods-in-transit	18,043	–
Finished goods	12,848	8,526
	<b>30,891</b>	8,526

No inventories were stated at net realisable value at 31 March 2004 (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 17. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the original invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

	Group	
	2004 HK\$'000	2003 HK\$'000
Trade receivables	153,220	157,677

An aged analysis of the trade receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	129,810	43,244
31 days to 90 days	19,423	64,026
91 days to 180 days	3,987	50,407
	153,220	157,677

## 18. AMOUNT DUE BY A RELATED COMPANY

Name of company	Highest balance during year	Group	
		2004 HK\$'000	2003 HK\$'000
Luen Tai Industrial (H.K.) Limited	18,616	–	18,616

The amount due by a related company was unsecured, interest-free and settled during the year.

## 19. PLEDGED BANK DEPOSITS

At 31 March 2004, the Group had time deposits, in an amount of HK\$8,207,000 (2003: HK\$5,178,000), pledged for general banking facilities granted from banks to the Group (Note 21).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 19. PLEDGED BANK DEPOSITS (Continued)

At 31 March 2004, the Group did not have any marginal deposits (2003: HK\$18,714,000) pledged for documentary credits granted from a bank to the Group (Note 21).

## 20. TRADE AND BILLS PAYABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	39,613	45,582
Bills payable	27,295	53,892
	<b>66,908</b>	99,474

An aged analysis of the trade and bills payables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 30 days	12,453	55,018
31 days to 90 days	47,634	44,456
Over 90 days	6,821	–
	<b>66,908</b>	99,474

## 21. BANKING FACILITIES

At 31 March 2004, the Group's banking facilities were secured by:

- (i) unlimited corporate guarantees executed by the Company;
- (ii) unlimited corporate guarantees executed by certain subsidiaries of the Company;
- (iii) the pledge of the Group's time deposits of HK\$8,207,000 (2003: HK\$5,178,000); and

At 31 March 2004, the Group did not have any marginal deposits (2003: HK\$18,714,000) pledged for documentary credits granted from a bank to the Group.

Of the trade finance facilities of HK\$41,500,000 (2003: HK\$42,000,000) at 31 March 2004, the undrawn facilities amounted to HK\$14,205,000 (2003: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 22. AMOUNT DUE TO HOLDING COMPANY

The amount due to holding company is unsecured, interest-free and repayable on demand.

## 23. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles under finance leases with remaining lease terms of three years.

At 31 March 2004, the total future minimum lease payments under the finance leases and their present values, were as follows:

### Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK'000
Amounts payable:				
Within one year	224	306	193	250
In the second year	141	224	136	186
In the third to fifth years, inclusive	12	153	13	149
Total minimum finance lease payments	377	683	342	585
Future finance charges	(35)	(98)		
Total net finance lease payables	342	585		
Portion classified as current liabilities	(193)	(250)		
Long term portion	149	335		

## 24. DEFERRED TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of year	83	364
Attributable to disposal of subsidiaries	–	(281)
At end of year	83	83

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 24. DEFERRED TAX (Continued)

The provision for deferred tax of the Group is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 March 2004 (2003: Nil).

## 25. SHARE CAPITAL

	2004		2003	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each				
At beginning of year	2,000,000	200,000	2,000,000	200,000
Ordinary shares of HK\$0.02 each				
Effect of decrease in nominal value of shares from HK\$0.10 each to HK\$0.02 each (Note a)	8,000,000	-	-	-
At end of year	10,000,000	200,000	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each				
At beginning of year	200,000	20,000	200,000	20,000
Ordinary shares of HK\$0.02 each				
Effect of decrease in nominal value of shares from HK\$0.10 each to HK\$0.02 each (Note a)	800,000	-	-	-
Issue of new shares (Note b)	170,000	3,400	-	-
Share options exercised (Note 26)	27,000	540	-	-
At end of year	1,197,000	23,940	200,000	20,000



# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 25. SHARE CAPITAL (Continued)

Notes:

- (a) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 16 June 2003, the par value of each issued share and unissued share was adjusted from HK\$0.10 to HK\$0.02 by subdividing each share into five subdivided shares with effect from 17 June 2003. Following the share subdivision becoming effective on 17 June 2003, the authorised share capital of the Company is HK\$200,000,000 divided into 10,000,000,000 shares of HK\$0.02 each, of which 1,000,000,000 shares were in issue and fully paid. The subdivided shares rank pari passu in all respects with each other and the share subdivision did not result in any change in the relative rights of the shareholders.
- (b) Details of issue of new shares:

	Number of shares '000	Issued price per share \$	Aggregate amount received \$'000
16 October 2003	170,000	0.21	35,700

The new ordinary shares rank pari passu in all respect with existing shares.

## 26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 26. SHARE OPTION SCHEME (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

The following share options were outstanding under the Scheme during the year ended 31 March 2004:

Name or category of participant	At 1 April 2003*	Number of share options			At 31 March 2004	Date of grant of share options** (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options *** HK\$	Price of Company's share at grant date of share options **** HK\$
		Granted during the year	Exercised during the year	Lapsed during the year					
<b>Directors</b>									
Mr. Zhou Yiming	10,000,000	–	–	–	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Cheung Wai Yin, Wilson	10,000,000	–	–	–	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Lu Zhiming	10,000,000	–	–	–	10,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Wong Hing Tat	1,000,000	–	–	–	1,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Kwong Chi Ho	1,000,000	–	–	–	1,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
Mr. Qin Gang	–	8,000,000	–	–	8,000,000	24/09/2003	24/09/2003 to 23/09/2013	0.228	0.228
<b>Employees other than Directors</b>									
In aggregate	60,000,000	–	(27,000,000)	–	33,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.180	0.180
	<u>92,000,000</u>	<u>8,000,000</u>	<u>(27,000,000)</u>	–	<u>73,000,000</u>				

\* On 16 June 2003, an ordinary resolution was passed to subdivide the issued and unissued share of HK\$0.10 each of the Company into five shares of HK\$0.02 each with effect from 17 June 2003. The number of share options as at 1 April 2003 had been adjusted accordingly.

\*\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\*\* The exercise price of the share options is adjusted for the sub-division of the Company's shares.

\*\*\*\* The price of Company's share at grant date of share option is adjusted for the sub-division of the Company's shares.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 26. SHARE OPTION SCHEME (Continued)

At 31 March 2004, the Company had 73,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the capital structure of the Company as at 31 March 2004, result in the issue of 73,000,000 additional ordinary shares of HK\$0.02 each of the Company and additional share capital of HK\$1,460,000 and share premium of HK\$12,064,000.

## 27. RESERVES

<b>Group</b>	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Retained profits</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 2002	17,647	3,156	60,590	81,393
Net profit for the year	–	–	8,549	8,549
At 31 March 2003 and 1 April 2003	17,647	3,156	69,139	89,942
Issue of shares	32,300	–	–	32,300
Share issue expenses	(1,140)	–	–	(1,140)
Share options exercised	4,320	–	–	4,320
Net profit for the year	–	–	12,862	12,862
At 31 March 2004	53,127	3,156	82,001	138,284

<b>Company</b>	<b>Share premium account</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 April 2002	17,647	54,045	(363)	71,329
Net loss for the year	–	–	(379)	(379)
At 31 March 2003 and 1 April 2003	17,647	54,045	(742)	70,950
Issue of shares	32,300	–	–	32,300
Share issue expenses	(1,140)	–	–	(1,140)
Share options exercised	4,320	–	–	4,320
Net loss for the year	–	–	(1,552)	(1,552)
At 31 March 2004	53,127	54,045	(2,294)	104,878

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 27. RESERVES (Continued)

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

- (b) The Company had distributable reserves of HK\$104,878,000 (2003: HK\$70,950,000) at 31 March 2004, which included the Company's contributed surplus in the amount of HK\$54,045,000 (2003: HK\$54,045,000). Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK\$53,127,000 (2003: HK\$17,647,000) at 31 March 2004, may be distributed in the form of fully paid bonus shares.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 28. DISPOSALS OF SUBSIDIARIES

During the year ended 31 March 2003, the Group disposed of its entire interest in Luen Tai Component Limited and Luen Tai Industrial (H.K.) Limited together with their wholly-owned subsidiaries, all of them being wholly owned subsidiaries of the Group.

Net assets disposed of:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fixed assets	–	11,086
Inventories	–	8,585
Trade and other receivables	–	34,175
Cash and bank balances	–	10,303
Trade and other payables	–	(50,641)
Other long-term payables	–	(281)
Net assets	–	13,227
Gain on disposal of subsidiaries	–	1,973
	–	15,200
Satisfied by:		
Cash consideration received	–	15,200
Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	–	15,200
Cash and bank balances disposed of	–	(10,303)
	–	4,897

The subsidiaries disposed of during the year ended 31 March 2003 contributed HK\$1,180,000 to the Group's net operating cash flows and utilised HK\$888,000 and HK\$143,000 in respect of investing and financing activities respectively.

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between 1 and 2 years.

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,560	633
In the second to fifth years, inclusive	1,950	72
	3,510	705

## 30. COMMITMENTS

Apart from the operating lease commitments detailed in Note 29 to financial statements above, at the balance sheet date, neither the Group, nor the Company had any significant commitments.

## 31. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Name of related parties	Relationship	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Luen Tai Industrial (H.K.) Limited (Note)	Company in which two directors of subsidiaries are also the directors of the company	Sales – receivable	–	9,173
		Rental income – received	–	50
		Transportation income – received	–	103

# NOTES TO FINANCIAL STATEMENTS

31 March 2004 (in HK Dollars)

## 31. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

*Note:* The transactions were based on amounts agreed between the parties concerned.

## 32. POST BALANCE SHEET EVENT

On 22 May 2004, a wholly-owned subsidiary of the Group, Liaohe Energy Limited has entered into an acquisition agreement and purchase agreements with independent third parties to acquire the entire equity interest of Shenyang Xinmin Chemical Factory (the "Acquisition"). The total consideration of the Acquisition will be RMB45 million (equivalent to approximately HK\$42.45 million). Shenyang Xinmin Chemical Factory is principally engaged in the manufacture and sale of petrochemical fuel products, such as paraffin wax, naphtha, mixed propane, propylene and polypropylene in Shenyang, Liaoning Province, the PRC. The Acquisition is expected to be completed upon the approval from the Foreign Trading and Economic Department, the PRC.

## 33. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Chance Profit Investments Limited, a company incorporated in the British Virgin Islands.

## 34. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2004.