NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim accounts are consistent with those used in the annual accounts by the Group for the year ended 31 March 2005 except for the matters as referred to Note 2 below.

All significant inter-company transactions and balances between the group companies have been eliminated on consolidation.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS ("NEW HKFRSs")

The HKICPA has issued a number of New HKFRSs which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the New HKFRSs in the preparation of accounts for the period from 1 April 2005 onward. The comparative figures for the last corresponding period have been restated in accordance with the relevant requirements of the New HKFRSs, if applicable.

The new and revised HKFRSs adopted by the Group during the period has resulted in changes in the Group's accounting policies which will have impacts on the unaudited condensed consolidated interim accounts as follow:

HKAS 1	Presentation of Financial Statements
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS ("NEW HKFRSs") (Continued)

Presentation of Financial Statements (HKAS 1)

With adoption of revised HKAS 1, changes in the presentation of the unaudited condensed consolidated interim accounts are summarized as follows:

(a) minority interests are not an item of income or expense and do not fall into the definition of a liability. Accordingly, minority interests are now shown as a part of equity in the condensed consolidated balance sheet. Prior to the adoption of revised HKAS 1, minority interests were not a part of equity.

(b) movement of minority interests is now shown in the consolidated statement of changes in equity. Prior to the adoption of revised HKAS 1, this movement was not a part of consolidated statement of changes in equity.

(c) allocation of profit/(loss) attributable to minority interests and equity holders of the Company are shown after profit for the period in the condensed consolidated income statement. Prior to the adoption of revised HKAS 1, this is shown separately before arriving at profit attributable to the equity holders.

Effect on employee share option scheme (HKFRS 2, Share-based payment)

Prior to this, the provision of share options to employees and directors did not result in a charge to the income statement. When the employees chose to exercise the options, the nominal amounts of share capital and share premium were credited only to the extent of the option's exercise price receivable.

Following the adoption of revised HKFRS 2, the fair value of share options at grant date is amortized over the relevant vesting periods to the income statement. The corresponding amount is credited to share-based employee compensation reserve account within equity.

The Group has taken the advantage of the transitional provisions in HKFRS 2, under which this new accounting treatment does not apply to the following options granted:

(a) Those options granted to the employees on or before 7 November 2002

(b) Those options granted to the employees after 7 November 2002 but which had vested before 1 April 2005.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS ("NEW HKFRSs") (Continued)

Effect on employee share option scheme (HKFRS 2, Share-based payment) (Continued)

Based on the fair value of the share options calculated by Trinomial Model with reference to similar period of Exchange Fund Bills issued by Hong Kong Monetary Authority, the amount charged to the administrative expenses in the condensed consolidated income statement for the six months ended 30 September 2005 is increased by HK$844,300 (Year ended 31 March 2005 and 31 March 2004: HK$2,668,211 and HK$1,793,790 respectively). The corresponding amounts are credited to share-based employee compensation reserve account.

Effect on Goodwill (HKFRS 3, HKAS 36 and HKAS 38)

Prior to the adoption of revised HKFRS 3, HKAS 36 and HKAS 38, goodwill was amortized on a straight-line basis over a period of not exceeding 20 years and was assessed for impairment at each balance sheet date.

With the adoption of revised HKFRS 3, HKAS 36 and HKAS 38, the Group has ceased the amortization of goodwill from 1 April 2005. The accumulated amortization as at 31 March 2005 has been used to offset the cost of goodwill and from the year ending 31 March 2006 onwards, goodwill will be tested annually for impairment, or when there are indications of impairment.

As HKFRS 3 is not required to be applied retrospectively, no prior period adjustment is required.

Financial Instruments (HKAS 39 "Financial Instruments: Recognition and Measurement")

Prior to the adoption of revised HKAS 39, the Group classified and measured its debts and equity securities in accordance with Statement of Standard Accounting Practice 24 "Investments in securities", under which investments in debts or equity securities were classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" were carried at cost less impairment losses (if any) while "other investments" were measured at fair value, with unrealized gains or losses included in the profit or loss. "Held-to-maturity investments" were carried at amortized cost less impairment losses (if any).

With the adoption of revised HKAS 39, which requires to be applied retrospectively, the Group classifies and measures its debts and equity securities, under which financial assets are now classified as "financial assets at fair value through income statement", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through income statement" are carried at fair value, with the changes in fair values recognized in income statement in the period when incurred.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS ("NEW HKFRSs") (Continued)

Owner-occupied Leasehold Interest in Land (HKAS 17 "Leases")

Prior to the adoption of revised HKAS 17, owner-occupied leasehold land and buildings were included in property, plant and equipment and were stated at cost less accumulated depreciation.

With adoption of revised HKAS 17, to the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases. These are carried at cost and amortized over the lease term on a straight-line basis. The revised HKAS 17 is required to be applied retrospectively and as a result, property, plant and equipment of the Group was reduced by HK$952,000 while the Group's prepaid lease payments were increased by HK$914,000 as at 31 March 2005.

This change in accounting policy has no material effect on the Group's net assets and results for prior and current periods.

The following sets out further information on the changes in accounting policies described above on the results for current and prior periods are as follows:

	Unaudited Six months ended 30 September 2005		Unaudited Six months ended 30 September 2004	
	HKFRS 2	**HKFRS 3**	HKFRS 2	HKFRS 3
	HK$'000	**HK$'000**	HK$'000	HK$'000
Increase/(decrease) in administrative expenses	**844**	**(146)**	2,668	–
Total (decrease)/increase in profit	**(844)**	**146**	(2,668)	–

The cumulative effects of the application of the new HKFRSs on the condensed consolidated balance sheet are as follow:

	Unaudited 30 September 2005		Audited 31 March 2005	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	**HK$'000**	HK$'000	HK$'000
Increase/(decrease) in assets				
Fixed assets	**(904)**		(914)	
Prepaid lease payments	**904**		914	
Increase/(decrease) in liabilities/equity				
Employee share-based compensation reserve		**844**		2,668
Retained earnings				(2,668)

3. SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture and trading of paints, blended solvents, plastic colorants and chemical materials.

(a) Primary report format – business segments

	Unaudited Six months ended 30 September 2005				
	Paints and blended solvents HK$'000	Plastic colorants HK$'000	Chemical materials HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenues					
Turnover					
External Revenue	119,007	4,858	2,770	–	126,635
Inter segment revenue	–	15	406	(421)	–
Other revenues excluding interet income	1,496	235	220	(794)	1,157
	120,503	5,108	3,396	(1,215)	127,792
Segment results	4,650	498	(128)		5,020
Unallocated costs					(1,511)
Interest income					1
Operating profit					3,510
Finance costs					(2,264)
Profit before taxation					1,246

3. SEGMENTAL INFORMATION (Continued)

(a) Primary report format – business segments (Continued)

	Unaudited				
	Six months ended 30 September 2004				
	Paints and blended solvents	Plastic colorants	Chemical materials	Eliminations	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenues					
Turnover					
External Revenue	113,054	5,239	5,268	–	123,561
Inter segment revenue	–	–	54	(54)	–
Other revenues excluding interet income	825	6	2	(326)	507
	113,879	5,245	5,324	(380)	124,068
Segment results	2,661	(614)	(178)		1,869
Unallocated costs					–
Interest income					–
Operating profit					1,869
Finance costs					(1,510)
Profit before taxation					359

(b) Secondary report format – geographical segments

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

4. OPERATING PROFIT

Operating profit is stated after charging the following items:

	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Amortization of intangible assets	**–**	146
Auditors' remuneration	**100**	–
Share-based employee share options	**844**	–
Depreciation	**3,233**	3,904

5. TAXATION

	Note	Unaudited Six months ended 30 September 2005 HK$'000	2004 HK$'000
Hong Kong Profits Tax	a	**–**	–
PRC income tax	b	**92**	–
		92	–

Notes:

(a) No provision for Hong Kong profits tax has been made as there is no estimated assessable profit for Hong Kong in the period.

(b) The PRC income tax has been provided at the prevailing rate as the Company's subsidiary operating in the PRC has taxable profits for the period.

The Group had no significant non-provided deferred taxation during the period and at 30 September 2005.

6. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: Nil).

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months ended 30 September 2005 are based on the consolidated profit attributable to equity holders of approximately HK$1,099,000 (30 September 2004: HK$ 481,000). The basic earnings per share is based on the weighted average number of 438,330,391 shares in issue (30 September 2004: 416,000,000 shares) during the period. The diluted earnings per share is calculated based on the weighted average number of 438,822,119 shares (30 September 2004: 416,679,519 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in this interim report.

8. FIXED ASSETS

During the period, the Group has spent approximately HK$1,494,000 on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
Trade receivables	**81,738**	67,275
Other receivables, prepayments and deposits	**16,722**	34,359
	98,460	101,634

As at 31 March 2005, prepayment and deposits of the Group included the sum due from Dongguan City Gaobu Yongcheng Paint Factory of HK$13,119,000. As at 30 September 2005, the balance has been reduced to HK$5,193,000 and will be fully repaid within the year ending 31 March 2006 as scheduled.

9. TRADE AND OTHER RECEIVABLES (Continued)

The Group operates a controlled credit policy and allows an average credit period of 30 - 120 days to its trade customers who satisfy the credit evaluation. Trade receivables are stated at their nominal value as reduced by appropriate provision for irrecoverable amounts with their ageing analysis at the respective balance sheet dates as follows:

	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
0-30 days	**22,601**	22,750
31-60 days	**19,684**	16,655
61-90 days	**17,735**	12,603
91-120 days	**8,709**	6,337
Over 120 days	**13,009**	8,930
	81,738	67,275

10. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
Trade payables	**29,898**	22,199
Other payables and accruals	**9,412**	12,250
	39,310	34,449

Trade payables are stated at their nominal value with their ageing analysis at the respective balance sheet dates as follows:

	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
0-30 days	**10,404**	11,885
31-60 days	**5,934**	2,139
61-90 days	**6,055**	4,116
91-120 days	**4,156**	4,059
Over 120 days	**3,349**	–
	29,898	22,199

11. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 April 2005 and 30 September 2005	2,000,000	20,000
Issued and fully paid:		
At 1 April 2005	420,495	4,205
Issue of the shares under option scheme	6,000	60
Issue of new shares	82,000	820
At 30 September 2005	508,495	5,085

12. COMMITMENTS

(a) Capital expenditure commitments:

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

	Note	**Unaudited 30 September 2005 HK$'000**	Audited 31 March 2005 HK$'000
Contracted but not provided for			
Acquisition in subsidiaries	1	**7,225**	3,955
Properties under development		**72**	128
Plant and machinery		**753**	753
		8,050	4,836

Note:

1 Pursuant to the supplemental agreement entered into with Mr. Duan Zhi Jun and Mr. Lin Guang Fa, both independent third parties (the "Vendors") on 21 September 2005, the Group committed to acquire the entire equity interest in Zhongshan Wing Shing Ling Feng Chemical Company Limited ("Zhongshang Ling Feng") at an aggregate consideration of approximately HK$20,975,301. As at 30 September 2005, an amount of approximately HK$13,750,000 has already been paid in cash and the balance of approximately HK$7,225,301 would be satisfied by the allotment and issue of new shares to the Vendors (the "Consideration Shares"). According to the supplemental agreement, the completion of the transaction is subject to the fulfillment of the following conditions:

– The granting by the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") of listing of, and permission to deal in, the Consideration Shares; and

– The obtaining of a new business licence or completion of all necessary registration procedures in relation to the transformation of Zhongshan Ling Feng into a wholly foreign owned enterprise.

12. COMMITMENTS (Continued)

(b) Commitments under operating leases:

At 30 September 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 September 2005 HK$'000	Audited 31 March 2005 HK$'000
Not later than one year	**474**	416
Later than one year but not later than five years	**1,583**	1,538
Later than five years	**2,595**	2,595
	4,652	4,549

13. RELATED PARTY TRANSACTIONS

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

	Unaudited Six months ended 30 September	
	2005 HK$'000	2004 HK$'000
Rental expenses for directors' quarters paid to Luen Yat Enterprises Company Limited, a related company of the Group	**432**	432
Rental expenses charged by Mr. Poon Sau Tin and Mr. Poon Sum	**192**	192

The respective rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreement.