1 CORPORATE INFORMATION

Wing Shing International Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The principal place of business of the Company is located at Units 9-10, 4/F, Kinglet Industrial Building, 21-23 Shing Wan Road, Tai Wai, Shatin, New Territories, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are manufacture and sale of paints and blended solvents, manufacture and sale of plastic colorants and trading of chemical materials. There were no significant changes in the nature of the Group's principal activities during the year.

2 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards ("HKASs"), Hong Kong Interpretations and Hong Kong (SIC) Interpretations ("HK(SIC)-Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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, except for the financial liabilities at fair value through profit or loss, which have been measured at fair value.

The financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation

2 BASIS OF PRESENTATION (Continued)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK – Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Leases
HK(SIC) – Int 12	Consolidated – Special Purpose Entities
HK(SIC) – Int 15	Operating Leases – Incentives
HK(SIC) – Int 21	Income taxes – recovery of revalued non-depreciable assets

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 36, 37, 39, 40, HK – Int 4, HK(SIC) – Int 12, 15 and 21 had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

The following is a summary of changes in principal accounting policies or presentation of the financial statements as a result of the adoption of the new HKFRSs:

(a) Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

(i) In prior years, minority interests at the balance sheet date were not a part of equity and were presented on the face of the consolidated balance sheet as a deduction from net assets. Minority interests were also separately presented on the income statement as a deduction before arriving at the profit/(loss) attributable to shareholder. Movement of minority interests was not shown in the consolidated statement of changes in equity.

With adoption of HKAS 1 and HKAS 27, 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 consolidated balance sheet. Movement of minority interests is also now shown in the consolidated statement of changes in equity. Allocation of loss attributable to minority interests and equity shareholders of the Company are shown after profit/(loss) for the year in the consolidated income statement. These changes in presentation have been applied retrospectively.

2 BASIS OF PRESENTATION (Continued)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(a) Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements) (Continued)

(ii) In prior years, comparative information is not required for the analysis of the movements in property, plant and equipment.

With adoption of HKAS 1, comparative information for the analysis of the movements in property, plant and equipment is now disclosed in the notes to the financial statements.

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

In prior years, 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 amortised 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 provisional provisions in HKFRS 2, under which this new accounting treatment does not apply to the following options granted:

(i) Those options granted to the employees on or before 7th November 2002.

(ii) Those options granted to the employees after 7th November 2002 had vested before 1st April 2005.

The amounts of prior period adjustments and the effects on the results for the year ended 31st March 2005 and 2006, and the reserves as of those dates, are set out in Note 2.3.

Based on the fair value of the share options calculated by Trinomial Model with reference to 2 Year Exchange Fund Notes issued by Hong Kong Monetary Authority, the amount charged to the administrative expenses in the consolidated income statement for the year ended 31st March 2006 is increased by HK$279,000 (Year ended 31st March 2005: HK$1,847,000). The corresponding amounts are credited to share-based employee compensation reserve account and credited to share premium when exercised subsequently.

2 BASIS OF PRESENTATION (Continued)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) Effect on Goodwill (HKFRS 3, Business Combination and HKAS 36, Impairment of assets)

In prior years, goodwill arising on acquisitions on or after 1st January 2001 was capitalised and was amortised on the straight-line basis over a period of not exceeding 20 years and was subject to impairment testing when there was any indication of impairment at the balance sheet date.

With the adoption of revised HKFRS 3 and HKAS 36, the Group has ceased the annual amortisation of goodwill from 1st April 2005 and commencing testing for impairment at the cash generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). The accumulated amortisation as at 31st March 2005 has been used to eliminate the cost of goodwill and from the year ended 31st March 2006 onwards, goodwill will be tested annually for impairment, or when there are indications of impairment.

Also with effect from 1st April 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises.

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

(d) Financial instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement)

In prior years, the Group classified its investments, other than subsidiaries, as other investments. Securities intended to be held for identified long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision for impairment.

With adoption of HKAS 32 and HKAS 39, these investments are now classified as financial assets at fair value through profit or loss (including other investments) and available-for-sale financial assets. There are also changes in the recognition and measurement of loans and receivables and borrowings. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method.

As HKAS 39 is not required to recognise, derecognise and measure financial assets and liabilities retrospectively, no prior period adjustment is required and the comparative amounts are not restated.

2 BASIS OF PRESENTATION (Continued)

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(e) Effect of leasehold land (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were included in property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses.

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 interest in land is now reclassified to prepaid lease payments under operating leases, which are initially stated at cost and subsequently amortised over the lease term on the straight-line basis. The revised HKAS 17 is required to be applied retrospectively and as a result, the net book value of property, plant and equipment of the Group reduced by HK$5,346,000 while the Group's prepaid lease payments increased by HK$5,346,000 as at 31st March 2005.

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

Other than the above, the accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31st March 2005.

2 BASIS OF PRESENTATION (Continued)

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

At the date of this report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	(Note a)	Capital disclosures
HKAS 19 (Amendment)	(Note b)	Employee benefits – Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	(Note b)	The effect of changes in foreign exchange rates – Net investment in a foreign operation
HKAS 39 (Amendment)	(Note b)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	(Note b)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	(Note b)	Financial instruments: Recognition and measurement and insurance contracts – Financial guarantee contracts
HKFRS 6	(Note b)	Exploration for and evaluation of mineral resources
HKFRS 7	(Note a)	Financial Instruments: Disclosures
HKFRS – Int 4	(Note b)	Determining whether an arrangement contains a lease
HKFRS – Int 5	(Note b)	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	(Note c)	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment
HK(IFRIC) – Int 7	(Note d)	Applying the restatement approach under HKAS 29 – Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	(Note e)	Scope of HKFRS 2
HK(IFRIC) – Int 9	(Note f)	Reassessment of embedded derivatives

Note a: effective for annual periods beginning on or after 1st January 2007
Note b: effective for annual periods beginning on or after 1st January 2006
Note c: effective for annual periods beginning on or after 1st December 2005
Note d: effective for annual periods beginning on or after 1st March 2006
Note e: effective for annual periods beginning on or after 1st May 2006
Note f: effective for annual periods beginning on or after 1st June 2006

The Group has commenced considering the potential impact of the above new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its result of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2 BASIS OF PRESENTATION (Continued)

2.3 SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

	Group				
	2006				2005
	HKFRS 2	HKFRS 3	HKAS 39	Total	HKFRS 2
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Increase) in administrative expenses	(279)	–	–	(279)	(1,847)
Increase in other operating income	–	5,065	–	5,065	–
Decrease/(increase) in other operating expenses	–	1,124	(730)	394	–
(Decrease)/increase in profit/(loss) for the year	(279)	6,189	(730)	5,180	(1,847)

The following sets out further information on the changes in accounting policies described above on the consolidated balance sheet as at 31st March 2006 and 31st March 2005 are as follows:

	Group			
	2006		2005	
	HKAS17	HKFRS 2	HKAS17	HKFRS 2
	HK$'000	HK$'000	HK$'000	HK$'000
Increase/(decrease)				
Property, plant and equipment	(30,604)	–	(5,346)	–
Prepaid lease payments	30,604	–	5,346	–
Share-based employee compensation reserve	–	3,641	–	3,641
Share premium	–	279	–	–
Retained earnings	–	(3,920)	–	(3,641)

3 PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

The consolidated financial statements include the financial statements 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 consolidated from the effective date of acquisition, being the date on which the Group obtains control, or up to the effective date of disposal, as appropriate and continue to be consolidated until the date that such control ceases.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The gain or loss on the disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

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

Minority interests represent the interests of outside equity shareholders in the results and net assets of the Company's subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions was 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 was amortised over a maximum period of 10 years. Where an indication of impairment exists, the carrying amount of goodwill on acquisitions was assessed and written down immediately to its recoverable amount.

With the adoption of revised HKFRS 3 and HKAS 36, amortisation of goodwill has been ceased from 1st April 2005. The accumulated amortisation as at 31st March 2005 has been used to eliminate the cost of goodwill and from the year ended 31st March 2006 onwards, goodwill arising on acquisition is recognised in the balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

An excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

(c) Available-for-sale financial assets

Other investments were mainly investments in securities. Securities intended to be held for identified long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision for impairment.

With adoption of HKAS 32 and HKAS 39, investments in securities are now classified as available-for-sale financial assets and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment loss and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and shall be measured at cost.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

(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 property, plant and equipment 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, these properties are transferred to other property, plant and equipment categories at cost less accumulated impairment losses and prepaid lease payments at cost less accumulated amortisation over the lease periods.

(ii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of other property, plant and equipment 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 items of other property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 an item of other property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

In prior years, leasehold land and buildings held for own use 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 now reclassified to prepaid lease payments under operating leases and are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy has no material effect on the Group's net assets and results for prior and current years.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(ii) Other property, plant and equipment (Continued)

Buildings and other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses and residual value, if any, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2 – 2.38%
Plant and machinery	9 – 20%
Furniture, fixtures and equipment	18 – 20%
Motor vehicles	9 – 30%

The useful lives and residual values of the assets are reviewed and adjusted if necessary, at each balance sheet date.

Major costs incurred in restoring the property, plant and equipment to their normal working condition to allow continued use of the overall asset are charged to the income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(e) Investment properties

Investment properties, which are properties held to earn rentals and/or capital appreciation, are carried at cost less accumulated depreciation and accumulated impairment loss, if any. The costs of investment properties are depreciated over their estimated useful lives of 20 to 50 years using the straight-line method. Gains or losses arising from disposal of properties are determined as the difference between the sales proceeds and the carrying amount of the properties and are recognised in the income statement.

(f) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Impairment of assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(g) Prepaid lease payments and assets under leases

(i) Prepaid lease payments

Prepaid lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(ii) 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 long-term and short-term liabilities, as appropriate. The finance charges are charged to the income statement over the lease periods.

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

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Prepaid lease payments and assets under leases (Continued)

(iii) 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 income statement 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) Trade and other receivables

Trade and other receivables are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost less impairment losses for bad and doubtful debts. A provision of impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision, recognised in the income statement, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks and 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.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(m) Bank and other borrowings

Bank and other borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank and other borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(n) Income tax

Income tax comprises current and deferred tax. The charge for income tax is based on the results for the year as adjusted for items, which are non-assessable or disallowable. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided in full, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

(i) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) 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 income statement in the year in which they are incurred.

(p) Translation of foreign currencies

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the HK$. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Provisions

A provision is recognised when the Group has a present legal or constructive obligation 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 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 income statement.

(r) Employee benefits

(i) Employee leave entitlements

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) Pension obligations

The Group operates a defined contribution 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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the 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.

The employees of the Group's subsidiaries which operate in the People's Republic of China ("PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Employee benefits (Continued)

(iii) Share-based payment transactions

In the previous years, 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.

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

As mentioned in Note 2, the Group has taken advantage of the transitional provisions set out in HKFRS 2 and the change in accounting policy has no impact on the results of the Group for the years ended 31st March 2005 and 2006.

(s) 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 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.

(t) 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) Revenue from the sale of goods is recognised 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.

(ii) Handling income is recognised when the underlying services are rendered.

(iii) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Revenue recognition (Continued)

(iv) Rental income is recognised on a time proportion basis over the terms of the lease.

(u) 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.

(v) Segmental reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude certain corporate assets 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 property, plant and equipment.

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.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group;

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(w) Related parties (Continued)

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

4 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank loans and other borrowings, and cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and fair values. The Group's policies for managing each of these risks are as follows:

(a) Cash flow interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature whereas interest-bearing financing liabilities with primarily floating interest rates. The Group is therefore exposed to both fair value and cash flow interest rate risks. The Group's policy is to obtain the most favourable interest rate available.

(b) Foreign currency risk

The Group has transactional currency exposures, which arise from sales or purchases by operating units in currencies other than the functional currency. The Group's main operating subsidiaries are located in Hong Kong and the PRC and the Group's sales and purchases were mainly in HK$ and Renminbi ("RMB") and United States Dollars ("US$"). The Group does not expect significant movements in the exchange rates.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may require. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that reserves of cash and available banking facilities are sufficient to meet its liquidity requirements in short and long terms.

(e) Fair values

The carrying amount of financial assets and liabilities in the financial statements approximates their fair values.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not equal to the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Useful lives of property, plant and equipment

The directors determine the estimated useful lives and residual values for its property, plant and equipment. The directors revise the depreciation charge when useful lives are different from previously estimates. Obsolete or non-strategic assets, that have been abandoned or sold, shall be written off or written down.

(c) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes for each entity in the Group. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(d) Share-based payments

The fair value of option granted is measured using Trinominal model based on various assumptions on volatility, option life, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the share options at date of grant.

6 SEGMENT INFORMATION

(a) Business segments

The following table presents revenues, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Paints and blended solvents		Plastic colorants		Chemical materials		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (As restated)
Segment revenues										
Turnover										
External revenue	244,909	269,693	10,710	8,523	7,299	6,262	–	–	262,918	284,478
Inter segment revenue	–	–	125	–	60	54	(185)	(54)	–	–
Other revenues excluding interest income	1,105	2,530	7	9	219	97	–	(681)	1,331	1,955
	246,014	272,223	10,842	8,532	7,578	6,413	(185)	(735)	264,249	286,433
Segment results	13,925	2,180	982	(1,731)	189	(503)			15,096	(54)
Unallocated costs									(3,218)	(4,117)
Unallocated income									5,065	–
Interest income									27	20
Operating profit/(loss)									16,970	(4,151)
Finance costs									(4,868)	(2,142)
Profit/(Loss) before income tax									12,102	(6,293)
Income tax									(534)	(646)
Profit/(Loss) for the year									11,568	(6,939)
Segment assets	244,467	231,678	6,141	5,862	2,393	3,529			253,001	241,069
Unallocated corporate assets									21,212	4,933
									274,213	246,002
Segment liabilities	139,593	154,571	1,953	2,712	259	205			141,805	157,488
Unallocated corporate liabilities									1,623	1,526
									143,428	159,014
Capital expenditure	23,511	27,249	313	1,150	–	–			23,824	28,399
Depreciation charge and amortisation of prepaid lease payments and investment properties	7,003	5,059	397	800	3	4			7,403	5,863
Amortisation charge	–	544	–	–	–	–			–	544
Intangible assets written off	–	259	–	–	–	–			–	259

6 SEGMENT INFORMATION (Continued)

(b) 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.

7 TURNOVER AND REVENUES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Sale of goods	**262,918**	284,478
Other revenues		
Handling income	**–**	19
Bank interest income	**27**	20
Rental income	**91**	716
Unrealised gain on available-for-sale financial assets	**–**	95
Gain on disposals of investment in securities	**206**	–
Dividend income from trading securities	**12**	–
Other income	**1,022**	1,125
	1,358	1,975
Total revenues	**264,276**	286,453

8 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
Crediting		
Bad debts recovery	**5,163**	–
Bank interest income	**27**	20
Gain on disposals of a subsidiary	**219**	–
Gain on disposals of property, plant and equipment	**276**	210
Gain on disposals of investment in securities	**206**	–
Negative goodwill on acquisition of a subsidiary	**5,065**	–
Net exchange gain	**465**	–
Charging		
Amortisation of prepaid lease payments and investment properties	**330**	124
Auditors' remuneration		
– provision for the year	**1,039**	969
– prior year's under provision	**440**	110
Amortisation of intangible assets	**–**	544
Cost of inventories sold	**200,227**	217,707
Depreciation		
– owned property, plant and equipment	**6,513**	5,201
– leased property, plant and equipment	**560**	538
Impairment loss on buildings	**150**	–
Impairment loss on investment properties	**6**	–
Impairment loss on prepaid lease payments	**315**	–
Intangible assets written off	**–**	259
Loss on foreign exchange contract	**529**	–
Net exchange loss	**–**	125
Operating leases in respect of land and buildings	**865**	865
Provision for doubtful debts and bad debts written off	**80**	6,790
Provision for slow moving inventories	**–**	618
Research and development costs *(see Note below)*	**348**	937
Staff costs (including directors' emoluments) *(Note 14)*	**27,841**	34,535

Note: Included in the research and development costs were staff costs of HK$290,319 (2005: HK$851,000) which had also been included in staff costs disclosed above.

9 FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**3,477**	1,265
Interest element of finance leases	**106**	169
Interest on trust receipt loans	**1,285**	708
	4,868	2,142

10 INCOME TAX

	Group	
	2006	2005
	HK$'000	HK$'000
Current income tax:		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC income tax *(Note (b))*	**103**	116
– Under-provision for PRC income tax in prior year	**49**	–
– Under-provision for Hong Kong profits tax in prior year	**–**	180
Deferred taxation relating to the origination and reversal of temporary differences *(Note 34)*	**399**	350
Over-provision of deferred taxation in prior year *(Note 34)*	**(17)**	–
Income tax charges	**534**	646

Notes:

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

(b) PRC income tax has been calculated on the estimated assessable profit for the year at the rates of income tax prevailing in the PRC and has been provided at the rate of 27% (2005: 27%) on the estimated assessable profit.

10 INCOME TAX (Continued)

Income tax on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
Profit/(loss) before income tax	**12,102**	(6,293)
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**2,118**	(1,101)
Effect of different taxation rates in other countries	**(2,324)**	164
Tax effect on timing differences not recognised	**(189)**	(22)
Tax effect on unused tax losses not recognised	**995**	329
Under-provision for PRC income tax in prior year	**49**	–
Under-provision for Hong Kong profits tax in prior year	**–**	180
Over-provision of deferred taxation in prior year	**(17)**	–
Tax effect on non-taxable income	**(1,349)**	(1,481)
Tax effect on non-deductible expenses	**1,251**	2,577
Income tax charges	**534**	646

11 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to shareholders for the year ended 31st March 2006 dealt with in the financial statements of the Company was HK$3,146,000 (restated 2005: HK$14,092,000).

12 DIVIDENDS

The board of directors has resolved not to recommend any final dividend for the year ended 31st March 2006 (2005: Nil).

13 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the Group's profit/(loss) attributable to shareholders of HK$11,536,000 (restated 2005: loss of HK$6,584,000).

The basic earnings/(loss) per share is based on the weighted average number of 495,667,421 (2005: 418,179,877) ordinary shares in issue during the year.

The diluted earnings/(loss) per share for the year ended 31st March 2006 is based on 496,509,369 (2005: 418,244,058) ordinary shares which is the weighted average number of ordinary shares in issue during the year ended 31st March 2006 plus the weighted average number of 841,948 (2005: 64,181) ordinary shares deemed to be issued at no consideration if all outstanding warrants and options with dilutive effect had been exercised.

14 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
Wages and salaries	**27,225**	31,868
Employee share option benefits	**279**	1,847
Pension cost – defined contribution plans	**337**	820
	27,841	34,535

15 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:

	Group				
	2006				2005
	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Mr. Poon Sum	–	1,704	–	1,704	2,151
Mr. Wong Kwok Leung	–	277	–	277	408
Mr. Kwok Kwai Sum (Resigned on 1st April 2005)	–	120	–	120	325
Mr. Mok Yu Kong (Resigned on 21st March 2006)	–	303	–	303	408
Mr. Poon Wai Kong (Appointed on 21st March 2006)	–	–	–	–	–
	–	2,404	–	2,404	3,292
Non-executive Directors					
Mr. Chan Shu Kin	120	–	–	120	100
Mr. Chan Kam Ching, Paul	120	–	–	120	100
Mr. Cheung Kwan Hung	120	–	–	120	100
Mr. Chen Lizhong (Appointed on 21st March 2006)	7	–	–	7	–
	367	–	–	367	300
Total	367	2,404	–	2,771	3,592

None of the directors of the Company waived any emoluments paid by the Group during the year (2005: Nil).

15 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 one (2005: two) director(s) whose emolument(s) has (have) been reflected in the analysis presented above. The emoluments payable to the remaining four (2005: three) individuals during the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,473**	1,518
Retirement benefit scheme contributions	**45**	36
	1,518	1,554

The emoluments of these individuals fell within the following bands:

	Group Number of individuals	
	2006	2005
Emolument bands		
Nil to HK$1,000,000	**4**	3
	4	3

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.

16 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Properties under development	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At cost						
At 1st April 2004, as restated	21,776	5,570	21,255	23,791	9,824	82,216
Additions	10,361	12,177	2,398	1,490	1,973	28,399
Disposals	–	–	–	–	(1,198)	(1,198)
Transfer	5,004	(5,570)	–	566	–	–
At 1st April 2005, as restated	37,141	12,177	23,653	25,847	10,599	109,417
Acquired on acquisition of subsidiaries	20,819	–	1,290	18	–	22,127
Additions	158	2,584	14,749	5,502	831	23,824
Disposed on disposals of a subsidiary	–	–	–	(149)	–	(149)
Disposal	–	–	–	–	(1,590)	(1,590)
Transfer	14,205	(14,232)	–	–	–	(27)
At 31st March 2006	72,323	529	39,692	31,218	9,840	153,602
Accumulated depreciation and impairment						
At 1st April 2004, as restated	982	–	9,398	18,098	5,781	34,259
Charge for the year	465	–	1,531	2,245	1,498	5,739
Disposals	–	–	–	–	(1,058)	(1,058)
At 1st April 2005, as restated	1,447	–	10,929	20,343	6,221	38,940
Charge for the year	1,576	–	2,089	2,216	1,192	7,073
Impairment	150	–	–	–	–	150
Written back on disposals of a subsidiary	–	–	–	(42)	–	(42)
Disposals	–	–	–	–	(1,372)	(1,372)
At 31st March 2006	3,173	–	13,018	22,517	6,041	44,749
Net book value						
At 31st March 2006	69,150	529	26,674	8,701	3,799	108,853
At 31st March 2005	35,694	12,177	12,724	5,504	4,378	70,477
Net book value of leased assets:						
At 31st March 2006	–	–	–	–	1,185	1,185
At 31st March 2005	–	–	–	–	1,888	1,888

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
In Hong Kong, held on:		
Leases of between 10 to 50 years	**2,330**	2,563
Outside Hong Kong, held on:		
Leases of less than 10 years	**17,376**	10,767
Leases of between 10 to 50 years	**49,444**	22,364
	69,150	35,694

(b) Properties under development are situated in the PRC under a lease of less than 50 years.

17 PREPAID LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
At cost		
Prepaid balance at 1st April	**6,155**	6,155
Acquired on acquisition of subsidiaries	**25,898**	–
Balance at 31st March	**32,053**	6,155
Accumulated amortisation and impairment		
Balance at 1st April	**809**	685
Amortisation during the year	**325**	124
Impairment	**315**	–
Balance at 31st March	**1,449**	809
Net book balance at 31st March	**30,604**	5,346

17 PREPAID LEASE PAYMENTS (Continued)

The Group's prepaid lease payments at their net book value are analysed as follows: –

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
In Hong Kong, held on:		
Leases of between 10 to 50 years	**4,013**	4,432
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**26,591**	914
	30,604	5,346

18 INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
At cost		
Balance at 1st April	**–**	–
Reclassification from buildings	**27**	–
Balance at 31st March	**27**	–
Accumulated amortisation and impairment		
Balance at 1st April	**–**	–
Amortisation during the year	**5**	–
Impairment	**6**	–
Balance at 31st March	**11**	–
Net book balance at 31st March	**16**	–

19 GOODWILL

Goodwill is allocated to the Group's cash-generating unit identified according to country of operation and business segment as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Cost		
At 1st April	**5,280**	5,280
Elimination against accumulated amortisation in accordance with HKFRS 3	**(656)**	–
Acquisition of a subsidiary *(Note 36(a))*	**5,800**	–
At 31st March	**10,424**	5,280
Accumulated amortisation		
At 1st April	**656**	112
Amortisation during the year	**–**	544
Elimination against cost in accordance with HKFRS 3	**(656)**	–
At 31st March	**–**	656
Carrying amounts		
At 31st March	**10,424**	4,624

The recoverable amount of the cash-generating unit ("CGU") is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the directors covering a five-year period for CGU at a discount rate of 5%. The directors of the Company believe that possible changes in any of these assumptions would not cause the aggregate carrying amount of goodwill to exceed the recoverable amount.

As explained in Note 2.1(c), with effect from 1st April 2005, amortisation of goodwill was ceased. In accordance with the provision set out in HKFRS 3, the accumulated amortisation as at 1st April 2005 has been eliminated against the cost of goodwill.

The directors of the Company are of the opinion that there is no impairment of goodwill at 31st March 2006.

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS/OTHER INVESTMENTS

Available-for-sale financial assets are investments in unlisted equity securities which were stated at cost at the balance sheet date.

21 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments at cost *(Note (a))*	**57,942**	57,942
Less: impairment of investment in subsidiaries	**(10,000)**	(10,000)
	47,942	47,942
Due from subsidiaries *(Note (b))*	**68,779**	39,628
	116,721	87,570

Notes:

(a) Details of the subsidiaries at 31st March 2006 are as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued/ registered and fully paid share capital	Attributable equity interest held
DIRECTLY HELD:				
Wing Shing Group Limited ("WSGL")	British Virgin Islands ("BVI")	Investment holding in Hong Kong	52,000 ordinary shares of US$1 each	100%
INDIRECTLY HELD:				
Dongguan Tung Shing Fat Chemical Company Limited ("Tung Shing Fat")	PRC	Manufacture of paints and blended solvents in PRC	Fully paid registered capital of HK$28,000,000	100% *Note (i)*
Hai Yue Chemicals Company Limited	Hong Kong	Trading of chemical materials in Hong Kong	1,000,000 ordinary shares of HK$1 each	75%
Wing Shing Chemical Company Limited ("Wing Shing Chemical")	Hong Kong	Trading of paints, lacquer, enamel and polyurethane in Hong Kong	3,000,000 ordinary shares of HK$1 each	100%
Wing Shing Chemical International Limited	BVI	Inactive	1 ordinary share of US$1 each	100%

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) Details of the subsidiaries at 31st March 2006 are as follows: (Continued)

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 Colours Limited	Hong Kong	Manufacture and trading of plastic colorants in Hong Kong	100,000 ordinary shares of HK$1 each	100%
Wing Shing Chemical Macao Commercial Offshore Company Limited	Macau	Trading of paints and blended solvents in Macau	Issued capital of MOP 500,000	100%
Kansai Chemicals (Dongguan) Limited	Hong Kong	Inactive	500,000 ordinary shares of HK$1 each	100%
Win Profit (Asia Pacific) Company Limited ("Win Profit")	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK$1 each	100%
Dongguan City Changan Xinyimei Paint Company Limited ("Xinyimei")	PRC	Manufacture and sales of lacquer and emulsion paint in PRC	Fully paid registered capital of RMB6,000,000	100% *Note (ii)*
中山市永成凌豐化工有限公司 ("Ling Feng")	PRC	Manufacture and sales of emulsion paint in PRC	Fully paid registered capital of RMB10,605,555	100% *Note (iii)*

Notes:

(i) On 23rd December 2005, Tung Shing Fat's registered share capital was increased to HK$28,000,000 by the additional capital of HK$2,000,000. On the same day, the amount was fully paid by Wing Shing Chemical. Upon completion of the injection, the Company still holds indirectly 100% interest in Tung Shing Fat.

(ii) On 26th August 2005, Wing Shing Chemical acquired from Mr. Zhou Guihong and Mr. Chen Rongji, independent third parties, the entire equity interest in Xinyimei, a company incorporated in the PRC with registered capital of RMB800,000 at the cash consideration of HK$7,540,000. Since then, Xinyimei has become an indirectly wholly-owned subsidiary of the Company.

Subsequently, on 17th March 2006, Xinyimei's fully paid registered capital was increased to RMB6,000,000 by the additional capital of RMB5,200,000.

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) Details of the subsidiaries at 31st March 2006 are as follows: (Continued)

(iii) On 22nd November 2005, Win Profit acquired from Mr. Duan Zhijun and Mr. Lin Guangfa, independent third parties, the entire equity interest in Ling Feng, in exchange for 40,140,561 shares of the Company at HK$0.18, amounting to HK$7,225,300, as well as the cash consideration of HK$13,750,000, totalling HK$20,975,000. Since then, Ling Feng has become an indirectly wholly-owned subsidiary of the Company.

(b) Amounts due are unsecured, interest-free and are repayable within the next twelve months from the balance sheet date.

22 DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

	Group	
	2006	2005
	HK$'000	HK$'000
Deposit for acquisition of Xinyimei	**–**	6,400
Deposit for acquisition of Ling Feng	**–**	10,935
	–	17,335

23 INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**14,550**	16,381
Work in progress	**4,609**	2,861
Finished goods	**4,249**	5,112
	23,408	24,354

As at 31st March 2006 and 31st March 2005, no inventories were carried at net realisable value, except for certain inventories that have been fully provided for.

24 INVESTMENT IN SECURITIES

Balance as at 31st March 2005 represented the listed shares in Hong Kong. These investments had been disposed during the year.

25 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(Note (a))*	**61,443**	67,275	**–**	–
Other receivables, prepayments and deposits *(Note (b))*	**18,691**	34,359	**35**	35
	80,134	101,634	**35**	35

Notes:

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

	Group	
	2006	2005
	HK$'000	HK$'000
0-30 days	**25,910**	22,750
31-60 days	**16,113**	16,655
61-90 days	**8,063**	12,603
91-120 days	**4,874**	6,337
Over 120 days	**6,483**	8,930
	61,443	67,275

(b) Included in the balance of other receivables, prepayments and deposits of the Group are amounts due from Dongguan City Gaobu Yongcheng Paint Factory ("Gaobu") of HK$4,962,000 (2005: HK$13,119,000) and provision of HK$1,000,000 was made. Xinyimei was acquired during the year. All balances of amounts due from Xinyimei are eliminated and not included in this year (2005: HK$17,725,000).

All of the trade and other receivables shall be repaid within one year, except certain trade receivables that have been impaired.

26 BANK BALANCES AND CASH

Bank balances and cash of approximately HK$4,549,000 (2005: HK$5,258,000) were denominated in RMB 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.

27 DUE TO SHAREHOLDERS

Amounts due are interest-free, unsecured and have been repaid during the year.

28 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(Note (a))*	**19,350**	22,199	**–**	–
Other payables and accruals *(Note (b))*	**7,967**	12,250	**1,617**	1,279
	27,317	34,449	**1,617**	1,279

Note:

(a) Ageing analysis of trade payables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0-30 days	**7,243**	11,885
31-60 days	**3,213**	2,139
61-90 days	**4,018**	4,116
Over 90 days	**4,876**	4,059
	19,350	22,199

(b) Xinyimei was acquired during the year. All balances of amounts due to Xinyimei are eliminated and not included in this year (2005: HK$2,201,000).

All of the trade and other payables shall be repaid within one year.

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group	
	Contract/ Notional amount HK$'000	**2006 Fair values - Liabilities HK$'000**	2005 Fair values HK$'000
Derivative financial instruments			
Exchange rate contracts	17,300	**707**	–
Interest rate swap	56,301	**23**	–
		730	–

These instruments allow the Group to transfer, modify or reduce its foreign exchange and interest rate risks.

The Group mostly undertakes its transactions in foreign exchange and interest rate contracts with its banker. Management has established notional limits of these contracts. Actual credit exposures and limits are regularly monitored and controlled by the management.

30 BILLS PAYABLE AND BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	2005 HK$'000
Current				
Bank loans, unsecured *(Note (a))*	HIBOR+1.5% to 2%	1 year	**13,014**	12,454
Obligations under finance leases *(Note (b))*	6.22 - 10.8%	1 year	**324**	569
Short-term bank loan				
– Unsecured	5.22%-5.58% / 6 month HIBOR +1.5% / 3-month HIBOR+2% / 1-month HIBOR+1.4% / P-1.5%/Bank's cost of fund+1.5%	1 year	**32,484**	36,397
– Secured	6.138%	1 year	**11,442**	–
Trust receipt loans, unsecured	HIBOR+1.75 to 1.85%	3 - 4 months	**10,060**	22,708
Bank overdrafts, unsecured	HIBOR+1.4% to 1.75%	On demand	**5,500**	5,852
			72,824	77,980
Bills payable	Nil	1 - 3 months	**28,552**	22,072
			101,376	100,052
Non-current liabilities				
Bank loans, unsecured *(Note (a))*	HIBOR+1.5% to 2%	1 - 5 years	**11,322**	21,926
Obligations under finance leases *(Note (b))*	6.22 - 10.8%	1 - 3 years	**529**	873
			11,851	22,799
The analysis of the above is as follows:				
– Wholly repayable within five years			**113,227**	122,851

30 BILLS PAYABLE AND BANK AND OTHER BORROWINGS (Continued)

Notes:

(a) At 31st March 2006, the Group's bank loans are repayable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**13,014**	12,454
In the second year	**8,178**	12,068
In the third to fifth year	**3,144**	9,858
	24,336	34,380

Long-term bank loans bear interest at prevailing market rates. Details of banking facilities are set out in Note 38 below.

(b) At 31st March 2006, the Group's finance leases liabilities were repayable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**367**	649
In the second year	**293**	388
In the third to fifth year	**269**	562
	929	1,599
Future finance charges on finance leases	**(76)**	(157)
	853	1,442
The present value of finance lease liabilities is as follows:		
Within one year	**324**	569
In the second year	**268**	345
In the third to fifth year	**261**	528
	853	1,442

Most of the bank loans and overdrafts are in HK$.

The fair value of the Group's bank and other borrowings was approximate to the corresponding carrying amounts.

31 SHARE CAPITAL

	Company Number of shares ('000)	HK$'000
Authorised ordinary shares of HK$0.01 each		
At 31st March 2006 and 2005	2,000,000	20,000
Issued and fully paid ordinary shares of HK$0.01 each		
At 1st April 2004	416,000	4,160
Issue of the shares pursuant to scrip dividend scheme for 2004 final dividend	4,495	45
At 1st April 2005	420,495	4,205
Employee share option scheme – proceeds from shares issued	8,500	85
Subscription of shares	142,000	1,420
Share issued for acquisition of a subsidiary	40,141	401
At 31st March 2006	611,136	6,111

32 SHARE OPTIONS

Under a share option scheme approved and adopted by the shareholders on 21st October 2002 (the "Share Option Scheme"), the directors of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of options under the share option scheme).

(a) Movements of the share option outstanding during the year are as follows:

	Company			
	2006		2005	
	Weighted average exercise price	**Number of share involved in the options**	Weighted average exercise price	Number of share involved in the options
At the beginning of the year	**0.291**	**26,500,000**	0.301	9,500,000
Granted *(Note (i))*	**0.183**	**25,500,000**	0.281	23,000,000
Exercised *(Note (ii))*	**0.178**	**(8,500,000)**	–	–
Lapsed	**0.215**	**(25,000,000)**	0.270	(6,000,000)
At the end of the year *(Note (iii))*	**0.296**	**18,500,000**	0.291	26,500,000
Exercisable at the end of the year	**0.296**	**18,500,000**	0.291	26,500,000

Notes:

(i) Share options were granted on 1st September 2005 and 14th September 2005 at the exercise price of HK$0.178 per share and HK$0.207 per share respectively.

32 SHARE OPTIONS (Continued)

(a) Movements of the share option outstanding during the year are as follows: (Continued)

Notes: (Continued)

(ii) Options were exercised by employees on 22nd September 2005 and 10th November 2005 which resulted in 8,500,000 new shares of the Company being issued at HK$0.178, totaling HK$1,513,000. The difference between the par value of shares issued and the proceeds from the exercise of the options totalling HK$1,428,000, was recognised as share premium.

	2006	2005
	HK$	HK$
Fair value of shares issued at the exercise date of		
22nd September 2005	**0.21**	–
10th November 2005	**0.27**	–

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

	Exercise price	**2006** Number of options	2005 Number of options	**2006** Vested percentage	2005 Vested percentage
Directors					
Mr. Kwok Kwai Sum, 8th August 2014	HK$0.270	**–**	4,000,000	**100%**	100%
Mr. Wong Kwok Leung 12th August 2014	HK$0.290	**2,000,000**	2,000,000	**100%**	100%
Other employees					
24th November 2008	HK$0.301	**9,500,000**	9,500,000	**100%**	100%
12th August 2014	HK$0.290	**7,000,000**	11,000,000	**100%**	100%

25,000,000 share options were cancelled during the year (2005: 6,000,000).

32 SHARE OPTIONS (Continued)

(a) Movements of the share option outstanding during the year are as follows: (Continued)

Notes: (Continued)

(iv) Details of share options exercised during the year ended 31st March 2006 are as follows:

Grant date	Exercise price	Weighted average closing price per share of the share options exercised	Proceeds received	Number of shares involved in the options
1st September 2005	0.178	0.209	445,000	2,500,000
1st September 2005	0.178	0.209	623,000	3,500,000
1st September 2005	0.178	0.245	445,000	2,500,000

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Trinomial Model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Trinomial model.

Fair value of share options and assumptions

Grant date	24th November 2003	13th August 2004	1st September 2005
Fair value at grant date	HK$1,793,790	HK$1,847,223	HK$279,472
Share price	HK$0.28	HK$0.28	HK$0.178
Exercise price	HK$0.301	HK$0.29	HK$0.178
Expected volatility	88.03%	65.74%	62.05%
Option life	5 years	10 years	0.5 years
Expected dividends	–	–	–
Risk-free interest rate (based on 2 Years Exchange Fund Notes)	1.354%	2.176%	3.60%

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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 financial statements.

33 RESERVES

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.

34 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

	Group	
	2006	2005
Deferred tax liabilities	**HK$'000**	HK$'000
Balance at the beginning of the year	**788**	438
Charge to the income statement *(Note 10)*	**399**	350
Over-provision for deferred taxation in prior year *(Note 10)*	**(17)**	–
Balance at the end of the year	**1,170**	788

Analysis of deferred tax liabilities is as follows:

	Group					
	Accelerated tax depreciation		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Balance at the beginning of the year	**449**	449	**339**	(11)	**788**	438
Charge to the income statement	**(11)**	–	**410**	350	**399**	350
Over-provision for deferred taxation in prior year	**(17)**	–	**–**	–	**(17)**	–
Balance at the end of the year	**421**	449	**749**	339	**1,170**	788

Deferred tax assets are recognised for tax loss to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at 31st March 2006, the Group has unrecognised tax losses of HK$366,000 (2005: HK$329,000) to carry forward against future taxable income. These unrecognised tax losses will expire in 2010.

35 CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(As restated)
Operating profit/(loss)	**16,970**	(4,151)
Interest received	**(27)**	(20)
Depreciation	**7,073**	5,863
Amortisation	**330**	544
Impairment loss on non-current assets	**471**	–
Negative goodwill generated from business combination	**(5,065)**	–
Gain on disposals of property, plant and equipment	**(276)**	(210)
Gain on sale of investment in securities	**(206)**	–
Recognition for employee's compensation scheme	**279**	1,847
Exchange loss on foreign currency revolving loan	**91**	–
Intangible assets written off	**–**	259
Unrealised gain on investment in securities (available-for-sale)	**–**	(95)
Operating profit before working capital changes	**19,640**	4,037
Decrease in inventories	**6,897**	503
Decrease in trade receivables	**14,474**	4,760
Decrease/(increase) in other receivables, prepayments and deposits	**28,665**	(17,790)
Decrease in trade payables and bills payables	**(6,869)**	(3,348)
(Decrease)/increase in other payables and accruals	**(24,895)**	6,323
Decrease in fair value of financial liabilities	**730**	–
Decrease in amount due to shareholders	**(119)**	(149)
Net cash inflow/(outflow) from operations	**38,523**	(5,664)

35 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Group		
	Share capital including share premium and merger reserve	**Minority interests**	**Bank loans and obligations under finance leases**
	HK$'000	HK$'000	HK$'000
At 1st April 2004	28,775	1,051	39,543
Issuance of shares pursuant to scrip dividend scheme for 2004 final dividend	1,174	–	–
Minority interests' share of losses	–	(355)	–
Inception of the finance leases	–	–	1,290
Cash inflows from financing	–	40	54,094
At 1st April 2005	29,949	736	94,927
Issuance of shares for non-cash consideration	10,837	–	–
Recognition of employee's compensation scheme	279	–	–
Minority interests' share on disposals of a subsidiary	–	186	–
Minority interests' share of profit	–	32	–
Dividends paid	–	(400)	–
Loans to a subsidiary acquired	–	–	14,038
Exchange difference	–	–	91
Cash inflows/(outflows) from financing	21,327	–	(29,881)
At 31st March 2006	62,392	554	79,175

(c) Major non-cash transactions

During the year, the Group entered into supplemental agreement to the acquisition agreement for Ling Feng signed in December 2004, in which the Group agreed to pay up the remaining purchase consideration by issuing 40,140,561 new shares of the Company at market value to the vendors. Fair value of the consideration at grant date amounted to HK$10,837,951.

36 BUSINESS COMBINATION

(a) Acquisition of subsidiaries

During the year, the Group acquired the entire equity interest of Xinyimei and Ling Feng.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the date of acquisition approximated their corresponding carrying amounts immediately before the acquisition and were as follows:

	Xinyimei		Ling Feng	
	Carrying amount of acquiree	**Fair value**	**Carrying amount of acquiree**	**Fair value**
	HK$'000	HK$'000	HK$'000	HK$'000
Net assets acquired:				
Fixed assets	5,721	5,950	20,373	42,075
Inventories	4,511	4,511	1,464	1,464
Trade receivables	10,436	10,436	20	20
Other receivables	361	361	13,910	13,910
Bank balances and cash	337	337	344	344
Trade payables	(3,470)	(3,470)	(7,480)	(7,480)
Other payables	(16,097)	(16,097)	(5,996)	(5,996)
Taxation payable	(19)	(19)	(14)	(14)
Short-term bank loans	–	–	(14,038)	(14,038)
Net assets	1,780	2,009	8,583	30,285
Total consideration, satisfied by Cash		7,540		13,750
Issuance of shares		–		10,838
Costs associated with the acquisition		269		632
Goodwill/(negative goodwill)		5,800		(5,065)
Net cash outflow arising on acquisition:				
Cash consideration paid		1,140		2,815
Bank balances and cash acquired		(337)		(344)
		803		2,471

36 BUSINESS COMBINATION (Continued)

(a) Acquisition of subsidiaries (Continued)

The aggregate revenue and the profit for the year of the acquired subsidiaries are as follows:

	For the year ended 31st March 2006 HK$'000	Post acquisition attributable to the Group HK$'000
Total revenue	**11,847**	7,887
(Loss)/profit for the year	**(484)**	297

The information for the year 2006 is for illustrative purposes only and is not necessarily an indication of revenue and results of operation of the acquired subsidiaries that are included in the income statement of the Group, nor is it intended to be a projection of future results.

There is no acquisition of the subsidiaries for the year ended 31st March 2005.

36 BUSINESS COMBINATION (Continued)

(b) Disposals of a subsidiary

	HK$'000
Net assets disposed of:	
Fixed assets	107
Inventories	24
Trade receivables	1,814
Other receivables	373
Bank balances and cash	4
Trade payables	(450)
Other payables	(1,481)
Net assets	391
Proceeds on disposal, satisfied by cash	577
Others	33
Gain on disposals	219
Analysis of the net cash inflow arising on disposals:	
Cash consideration received	577
Bank balances and cash disposed of	(4)
	573

There are no disposals of the subsidiaries for the year ended 31st March 2005.

37 COMMITMENTS

(a) Capital commitments

As at 31st March 2006, the Group had capital expenditure commitments in respect of properties under development and property, plant and equipment as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted but not provided for		
– acquisition in subsidiaries	**–**	3,955
– properties under development	**127**	128
– property, plant and equipment	**753**	753
	880	4,836

(b) Commitments under operating leases

As at 31st March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Not later than one year	**900**	416
Later than one year but not later than five years	**3,091**	1,538
Later than five years	**4,409**	2,595
	8,400	4,549

The Company did not have material capital expenditure and operating lease commitments as at 31st March 2005 and 2006.

38 BANKING FACILITIES

As at 31st March 2006, the Group's banking facilities totalling approximately HK$171,066,000 (2005: HK$206,397,000) were secured by the followings:

(a) first legal charges over prepaid lease payments and buildings held by the Group with a total net book value of approximately HK$41,608,000 (2005: Nil) (Note (i)); and

(b) corporate guarantees given by the Company amounting to HK$156,643,000 (2005: HK$206,397,000).

Note (i): Such charges were related to the banking facilities amounting to HK$14,423,000 which were granted to Ling Feng before being acquired during the year.

39 RELATED PARTY TRANSACTIONS

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

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
Rental expenses for directors' quarters paid to Luen Yat Enterprises Company Limited, a related company of the Group	(a)	**(864)**	(864)
Rental expenses charged by Mr. Poon Sau Tin and Mr. Poon Sum	(a)	**(384)**	(384)
Purchases of finished goods from Xinyimei	(b)	**(336)**	(2,109)
Sales of materials to Xinyimei	(b)	**53**	132

Mr. Poon Sau Tin and Mr. Poon Sum have beneficial interests in Luen Yat Enterprises Company Limited. Mr. Poon Sau Tin has beneficial interests in the Company. Mr. Poon Sum is the director and has beneficial interests in the Company.

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

(b) These transactions were undertaken at terms mutually agreed by Xinyimei and the Group.

40 CONTINGENT LIABILITIES

	Company	
	2006	2005
	HK$'000	HK$'000
Guarantee for banking facilities of subsidiaries	**156,643**	206,397

41 EVENTS AFTER BALANCE SHEET DATE

The following significant events took place subsequent to 31st March 2006 and up to the date of this report:

(a) On 24th April 2006, the Company entered into a non-legally binding Chinese Letter of Intent with an independent third party ("Vendor"), a major shareholder of Beijing Arch Technology Company Limited ("Beijing Arch"), pursuant to which the Company expresses its intent to acquire from the Vendor part of the capital in the Beijing Arch, which is principally engaged in the business of sales and distribution of paints products; and

(b) On 14th June 2006, the Company entered into a conditional placing agreement with a placing agent on a best endeavour basis for the placing of up to 86,000,000 new shares to not less than six placees at the placing price of HK$0.285 per placing share. On 27th June 2006, 86,000,000 ordinary shares were issued with a total net proceed of HK$24,285,000.

42 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies as described in Notes 2 and 3.

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25th July 2006.