

BOARD OF DIRECTORS

Mr YIP Kim Po (Chairman)
Mr HUI Ho Ming, Herbert
(Deputy Chairman)
Mr LAU Ping
Mr LIN Jianping#
Dr LO Wing Yan, William*
Mr YAO Zongren
Mr YE H V-nee*

Formerly, a Non-Executive Director. Appointed as an Executive Director w.e.f. 7 October 2003

* Independent Non-Executive Director,
Member of Audit Committee

COMPANY SECRETARY

Ms CHAN Chik Ching, Olivia

SOLICITORS

Deacons

AUDITORS

Moores Rowland Mazars

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Nedbank Limited, Hong Kong Branch
HSH Nordbank AG
Bangkok Bank Public Company Limited,
Hong Kong Branch
Equitable PCI Bank, Inc., Hong Kong Branch
Wing Lung Bank, Ltd.

PRINCIPAL OFFICE

Workshop Unit No. 4
5/F, Harbour Centre Tower 1
No. 1 Hok Cheung Street
Hung Hom, Kowloon
Hong Kong

FACTORY IN CHINA

No. 1 Ping Xi 4th Road
Nanping Technology Zone
Zhuhai, Guangdong
The People's Republic of China

REGISTERED OFFICE

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2 Church Street
Hamilton HM11
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HOME PAGE

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INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited

Management Discussion and Analysis - Chairman's Letter to Shareholders

3

On behalf of the Board of Directors (the "Board") of Ocean Grand Chemicals Holdings Limited ("Ocean Grand Chemicals" or the "Company") and its subsidiaries (the "Group"), I am delighted to report the results of the Group for the six months ended 30 September 2003 (the "Reporting Period").

RESULTS OF THE REPORTING PERIOD

Turnover of the Group in the Reporting Period, despite being affected by the SARS outbreak, reached HK\$256,717,000 (*six months ended 30 September 2002: HK\$110,989,000*), representing an increase of 131% as compared with the corresponding period in 2002. Gross profit for the Reporting Period has increased by 107% to HK\$47,322,000 (*six months ended 30 September 2002: HK\$22,849,000*) while net profit has posted an increase of 67% to HK\$29,765,000 (*six months ended 30 September 2002: HK\$17,805,000*).

BUSINESS REVIEW

Despite the effect of SARS on the Hong Kong economy, the Group's manufacturing base in Hunghom performed well in the Reporting Period. The total amount of gold salt produced during the Reporting Period doubled compared to the same period last year.

The Group's factory in Zhuhai, the People's Republic of China ("China" or the "PRC") has already reached 54% utilisation of production capacity since its opening in January 2003. It is expected that by the end of March 2004, the utilisation rate can reach 70%.



Precious metal electroplating chemicals plant located in Zhuhai, the PRC

As the largest precious metal electroplating chemicals manufacturer in China, the Group has (1) strengthened the marketing effort and began to set up representative offices in Shanghai, Beijing, Guangzhou and Shenzhen, and (2) established a research and development centre in Zhuhai focusing on developing new electroplating chemical products, improving production efficiency and product quality. Thanks to the research and development team's effort, the development of two new products, silver cyanide and silver nitrate, is now completed. Silver cyanide is another kind of electroplating chemical product while silver nitrate is mainly used in making photosensitive films. Significant synergies are expected in the production and marketing of these two new products and the existing silver salt operation of the Group. Regarding treatment and recovery of electroplating fluids, the Group will collaborate with the Department of Chemistry of the University of Hong Kong and jointly participate in the Innovation and Technology Fund provided by the Hong Kong SAR government on the research of the related technological improvement.



Control panel in the Zhuhai plant



Chemical reactor

BUSINESS PROSPECTS

The Group remains optimistic about its business outlook and prospect. With China progressing steadfastly in becoming the manufacturing hub of the world, the growth in demand for precious metal electroplating chemicals in China is expected to continue.

In addition, other precious metal chemical products such as palladium chloride and palladium tetra-ammonia chloride are under development. The market potential of palladium chloride in China is tremendous as it can be used in automobile pollution control, plastic electroplating and chemical catalysis industries.

The Group will also explore the special opportunities available to the Hunghom plant in Hong Kong brought by the Closer Economic Partnership Arrangement. This may include cooperation with foreign manufacturers to process electroplating chemicals or related chemical products in Hong Kong in order to obtain tariff exemption for imported chemical products.

The Group will endeavour to capitalise on its first-mover advantage and competitive edge in this market of high growth potential by expanding distribution network in China, further promoting the "Kenlap" brand, broadening spectrum of products and enhancing production efficiencies. The Group is committed to establishing itself as a preferred supplier of quality precious metal electroplating chemicals in Hong Kong and China.

Yip Kim Po

Chairman

Hong Kong, 17 December 2003

Management Discussion and Analysis - Report of the Directors

5

The Directors are pleased to present the interim report together with the interim financial statements of the Group for the Reporting Period.

FINANCIAL REVIEW

Capital structure

During the Reporting Period, the Company has issued 78,500,000 new shares for a net consideration of HK\$55,872,000 in relation to the listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 June 2003. As a result, the issued share capital of the Company increased to 475,000,000 shares with a par value of HK\$0.10 each. Please refer to note 11 for details on the change in capital structure during the Reporting Period.

Liquidity

Facing an uncertain business environment during the SARS, some customers had requested for a temporary lengthening of payment terms while suppliers were asking for earlier settlement. As the effect of the SARS was judged to be short-lived, the Group, after taking into account of its financial position and the long term business relationship with its counterparts, decided to temporarily adopt a more flexible approach in dealing with credit periods for selective customers and suppliers. As a result of this temporary policy, the Group experienced a 6-month cash net outflow from operation during the Reporting Period.

The situation has improved significantly subsequent to 30 September 2003, and the credit policies to both customers and suppliers as well as their settlement patterns are now back to normal. As at 16 December 2003, over HK\$88,411,000 (approximately 55.0%) of the accounts receivables outstanding on 30 September 2003 had been settled, and cash on hand rebounded to exceed HK\$50,000,000. The management is confident that the Group will record a net cash inflow from operations for the entire financial year.

As at 30 September 2003, the net current assets of the Group were HK\$135,654,000 (*31 March 2003: HK\$64,900,000*). Within the current assets, HK\$7,526,000 (*31 March 2003: HK\$36,635,000*) was in the form of free cash and cash equivalents, all in HK\$ and RMB.

Financial resources

Total bank borrowings as at 30 September 2003 were HK\$50,715,000 (*31 March 2003: HK\$30,534,000*), of which approximately 9%, HK\$4,546,000 (*31 March 2003: HK\$2,150,000, approximately 7%*) will be due after one year. Net debt gearing (i.e. total borrowings less free cash/net tangible assets) of the Group as at 30 September 2003 was 20.2% (*31 March 2003: -4.2%*), while the gross debt gearing was 22.9% (*31 March 2003: 19.7%*).

Capital investment

The Group is considering adding a silver nitrate production line, a silver cyanide production line and an electroplating fluid recovery line to complement its existing business operation. The total capital investment for these lines, if they are to be built, would be approximately HK\$70,000,000 to HK\$80,000,000. It is anticipated that the capital investment, if made, will be financed by a combination of internal resources and external financing.

Foreign exchange risk and interest rate risk

The majority of the transactions of the Group is denominated in either HK\$, RMB and US\$. Owing to the pegs of RMB and HK\$ to US\$, in the opinion of the management, the Group's exposure to foreign exchange risk is insignificant. Accordingly, no derivative product is used to hedge the foreign exchange risk.

All bank borrowings of the Group are in HK\$ and RMB and are on a floating rate basis. Given that the gross debt gearing of the Group as at 30 September 2003 was only 22.9%, the management is of the view that the Group is not subject to any significant interest rate risk.

Segmental information

Details of segmental information are set out in note 3 to this report. The subcontracting segment, in which precious metals are provided by customers for processing, remains the most lucrative segment in our business. Margins in all segments remain quite stable during the Reporting Period.

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK2 cents per share (2002: Nil) representing a dividend payout ratio of 31.9%, for the six months ended 30 September 2003, totalling HK\$9,500,000 to the shareholders registered in the Company's Register of Members as at the close of business on 16 January 2004. The interim dividend will be paid on 5 February 2004 to the shareholders whose names appear on the Register of Members of the Company on 16 January 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14 January 2004 to 16 January 2004, both days inclusive in order to determine those shareholders entitled to the proposed interim dividend, during which period no transfer of shares shall be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch registrar of the Company, Tengis Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on 13 January 2004.

SHARE OPTION SCHEME

At the Annual General Meeting of the Company held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme (the "Share Option Scheme") which complied with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange. No option has been issued by the Company pursuant to the Share Option Scheme up to the date of this 2003 interim report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2003, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total interests
Mr Yip Kim Po	—	—	—	Note	Note
Mr Hui Ho Ming, Herbert	—	—	—	Note	Note
Mr Lau Ping	—	—	—	Note	Note
Mr Lin Jianping	—	—	—	—	—
Dr Lo Wing Yan, William	—	—	—	—	—
Mr Yao Zongren	—	—	—	Note	Note
Mr Yeh V-nee	—	—	—	—	—

Note:

Successful Gold Profits Limited is a holder of 356,136,000 shares in the Company. Successful Gold Profits Limited is a wholly-owned subsidiary of Ocean Grand Holdings Limited. Ocean Grand Holdings Limited, by virtue of the SFO, is deemed to be interested in all the shares in which Successful Gold Profits Limited is interested.

The securities of Ocean Grand Holdings Limited are listed on the Main Board of the Stock Exchange. As at 30 September 2003, Mr Yip Kim Po, Mr Hui Ho Ming, Herbert, Mr Lau Ping and Mr Yao Zongren directly and indirectly held 125,513,444 shares, 1,000,000 shares, 735,000 shares and 50,000 shares respectively (approximately 31.49%, 0.25%, 0.18% and 0.01% respectively) of the issued share capital of Ocean Grand Holdings Limited.

As at the date of this 2003 interim report, Mr Yip Kim Po, Mr Hui Ho Ming, Herbert and Mr Yao Zongren directly and indirectly held 127,225,444 shares, 5,800,000 shares and 50,000 shares respectively (approximately 30.57%, 1.39% and 0.01% respectively) of the issued share capital of Ocean Grand Holdings Limited. Mr Lau Ping has no interest in Ocean Grand Holdings Limited as at the date of this 2003 interim report.

Save as disclosed above, the Company had no notice of any interests and short positions in the shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Save as disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", none of the Directors or chief executives or their spouses or children under 18 years of age were granted or exercised any right to subscribe for equity or debt securities in the Company.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 30 September 2003, the interests or short positions of the substantial shareholder and other person (other than those Directors or chief executives of the Company disclosed above) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position – Substantial Shareholder

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Successful Gold Profits Limited	Directly	356,136,000	74.98%

Long position – Other Person

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Martin Currie China Hedge Fund Limited	Directly	24,217,000	5.10%

Save as disclosed above, as at 30 September 2003, there was no person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

STAFF POLICY

Staff costs are disclosed in note 4 to this 2003 interim report.

The management firmly believes that an organisation's most precious asset is its staff. The Group offers competitive remuneration packages at market level to staff members who render satisfactory performance. Top performers might receive further incentives at the absolute discretion of the management. Adequate and in-depth on-the-job training is provided to all employees to facilitate the performance of their duties. As at 30 September 2003, the Group had approximately 100 (*31 March 2003: approximately 80*) full-time employees.

PLEDGE OF ASSETS

Details of pledge of assets are disclosed in note 13 to this 2003 interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2003 (*2002: Nil*).

AUDIT COMMITTEE

The terms of reference based on "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants in February 2002 was adopted by the Board to deal clearly with the authority and duties of the Audit Committee (the "Committee").

The Committee's principal duties is to review and supervise of the Group's financial reporting process and internal controls. As at 30 September 2003, the Committee comprised Mr Yeh V-nee (the chairman), Mr Lin Jianping and Dr Lo Wing Yan, William. Mr Lin was appointed an Executive Director of the Company with effect from 7 October 2003 and he ceased to serve on the Committee accordingly.

The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2003.

AUDITORS

The Auditors of the Company Messrs Moores Rowland merged with Messrs Mazars on 1 October 2003 and are now practising under the name of Moores Rowland Mazars.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Group is not or was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for any part of the accounting period covered by this 2003 interim report.

The financial information disclosed above complies with Appendix 16 of the Listing Rules and has been reviewed by the Committee before being put forward to the Directors for approval.

On behalf of the Board

Yip Kim Po
Chairman

Hong Kong, 17 December 2003

Condensed Consolidated Financial Statements - Condensed Consolidated Income Statement

11

The Directors of the Company are pleased to announce the unaudited consolidated results of the Group for the Reporting Period together with the comparative figures for the corresponding period in 2002 as follows:

Condensed Consolidated Income Statement – unaudited

	Note	Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
Turnover	3	256,717	110,989
Cost of sales		(209,395)	(88,140)
Gross profit		47,322	22,849
Other income		262	118
General and administrative expenses		(9,780)	(2,580)
Other operating expenses		(6,628)	(2,095)
Profit from operations		31,176	18,292
Finance costs		(1,411)	(487)
Profit from ordinary activities before taxation	4	29,765	17,805
Taxation	5	–	–
Net profit attributable to shareholders		29,765	17,805
Dividends attributable to the period	6	9,500	–
Earnings per share	7	HK6.80 cents	HK4.49 cents

Condensed Consolidated Financial Statements - Condensed Consolidated Statement of Changes in Equity

Condensed Consolidated Statement of Changes in Equity – unaudited

	Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Opening balance – Total equity	154,828	57,471
Dividend approved in respect of previous year	(19,000)	–
Reserve arising from shares exchange with a subsidiary	–	32,702
Shares issue under the Initial Public Offering (the “IPO”) on the Company’s shares	7,850	–
Premium on issuance of shares from the IPO	61,230	–
Expenditure on issuance of shares from the IPO	(13,208)	–
Exchange difference on translation of the financial statements of a foreign subsidiary	98	(75)
Profit for the year	29,765	17,805
	66,735	50,432
Closing balance – Total equity	221,563	107,903

Condensed Consolidated Financial Statements - Condensed Consolidated Balance Sheet

13

Condensed Consolidated Balance Sheet

	Note	At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		4,800	4,800
Property, plant and equipment	8	76,300	73,977
Intangible asset		8,003	9,034
Prepayment and deposits		1,352	4,267
		90,455	92,078
Current assets			
Inventories		10,819	5,026
Trade and other receivables	9	186,342	170,075
Tax recoverable		128	119
Bank balances and cash		7,526	36,635
		204,815	211,855
Current liabilities			
Short-term bank borrowings		43,952	27,784
Trade and other payables	10	20,775	116,354
Current portion of long-term bank borrowings		2,217	600
Taxation		2,217	2,217
		69,161	146,955
Net current assets		135,654	64,900
Total assets less current liabilities		226,109	156,978
Non-current liabilities			
Long-term bank borrowings		4,546	2,150
NET ASSETS		221,563	154,828
CAPITAL AND RESERVES			
Issued capital	11	47,500	223
Reserves	12	174,063	154,605
		221,563	154,828

Condensed Consolidated Financial Statements - Condensed Consolidated Cash Flow Statement

Condensed Consolidated Cash Flow Statement – unaudited

	Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES		
Cash (used in) generated from operations	(91,315)	19,677
Dividend paid	(19,000)	–
Interest received	164	118
Interest paid	(1,411)	(487)
Hong Kong profits tax paid	(9)	(108)
Net cash generated (used in) from operating activities	(111,571)	19,200
INVESTING ACTIVITIES		
Deposits paid for purchase of plant and equipment	(98)	(8,445)
Purchase of plant and equipment	(2,744)	(8,731)
Net advances to fellow subsidiaries	–	(2,938)
Interest paid	–	(5,105)
Net cash used in investing activities	(2,842)	(25,219)
FINANCING ACTIVITIES		
New short-term bank borrowings	149,196	–
New long-term bank borrowings	4,993	35,481
Repayment of long-term bank borrowings	(980)	(300)
Repayment of short-term bank borrowings	(133,028)	(20,219)
Issue of shares by a subsidiary	–	35,081
Net proceeds from issue of shares	69,080	–
Expenditures on issue of shares	(8,157)	(2,378)
Net advances from a fellow subsidiary	5,495	–
Net advances to the ultimate holding company	–	(5,250)
Net repayment to the immediate holding company	(1,295)	(12,975)
Net cash generated from financing activities	85,304	29,440
Net (decrease) increase in cash and cash equivalents	(29,109)	23,421
Cash and cash equivalents at beginning of year	36,635	2,026
Cash and cash equivalents at balance sheet date	7,526	25,447
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	7,526	25,447

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

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda on 29 July 2002. Its ultimate holding company is Ocean Grand Holdings Limited, a company which is incorporated in Bermuda and listed on the Main Board of the Stock Exchange.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on the Stock Exchange, the Company became the holding company of the companies now comprising the group formed after the completion of the Reorganisation on 9 June 2003.

The Reorganisation principally involved the exchange of shares of the Company with all the issued share capital of Ocean Grand Chemicals (BVI) Limited. Details of the Reorganisation are set out in the prospectus issued by the Company dated 17 June 2003.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these proforma financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group, or since the dates of incorporation of the companies now comprising the Group to 30 September 2003. The Directors consider that this basis provides meaningful information for shareholders as regards the historical performance of the Group.

The shares of the Company were listed on the Main Board of the Stock Exchange on 30 June 2003.

2. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

The condensed consolidated interim financial statements have been prepared in accordance with Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

The same accounting policies adopted in preparing the Company’s annual financial statements for the year ended 31 March 2003 have been applied to the condensed consolidated interim financial statements except for the adoption of the revised SSAP 12 “Income taxes” which is effective for the accounting periods commencing on or after 1 January 2003.

2. ACCOUNTING POLICIES (continued)

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenses, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 April 2003, in order to comply with SSAP 12 (revised) issued by the Hong Kong Society of Accountants, deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is realised or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The adoption of SSAP 12 (revised) has had no significant impact on the accounts of the Group.

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Turnover and revenue recognised by category are analysed as follows:

	Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods	216,698	89,330
Subcontracting fees	40,019	21,659
Revenue	256,717	110,989

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

The turnover and operating profit of the Group analysed by business segments and by geographical segments are as follows:

(a) By business segments

The Group's major business segments comprise manufacturing, trading and provision of subcontracting services in respect of chemicals for electroplating of precious metal materials.

	Manufacturing HK\$'000	Trading HK\$'000	Subcontracting HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2003				
External sales	123,809	92,889	40,019	256,717
Segment result	5,792	6,104	35,426	47,322
Unallocated operating income and expenses				(16,146)
Profit from operations				31,176
Six months ended 30 September 2002				
External sales	54,453	34,877	21,659	110,989
Segment result	1,448	2,091	19,310	22,849
Unallocated operating income and expenses				(4,557)
Profit from operations				18,292

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

(b) By geographical segments

	Six months ended 30 September 2003	
	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	152,726	(5,583)
PRC	103,991	36,759
	<u>256,717</u>	<u>31,176</u>

	Six months ended 30 September 2002	
	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	56,666	(2,405)
PRC	54,323	20,697
	<u>110,989</u>	<u>18,292</u>

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Cost of inventories and services provided	209,395	88,140
Depreciation	3,118	445
Staff costs	5,862	1,304
Amortisation of intangible assets	1,093	—
Donation	1,500	—

5. TAXATION

No Hong Kong profits tax has been provided as the Group did not have any assessable profit during the period (2002: Nil).

Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai"), a wholly foreign-owned enterprise established in Zhuhai, is exempted from the PRC income taxes for two years starting from the first year of profitable operations, followed by a 50% reduction for the following three years. Kenlap Zhuhai commenced operation in January 2003.

6. INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK2 cents per share for the six months ended 30 September 2003 (2002: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2003 was based on the consolidated profit attributable to shareholders of approximately HK\$29,765,000 (30 September 2002: HK\$17,805,000) and on the weighted average number of 437,680,328 ordinary shares of the Company in issue during the period (2002: 396,500,000 shares), calculated based on the assumption that the Reorganisation as set out in note 1, had been completed on 1 April 2002.

8. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
Cost or valuation	
As at 1 April 2003	76,492
Additions	5,441
As at 30 September 2003	81,933
Accumulated depreciation	
As at 1 April 2003	2,515
Charge for the period	3,118
As at 30 September 2003	5,633
Net book value	
As at 30 September 2003	<u>76,300</u>
As at 1 April 2003	<u>73,977</u>

9. TRADE AND OTHER RECEIVABLES

	At 30 September 2003 HK\$'000	At 31 March 2003 HK\$'000
Trade receivables	160,815	149,173
Other receivables		
Deposits, prepayment and other debtors	25,527	20,902
	<u>186,342</u>	<u>170,075</u>

9. TRADE AND OTHER RECEIVABLES (continued)

Credit terms granted to customers range from 1 month (for majority of the customers in Hong Kong) to 1 year (for majority of the subcontracting customers), depending on their relationship with the Group and settlement history. The ageing analysis of trade receivables is as follows:

	At 30 September 2003 HK\$'000	At 31 March 2003 HK\$'000
Current (within 1 month)	42,330	69,838
1 month to 2 months	21,848	40,558
2 months to 3 months	28,351	10,388
More than 3 months but less than 12 months	54,054	27,886
More than 12 months but less than 24 months	14,232	503
	160,815	149,173

10. TRADE AND OTHER PAYABLES

	At 30 September 2003 HK\$'000	At 31 March 2003 HK\$'000
Trade payables	200	105,391
Other payables		
Accrued charges and other creditors	6,810	1,398
Due to the immediate holding company	8,270	9,565
Due to a fellow subsidiary	5,495	–
	20,775	116,354

The ageing analysis of trade payables is as follows:

	At 30 September 2003 HK\$'000	At 31 March 2003 HK\$'000
Current (within 1 month)	200	45,154
1 month to 2 months	–	44,227
2 months to 3 months	–	15,812
More than 3 months but less than 12 months	–	198
	200	105,391

11. ISSUED CAPITAL

	At 30 September 2003	
	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each	1,000,000,000	100,000
Issued and fully paid:		
Shares issued and allotted fully paid	1,000,000	100
Shares issued as consideration for the acquisition of the entire issued share capital of Ocean Grand Chemicals (BVI) Limited	1,226,676	123
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public offer and placing in the Stock Exchange ("Capitalisation Issue")	394,273,324	–
At beginning of period	396,500,000	223
Capitalisation Issue	–	39,427
Shares issued under IPO of the Company's shares	78,500,000	7,850
At balance sheet date	475,000,000	47,500

For the purpose of the preparation of these proforma financial statements, the balance of the issued capital shown in the proforma combined balance sheet as at 31 March 2003 represents the issued capital of the Company immediately before the issue of 78,500,000 new shares in relation to the IPO of the Company's shares on the Stock Exchange.

11. ISSUED CAPITAL (continued)

Movements in the share capital of the Company were as follows:

- (a) The Company was incorporated in Bermuda with limited liability on 29 July 2002 with HK\$100,000 authorised share capital of 1,000,000 shares with a par value of HK\$0.10 each, all of which were issued, allotted and credited as fully paid on 19 August 2002.
- (b) By written resolutions of the shareholders of the Company passed on 9 June 2003, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares with a par value of HK\$0.10 each.
- (c) On 9 June 2003, as part of the Reorganisation, the Company acquired 1,113,352 shares with a par value of US\$0.01 each of Ocean Grand Chemicals (BVI) Limited from Successful Gold Profits Limited (“Successful Gold”) and twelve independent investors, and issued 1,012,915 shares, credited as fully paid, to Successful Gold and 213,761 shares, credited as fully paid, to the twelve independent investors.
- (d) Pursuant to the written resolutions of the shareholders of the Company passed on 10 June 2003:
 - (i) the issue of 78,500,000 shares with a par value of HK\$0.10 each for cash at HK\$0.88 per share by way of public offer and placing was approved (the “Share Offer”) and the Directors were authorised to allot and issue these new shares; and
 - (ii) conditional on the share premium account being credited as a result of the Share Offer, a total of 394,273,324 shares with a par value of HK\$0.10 each were allotted as fully paid at par to the shareholders whose names appeared on the register of the members of the Company at the close of business on 25 June 2003, in proportion to their then existing shareholdings in the Company by way of capitalisation of the sum of HK\$39,427,332 standing to the credit of the share premium account of the Company.
- (e) On 26 June 2003, 78,500,000 new shares of the Company were issued for cash at HK\$0.88 each under the IPO of the Company’s shares.
- (f) In accordance with the terms as mentioned in note 11(d)(ii) above, 394,273,324 new shares with a par value of HK\$0.10 each were allotted on 26 June 2003.

12. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2002	–	(172)	877	56,543	57,248
Reserve arising from shares exchange with a subsidiary	–	–	32,702	–	32,702
Exchange difference on translation of the financial statements of a foreign subsidiary	–	(75)	–	–	(75)
Profit for the year	–	–	–	17,805	17,805
At 30 September 2002	–	(247)	33,579	74,348	107,680
At 1 April 2003	–	667	33,706	120,232	154,605
Final dividend for previous year	–	–	–	(19,000)	(19,000)
Premium on issuance of shares from IPO	61,230	–	–	–	61,230
Expenditure on issuance of shares from IPO	(13,208)	–	–	–	(13,208)
Capitalisation Issue	(39,427)	–	–	–	(39,427)
Exchange difference on translation of the financial statements of a foreign subsidiary	–	98	–	–	98
Profit for the year	–	–	–	29,765	29,765
At 30 September 2003	<u>8,595</u>	<u>765</u>	<u>33,706</u>	<u>130,997</u>	<u>174,063</u>

13. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 30 September 2003, the Group had aggregate banking facilities of approximately HK\$194,322,000 (31 March 2003: HK\$61,690,000), comprising (i) approximately HK\$6,763,000 (31 March 2003: HK\$2,750,000) for installment loans, and (ii) approximately HK\$187,559,000 (31 March 2003: HK\$58,940,000) for bank overdrafts, short-term loans and trade financing. Unused facilities as at the same date amounted to approximately HK\$143,607,000 (31 March 2003: HK\$31,156,000).

The banking facilities of the Group were secured by a corporate guarantee provided by the Company and pledge of properties and machinery with net book value of approximately HK\$11,535,000 (31 March 2003: HK\$7,410,000).

14. CONTINGENT LIABILITIES

The corporate guarantee given to a bank in respect of banking facilities granted to a subsidiary of its ultimate holding company was released.