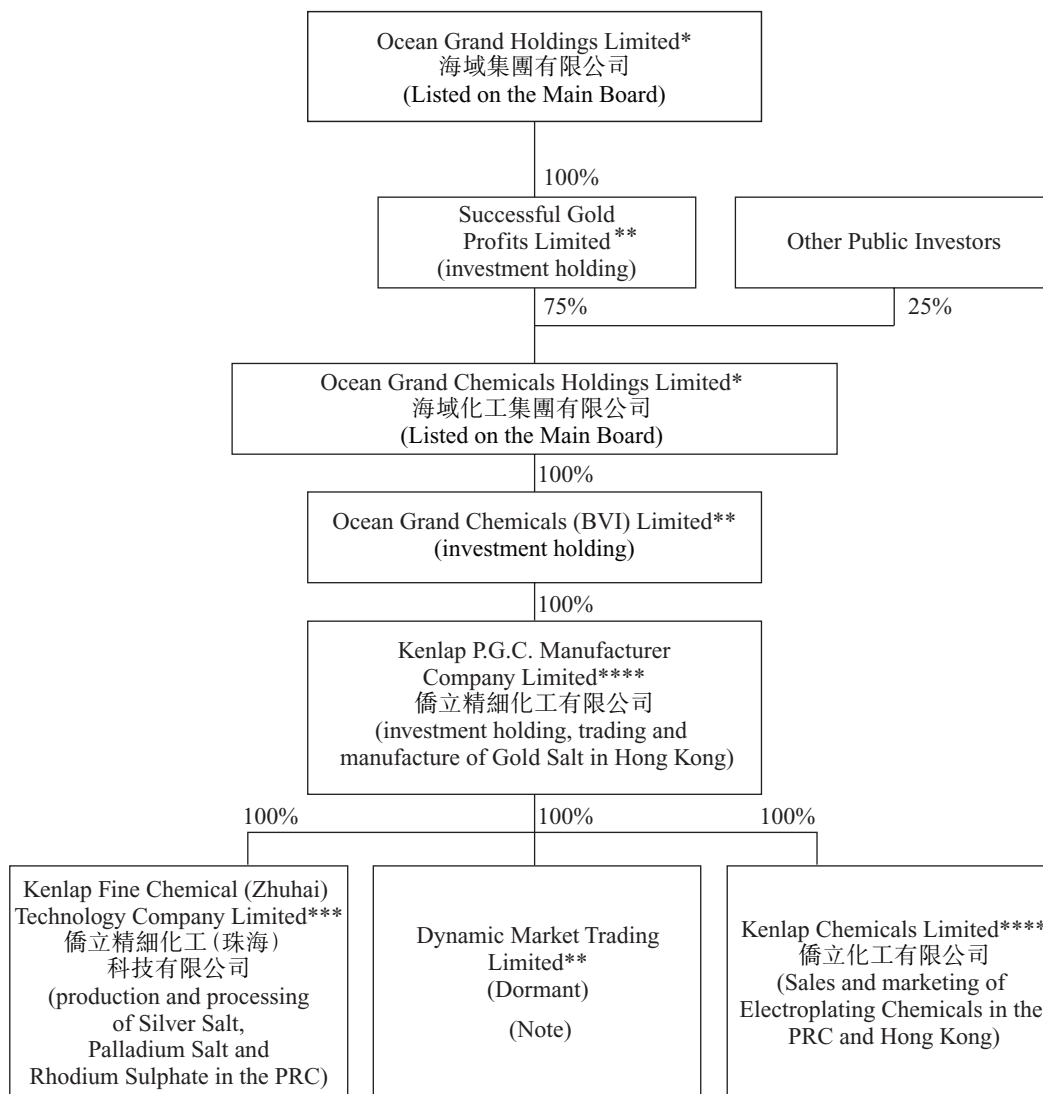


BUSINESS OF THE GROUP

GROUP STRUCTURE

The following diagramme illustrates the corporate structure of the Group immediately following the completion of the Share Offer and the Capitalisation Issue.



- * incorporated in Bermuda
- ** incorporated in the British Virgin Islands
- *** incorporated in the PRC
- **** incorporated in Hong Kong

Note:

According to the initial business plan of the Group, Dynamic Market and Kenlap Chemicals will be responsible for the Group's trading and marketing activities in the PRC and Hong Kong. In order to maintain an effective internal control system, the Group changed its business plan by centralising its trading and marketing activities at Kenlap Chemicals. Currently, the Group does not have any business plan and timetable for the development of Dynamic Market.

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HISTORY AND DEVELOPMENT

OGHL currently holds a 90.40% interest in the Company and is primarily engaged in manufacturing and wholesaling of aluminium extrusion and stainless steel products. Prior to the Reorganisation, the Group's Chemicals Business was operated by Kenlap which was a subsidiary of OGHL.

The Group's Chemicals Business began with the incorporation of Kenlap in January 1991. As at the date of incorporation, 50% of Kenlap was owned by Mr. Yip Kim Po and the remaining 50% by Mr. Au-Yeung Hak Ming. For the period from March 1993 to 1995, Kenlap was solely engaged in the production of Gold Salt at the Hunghom Plant under the supervision of Mr. Yao Zongren, the then general manager of Kenlap and currently an executive Director of the Company. In September 1996, Mr. Au-Yeung Hak Ming transferred his shareholding in Kenlap to Ms. Yip Wan Fung (the sister of Mr. Yip Kim Po). The entire shareholding of Kenlap was acquired from Mr. Yip Kim Po and Ms. Yip Wan Fung, who effectively owned 90% and 10% of Kenlap respectively, by Successful Gold in September 1999 and as a result, Kenlap became a wholly-owned subsidiary of OGHL.

Witnessing the rapid growth in the Electroplating Chemicals market in Hong Kong, Kenlap commenced trading in Electroplating Chemicals in 1995. Before the Zhuhai Plant commenced operations in January 2003, Kenlap did not have its own production facilities in the PRC. Therefore, during the period from 1995 to 2002, Kenlap sourced Palladium Salt, Silver Salt and Rhodium Sulphate from CCRI and other suppliers in the PRC and Hong Kong for the Group's customers. In 1998, Kenlap approached several PRC based chemical distributors to process raw materials provided by them into Palladium Salt. On 8 May 1998, Kenlap entered into a subcontracting agreement with CCRI under which CCRI was appointed by Kenlap to provide Palladium Salt processing services to Kenlap at a fixed price for a period of 5 years. CCRI was not engaged in the provision of Palladium Salt processing services before the appointment of Kenlap in May 1998. Since then, Kenlap has subcontracted all their Palladium Salt processing orders to CCRI and the business of Palladium Salt subcontracting was developed rapidly during the Track Record Period. For details of the subcontracting arrangement with CCRI, please refer to the sub-paragraph headed "Subcontracting the processing of Palladium Salt to CCRI" under the paragraph headed "Strategic relationship with CCRI" in this section.

In May 2002, Kenlap expanded the scale of operation in the Hunghom Plant from 3,332 sq. ft. to 9,996 sq. ft. and the maximum annual production capacity of Gold Salt has also been increased from 2,000 kg to 7,000 kg.

In order to meet the growing demand for Electroplating Chemicals in the PRC and Hong Kong, to lessen its reliance on CCRI and to prepare for expansion overseas, the plan of the Group to establish production facilities in Zhuhai was finalised in July 2001. Kenlap Zhuhai was incorporated in the PRC on 1 July 2001 for the establishment of the production facilities of the Group in the PRC. The Zhuhai Plant commenced operation in January 2003.

BUSINESS OF THE GROUP

The Zhuhai Plant was constructed on a parcel of land with a site area of 161,460 sq. ft. on which buildings and structures were erected, namely one industrial building, one office building, one research and development building, one storage building, one sewage pump room and one canteen. On 28 September 2001 and 12 February 2003, Kenlap Zhuhai entered into two agreements for the assignment of State-owned land use rights with the Management Committee of Nan Bing Scientific and Technological Industry Garden of Zhuhai Hi-Tech Zone. Pursuant to the above agreements for the assignment of State-owned land use rights, the Management Committee of Nan Bing Scientific and Technological Industry Garden of Zhuhai Hi-Tech Zone agreed to grant to Kenlap Zhuhai the land use rights of the Zhuhai Plant for a term commencing from 16 November 2001 and due to expire on 28 September 2051. The land premium paid by Kenlap Zhuhai was fully settled in February 2003. According to its business licence dated 15 April 2002 and 20 February 2003 respectively, Kenlap Zhuhai is able to produce Silver Salt, Palladium Salt, Rhodium Sulphate, Electroplating Chemicals and silver nitrates.

As at the Latest Practicable Date, the Group has approximately 90 active customers, comprising 84 for its sale of Electroplating Chemicals and 6 for its provision of Palladium Salt processing services respectively. For the business of Palladium Salt processing services, the Group's customers are mainly chemical distributors. For the sales of Electroplating Chemicals businesses, the Group's customers are mainly electroplating service providers, watches and clocks manufacturers, jewellery manufacturers and printed circuit board manufacturers. The length of the business relationships between the Group and its top five largest customers for the sale of Electroplating Chemicals business range between six months to nine years. For the business of Palladium Salt subcontracting and processing services, the length of the business relationships between the Group and its subcontracting customers range between two months to five years.

Each of the Hunghom Plant and the Zhuhai Plant occupy total gross floor areas of approximately 9,996 sq.ft. and 42,129 sq.ft. respectively. The Hunghom Plant is currently used by the Group for the purpose of Gold Salt production while the Zhuhai Plant is currently used by the Group for the purposes of Silver Salt, Palladium Salt and Rhodium Sulphate processing. The Group has a maximum annual production capacity of about 7,000 kg of Gold Salt, 160,000 kg of Silver Salt, 6,000 kg of Palladium Salt and 200 kg of Rhodium Sulphate. As at the Latest Practicable Date, the Group had 57 and 19 full-time employees in the PRC and Hong Kong respectively. The Electroplating Chemicals of the Group are sold under the Group's own brand name "Kenlap". Further information on each of the above products can be found under the subsection headed "Products" of this section to this prospectus.

Prior to the commencement of operation of Kenlap Chemicals in August 2002, Kenlap was engaged in the manufacture of Gold Salt and sales of all products of the Group. In order to centralise the trading business and marketing activities of the Group, the Group plans to move all the trading business and marketing activities from Kenlap to Kenlap Chemicals gradually. Eventually, Kenlap Chemicals will become the trading arm of the Group and distribution center

BUSINESS OF THE GROUP

for all products manufactured in the Zhuhai Plant and the Hunghom Plant. Kenlap Zhuhai serves as the production house of the Group in the PRC and also provides after sales services to customers in the PRC. Kenlap Zhuhai will serve the Group's customers in the PRC, but all sales activities will be managed centrally by Kenlap Chemicals. Prior to the establishment of the Zhuhai Plant, PRC customers either paid the Group in Hong Kong Dollar through their related companies in Hong Kong or in RMB to a fellow subsidiary of the Group in the PRC.

As part of the Reorganisation, the Company was incorporated as an exempted company in Bermuda on 29 July 2002 and became the holding company of the Group. Details of the Reorganisation are set forth under "Corporate reorganisation" in Appendix V to this prospectus.

PRODUCTS

Gold Salt produced by the Group is of specifications well-recognised by the industry and conform to the standards set by the BSI, which confirm that the Group's products and services are in accordance with international standards. Apart from the production of Gold Salts, the Group also engages in the processing of Silver Salt, Palladium Salt, Rhodium Sulphate and trading of these Electroplating Chemicals. The main products types are described as follows:

Chemicals	Descriptions
Gold Salt	A gold-electroplating chemical specially designed for the gold-electroplating process of precise electronic components, jewellery and watch parts.
Silver Salt	A silver-electroplating chemical suitable for use in the jewellery, hardware, integrated circuits and photographic industries.
Palladium Salt	A palladium-electroplating chemical specially designed for the palladium-electroplating process of watch parts, also for the other areas in which good appearance of plating layer is required.
Rhodium Sulphate	As a chemical reagent, it is used in top-quality electroplating of watch parts, electronic devices, optical instruments, chemical equipment as well as decorative ornaments.

BUSINESS OF THE GROUP

The Electroplating Chemicals of the Group possess the following molecular formula and features:

Gold Salt

Molecular Formula:	KAu (CN)_2	Molecular Weight:	288.14
Specifications:	(British Standard) BS5658: 1979		
Appearance:	White crystal		
Content of Gold:	68.3%		

Palladium Salt

Molecular Formula:	$\text{Pd (NH}_3)_2 \text{Cl}_2$	Molecular Weight:	211.4
Appearance:	Yellow powder		
Content of Palladium:	50%		

Silver Salt

Molecular Formula:	KAg (CN)_2	Molecular Weight:	119.01
Appearance:	White crystal		
Content of silver:	54%		

Rhodium Sulphate

Molecular Formula:	$\text{Rh}_2(\text{SO}_4)_3$	Molecular Weight:	494
Appearance:	Reddish-brown transparent liquid		
Rhodium content:	5g per 100 ml		

PRODUCTION AND PROCESSING PROCESSES

The basic production and processing process for each of the Electroplating Chemicals is briefly described in the following sections.

(i) Gold Salt

- Since March 1993, Kenlap has commenced its Gold Salt production in the Hunghom Plant.

BUSINESS OF THE GROUP

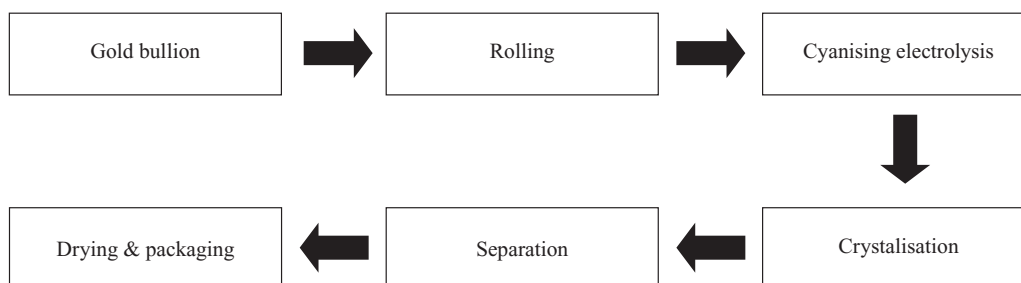
Raw materials

Gold, in its raw form, is gold bullion consisting of not less than 99.95% pure gold. The degree of purity directly affects the quality of Gold Salt. The Company purchases gold bullion directly from banks and gold suppliers in Hong Kong.

Production

Gold bullion is rolled into very thin sheets to increase surface area. If gold bullion is over 1 kilogram in weight, it will be melted in a furnace at extremely high temperatures and cast into smaller bars before rolling. The gold sheets are then placed in an electrolytic cell full of potassium cyanide solution where they react with cyanic ions under action of electric current and become a metal complex called potassium gold cyanide. The complex solution is transferred to a tank with a stirrer and a cooling jacket and crystallised at low temperature. Wet crystal is separated from solution by a centrifuge and dried in an oven at vacuum to form Gold Salt. Finally, finished products are packaged into containers. The entire production cycle of Gold Salt takes about 24 hours to complete.

Summary of the Gold Salt production cycle



(ii) Palladium Salt

- Since January 2003 Kenlap Zhuhai has commenced the processing of Palladium Salt in the Zhuhai Plant.

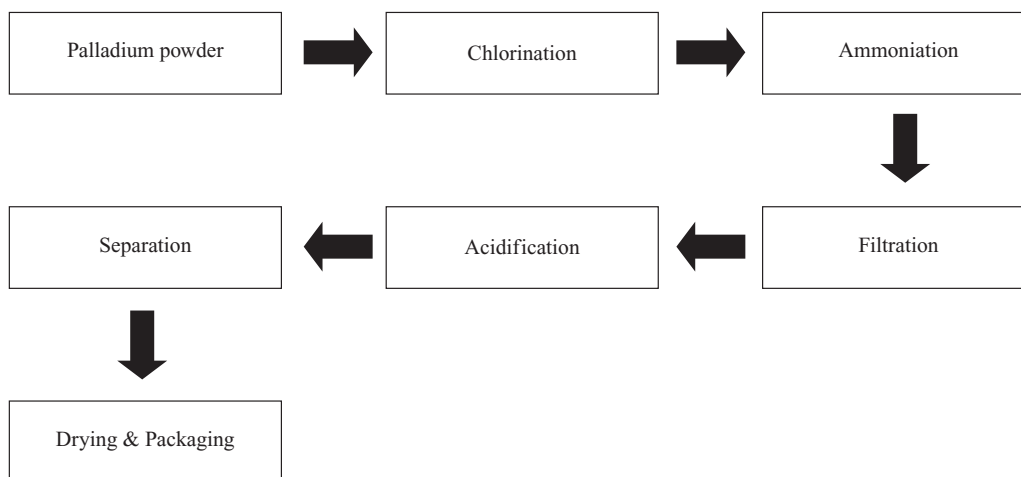
Raw materials

Palladium Salt is processed from palladium powder provided by the subcontracting customers with a minimum purity of 99.95%. The level of purity will directly affect the end product's quality.

Processing Process

In a reactor, palladium powder reacts with chlorine to form palladium chloride. Palladium chloride further reacts with ammonia to form a solution of palladium tetra-ammonia dichloride. The solution is filtrated to remove insoluble impurities and acidified with hydrochloric acid to form a precipitate of Palladium Salt, then separated from solvent, dried and packaged as the finished product. The processing cycle of Palladium Salt takes about 24 hours to complete.

Summary of the Palladium Salt processing process



(iii) Silver Salt

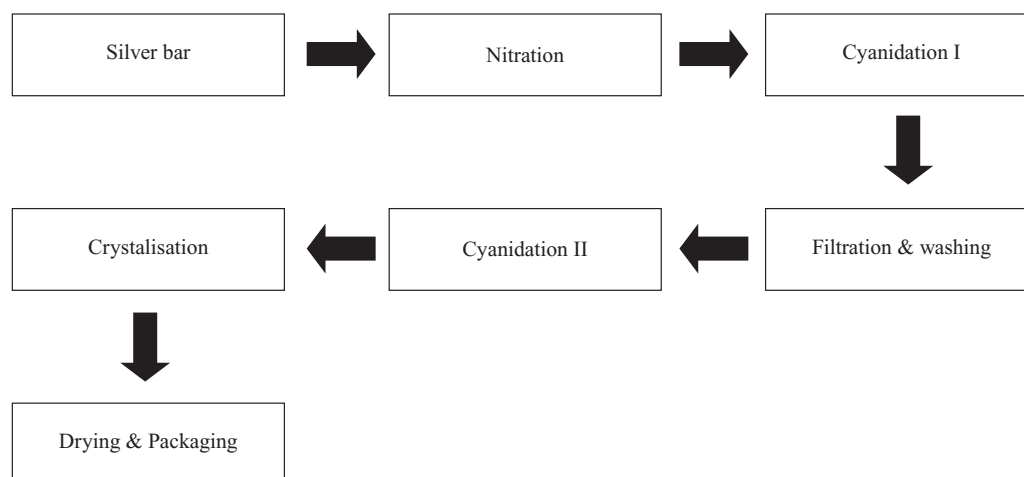
- Since January 2003, Kenlap Zhuhai has commenced the processing of Silver Salt in the Zhuhai Plant.

Raw materials

Silver Salt is derived from silver bars provided by the subcontracting customers with a minimum purity of 99.95%. Impurities in the raw material will directly affect the end product's quality.

Processing Process

Silver reacts with nitric acid to form silver nitrate, which further reacts with potassium cyanide to form solid silver cyanide. After filtration and washing, silver cyanide combines with excessive amounts of potassium cyanide to form a silver complex which is crystallised at low temperatures, then dried and packaged as the finished product. The processing cycle of Silver Salt takes about 48 hours to complete.

Summary of the Silver Salt production processing process**(iv) Rhodium Sulphate**

- Since January 2003, Kenlap Zhuhai has commenced its processing of Rhodium Sulphate in the Zhuhai Plant.

Raw materials

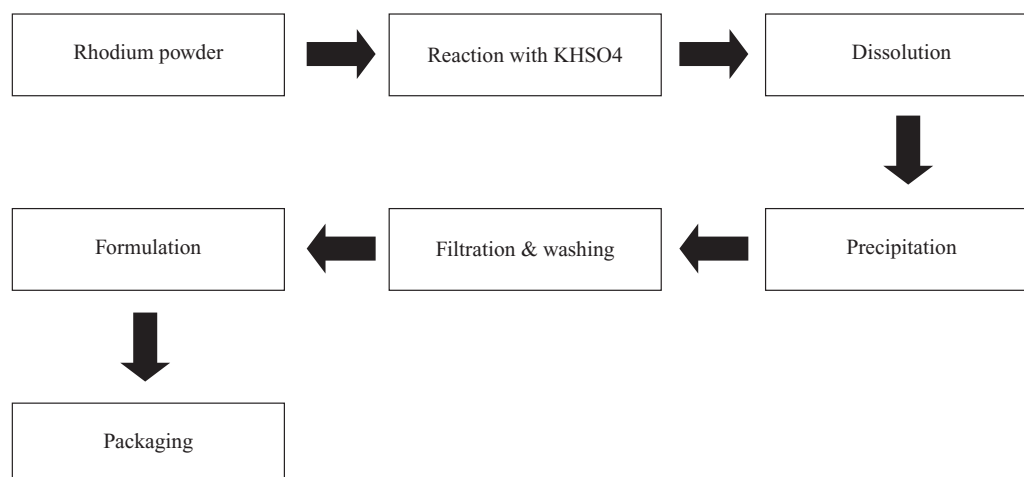
Rhodium Sulphate is derived from rhodium powder provided by the subcontracting customers with a minimum purity of 99.99%. Impurities in the raw material will directly affect the end product's quality.

Processing Process

Rhodium powder reacts with potassium hydrosulfate at high temperature, then cooled and dissolved in water. The precipitate of Rhodium Sulphate is formed from solution when adding alkali. After filtration and washing to remove impurities, Rhodium Sulphate is dissolved in diluted sulfuric acid solution to form Rhodium Sulphate solution. The processing cycle of Rhodium Sulphate takes about 24 hours to complete.

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Summary of the Rhodium Sulphate processing process



PALLADIUM SALT SUBCONTRACTING SERVICES

Before the commencement of operation of the Zhuhai Plant in January 2003, the Group did not have its own production facilities to process and manufacture the Palladium Salts in Hong Kong and the PRC. On 8 May 1998, Kenlap entered into a subcontracting agreement with CCRI under which CCRI was appointed by Kenlap to provide Palladium Salt processing services to Kenlap at a fixed price. Since then, the Group subcontracted all their Palladium Salt processing orders from their subcontracting customers to CCRI and the subcontracting business of Palladium Salt was developed rapidly during the Track Record Period.

Pursuant to the subcontracting agreements entered into between Kenlap and each of the subcontracting customers, Kenlap charges its subcontracting customers the fixed subcontracting fee for the provision of Palladium Salt subcontracting services. During the Track Record Period, the gross profit from Palladium Salt subcontracting services amounted to approximately HK\$12.8 million, HK\$19.9 million, HK\$26.1 million and HK\$33.7 million respectively, representing approximately 80.5%, 87.2%, 82.2% and 81.8% of the Group's gross profit respectively.

Under the business plan of the Group, Kenlap Zhuhai will gradually replace CCRI and take up the processing operation of Palladium Salt upon the commencement of operation of the Zhuhai Plant in January 2003. The production and processing facilities of the Palladium Salts are expected to operate at full capacity by the end of 2003 or early 2004 and the maximum annual production and processing capacity of Palladium Salt at the Zhuhai Plant will reach 6,000 kg. As both the production technologies and production facilities employed by the Zhuhai Plant are directly licenced and acquired from CCRI, the Company is confident and believes that the customers will be satisfied with the Electroplating Chemicals processing services provided by the Zhuhai Plant.

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The Zhuhai Plant is not expected to be able to reach its maximum production and processing capacity of Palladium Salt until the end of 2003 or early 2004. Therefore, the Zhuhai Plant may not be able to satisfy all the orders for Palladium Salt processing services. In order to ensure the Group has sufficient production capacity of Palladium Salt to satisfy the demand for Palladium Salt processing services, Kenlap entered into a supplemental subcontracting agreement with CCRI on 25 March 2003 pursuant to which CCRI agreed to extend its provision of Palladium Salt processing services to Kenlap for one year, up to 7 May 2004. All the terms, including the processing fee charged by CCRI to Kenlap remain the same as the subcontracting agreement dated 8 May 1998.

PROPERTY, PLANT AND MACHINERY

As at the Latest Practicable Date, the Group had two production plants. One of which is located at Hunghom, Hong Kong with 2 production lines and the other one is located at Zhuhai, the PRC with 3 production lines. The Hunghom Plant, which is owned by Kenlap, is located at Workshop Unit No. 04 on the 5th Floor of Harbour Centre, Tower 1, No. 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong, which is a premises owned by the Group. The Zhuhai Plant, which is owned by Kenlap Zhuhai, is located at No. B6-2 of Nan Bing Technological and Industrial Park (南屏科技工業園), Zhuhai City in the PRC. The Group has leased another office premises situated at Workshop Units No. 05 and No. 06 on the 5th Floor of Harbour Centre Tower 1, No. 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong for workshop and ancillary office uses. The 2-year lease of the Group's office at Hunghom will expire on 30 November 2003. Currently, the Group intends to renew the lease and has no intention to quit the premises. The Group believes that the Gold Salt production in the Hunghom Plant would not be affected even if the lease of the premises ceases. Further information on each of the plants is set out at the Property Valuation Report in Appendix III to this prospectus.

All plants and machineries at the Hunghom Plant and the Zhuhai Plant are owned by the Group. The total area of the Hunghom Plant and the Zhuhai Plant is approximately 52,125 sq.ft., and information on these production facilities is summarised as follows:

Facility	Size (sq.ft.)	Function	Maximum annual production capacity
(I) Hunghom Plant	9,996	Production of Gold Salt	7,000 kg
(II) Zhuhai Plant (<i>Note 1</i>)	42,129	Production and processing of Silver Salt, Palladium Salt and Rhodium Sulphate	160,000 kg 6,000 kg 200 kg

Note:

- (1) The production and processing services of Silver Salt, Palladium Salt and Rhodium Sulphate began from January 2003

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For the month ended 30 April 2003, the production and processing capacity of the Group were 270 kg of Gold Salt, 8,600 kg of Silver Salt, 240 kg of Palladium Salt and 14 kg of Rhodium Sulphate. The Group forecasts that the production and processing capacity of the Zhuhai Plant will be close to full utilisation by the end of 2003 or early 2004. The estimated annual production and processing capacity of the Group will be increased to 4,350 kg of Gold Salt, 123,000 kg of Silver Salt, 6,000 kg of Palladium Salt and 162 kg of Rhodium Sulphate for the financial year of 2004.

The management considers that there will be no excess capacity in due course, as the demand for Electroplating Chemicals in the PRC is expected to grow markedly in the next few years and the Group is preparing to have adequate capacity to meet future market demand.

STRENGTHS OF THE GROUP

The Directors believe that the Group's principal strengths are as follows:

Proven track record in Electroplating Chemicals industry

After the establishment of Kenlap in January 1991, the Group commenced its in the manufacturing and distribution of Gold Salt in Hong Kong and further expanded into the trading of Silver Salt, Palladium Salt and Rhodium Sulphate in Hong Kong in 1995 and commenced the Palladium Salt subcontracting business in the PRC in the financial year of 1999. The Directors believe that the proven track record of the Group in Electroplating Chemicals helps the Group in developing and maintaining business relationships with its customers, which is vital for the Group to compete with existing and new suppliers in the Electroplating Chemicals industry.

Established business relationship with its major customers

The Group has established long-term business relationships with its major customers, which include chemical distributors, electroplating service providers, watch manufacturers, jewellery manufacturers and printed circuit board manufacturers in the PRC and Hong Kong. The length of the business relationships between the Group and its top five largest customers for the sale of Electroplating Chemicals business range between six months to nine years. For the Palladium Salt subcontracting business, the length of the business relationships between the Group and its subcontracting customers range between two months to five years. The Directors consider that by leveraging off its established customer base, the Group can further develop its business in new geographical markets (other cities in the PRC) and in new categories of chemical products.

BUSINESS OF THE GROUP

Experienced and dedicated management team

The Group has a professional management and technical team, led by Mr. Yao Zongren who has been with the Group for more than 10 years, who possesses extensive chemical and management knowledge in the manufacturing and distribution of Electroplating Chemicals. In addition, the Directors also possess extensive experience in financial management and business operation which enable the Group to formulate and implement its business strategies effectively.

Strategic alliance with CCRI

In 1991, CCRI granted the Group the right to use its specialised technology for the manufacturing of Gold Salt in the Hunghom Plant. Since then, the Group has established strategic relationship with CCRI. Pursuant to a subcontracting agreement entered into between the Group and CCRI in May 1998, CCRI further became the strategic partner of the Group in several aspects, including the procurement and processing of Electroplating Chemicals, as well as the provision of technical support. Please see the sub-section headed “Strategic relationship with CCRI” of this section for further details of such cooperation. The Directors believe that the strategic alliance with CCRI can assist the Group to develop its Chemicals Business in the PRC and maintain the competitiveness of the Group.

Flexible production and delivery systems

As compared with certain local competitors which import Electroplating Chemicals from overseas manufacturers, the Group owns production facilities in the PRC and Hong Kong and has established a flexible production and delivery system. Under this flexible production and delivery system, the Group can shorten its production cycle, which ranges from 24 hours to 48 hours, and fulfil orders normally within one to two days. In addition, the Group can minimise its inventories and capital locked up therein. Accordingly, the Directors believe that the flexible production and delivery system is one of the competitive edges for the Group to develop its Chemicals Business in the PRC and Hong Kong.

STRATEGIC RELATIONSHIP WITH CCRI

Founded in 1976 and located in Changzhou, Jiangsu, CCRI is a company incorporated in the PRC with limited liability. CCRI is an enterprise focusing on R&D activities and is engaged in the development and manufacturing of precious metal chemicals (such as Palladium Salt, Silver Salt, Silver nitrate and rhodium sulphate), textile auxiliaries, organic pigments and organic intermediates in the PRC. Mr. Yao Zongren, an executive Director of the Company is also an independent director of CCRI. Pursuant to a reorganisation of CCRI for the purpose of keeping all CCRI shares in the hands of the employees of CCRI, Mr. Yao Zongren disposed of all of his 6% shareholding in CCRI to CCRI in 2001. Save for the provision of technical advice to CCRI,

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Mr. Yao Zongren has no involvement in the management of, nor any shareholdings in, CCRI. Currently, CCRI has seven directors and thirty three shareholders. Save for Mr. Yao Zongren, all directors and shareholders of CCRI are independent of and not connected with the Directors, chief executive, substantial shareholders of the Company or any of its Subsidiaries or their respective associates. In 1991, CCRI granted a right to use its specialised technology for the manufacturing of Gold Salt in the Hunghom Plant. Since then, the Group has established strategic relationship with CCRI and has cooperated in developing its Chemicals Business in the following aspects:-

Procurement of Electroplating Chemicals from CCRI

In view of the growing demand for Electroplating Chemicals in Hong Kong, Kenlap has been sourcing Silver Salt, Palladium Salt and Rhodium Sulphate from CCRI since 1996 and distributed them to its customers in Hong Kong. As CCRI enjoys lower costs in procuring raw materials in the PRC and lower labour costs compared with other overseas chemical manufacturers, Kenlap can procure the Palladium Salt, Silver Salt and Rhodium Sulphate from CCRI at a relatively low cost and possess the cost advantage over its competitors in the Hong Kong market. However, the selling price offered by CCRI only has a moderate discount (not more than 5%) as compared with other suppliers, the Company does not consider that the business of the Group will be affected significantly if the Group ceases to procure Palladium Salt, Silver Salt and Rhodium Sulphate from CCRI.

Subcontracting the processing of Palladium Salt to CCRI

In late 1997, the Group foresaw a huge market potential for Palladium Salt subcontracting and manufacturing business. It started to consider initiating a subcontracting business and establishing its own Electroplating Chemicals factory in the PRC. Discussions were held by Mr. Yao Zongren, a then and present director of Kenlap, with various senior personnel of CCRI on the feasibility of such an endeavour, and the possibility of co-operation between the two entities. In particular, Kenlap was looking for a partner which could provide processing services, i.e. processing Palladium Salt by using palladium powder provided by Kenlap's customers, and helping Kenlap to establish its Electroplating Chemicals factory in the PRC.

Kenlap and CCRI decided in around March 1998 that the subcontracting business could proceed within a relatively short timeframe, the establishment of an Electroplating Chemicals factory was feasible and commercially viable. Mr. Yao Zongren, on behalf of Kenlap, gave verbal assurances to CCRI that Kenlap would seriously consider acquiring the production technologies of Electroplating Chemicals from CCRI, and seeking CCRI's assistance in the establishment of production facilities when the Zhuhai Plant was built. However, a detailed plan for the Electroplating Chemicals factory would require more research, studies and deliberation. After intensive arm's length negotiations, Kenlap entered into a subcontracting agreement with CCRI ("Subcontracting Agreement") on 8 May 1998 under which CCRI agreed

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to provide Palladium Salt processing services to Kenlap at a fixed price for a period of 5 years. The Directors consider that the provision of processing services from CCRI to Kenlap was a temporary arrangement due to Kenlap's then lack of production facilities. According to the Subcontracting Agreement, CCRI has been prohibited from solicit orders or receive orders directly or indirectly from Kenlap's customers. The determination of the fixed price charged by CCRI to Kenlap was based on the production cost and market price of Palladium Salt, the length of the agreement, the estimated subcontracting volume and the credit term offered to Kenlap.

According to the Subcontracting Agreement dated 8 May 1998, Kenlap would perform the following duties:

1. Solicit customer orders;
2. Bear the credit risk of CCRI from subcontracting customers, i.e. Kenlap will have to pay CCRI processing fee for any default payments from the subcontracting customers;
3. Provide after-sales services to the customers, i.e. Kenlap will try to resolve any questions on the product from customers without referring back to CCRI where possible;
4. Bear primary responsibility for the quality of the products;
5. Bear the risk of incurring liabilities to the customers, i.e. the customers could claim damages from Kenlap if their precious metals were to be lost or damaged during the subcontracting process.

The terms of the Subcontracting Agreement reflect the intention of CCRI to develop a long term business relationship with Kenlap and its recognition of the business potential of such a relationship, including the transfer of technologies and assistance in the establishment of production facilities of the Zhuhai Plant.

To the best knowledge of the Company, the technology used by CCRI in processing palladium powder to Palladium Salt is very similar to the one licenced to Kenlap Zhuhai and CCRI is one of the few institutes in the PRC which has the capability to provide large scale Palladium Salt subcontracting services. As CCRI is an enterprise focusing on R&D activities and the provision of Palladium Salt processing services is not its core business, therefore, CCRI has no intention to deploy its resources on non-R&D activities, such as provision of Electroplating Chemicals processing services to individual customers. To the best knowledge of the Directors, CCRI has not provided Palladium Salt processing services to any other parties in the PRC, other than Kenlap.

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There is no difference in the product nature between the trading of Palladium Salt on the one hand and Palladium Salt subcontracting and processing services through the cooperation with CCRI and the Zhuhai Plant on the other hand. The difference between sales of Palladium Salt and Palladium Salt subcontracting and processing fee income lies in the revenue model. In respect of trading of Palladium Salt, the Group procures Palladium Salt from suppliers and re-sell Palladium Salt to customers. For Palladium Salt subcontracting and processing services, the Group only receives the fixed subcontracting and processing fee by processing palladium powder provided by customers into Palladium Salt through the cooperation with CCRI and the Zhuhai Plant respectively.

Under the business model of Palladium Salt subcontracting and processing, customers deliver palladium powder to CCRI and the Zhuhai Plant for processing by Palladium Salt. If a customer is able to source Palladium powder at a cheaper rate, it will benefit by just paying a fixed processing fee to Kenlap for processing Palladium Salt, instead of purchasing processed Palladium Salt from chemical suppliers.

Before the Zhuhai Plant commenced its operation in January 2003, the Group offered Palladium Salt subcontracting services through the production facilities of CCRI during the Track Record Period. The volume of Palladium Salt subcontracted to CCRI by the Group for the three years ended 31 March 2002 and the nine months ended 31 December 2002 amounted to 3,007 kg, 4,254 kg, 5,712 kg and 5,606 kg respectively. For the same period, the processing fee charged to the Group by CCRI amounted to HK\$2.1 million, HK\$3.0 million, HK\$4.0 million and HK\$3.9 million respectively, or representing approximately 2.3%, 3.2%, 2.5% and 1.9% of the Group's turnover in the corresponding periods. On the other hand, for the three years ended 31 March 2002 and the nine months ended 31 December 2002, the revenue from Palladium Salt subcontracting service amounted to approximately HK\$14.9 million, HK\$22.9 million, HK\$30.1 million and HK\$37.6 million respectively, or representing approximately 16.4%, 24.7%, 18.8% and 17.7% of the Group's turnover in the corresponding periods.

As both the production technologies and production facilities employed by Kenlap Zhuhai are licenced and acquired from CCRI, the Company is confident that the customers would be satisfied with the Electroplating Chemicals produced in the Zhuhai Plant.

Since the commencement of operation of the Zhuhai Plant in January 2003, the estimated average processing cost for Palladium Salt (including the direct labour and overhead costs, depreciation and the indirect costs which are based on the expected annual production capacity of Palladium Salt of 3,000 kg in financial year of 2003) in the Zhuhai Plant is lower than the fixed subcontracting fee charged by CCRI for processing Palladium Salt, which only accounts for approximately 35% to 40% of the fixed subcontracting fee. Therefore, the difference in cost allows the Group to charge a lower processing fee by approximately 4% in order to enhance its competitive edge whilst maintaining the same level of profitability.

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Under the business plan of the Group, Kenlap Zhuhai will gradually replace CCRI and take up the processing operation of Palladium Salt for its subcontracting customers. The maximum annual production and processing capacity of Palladium Salt at the Zhuhai Plant is 6,000 kg and it is expected to operate at full capacity by the end of 2003 or early 2004. However, on the basis that the volume of Palladium Salt subcontracted to CCRI for the three years ended 31 March 2002 and the nine months ended 31 December 2002 already amounted to 3,007kg, 4,254kg, 5,712kg and 5,606kg respectively, and the Directors believe that the annual production and processing capacity of the Zhuhai Plant for the financial year 2004 will not be able to reach its maximum of 6,000 kg, in order to meet the anticipated demand of processing orders, Kenlap entered into a supplemental agreement to the Subcontracting Agreement with CCRI on 25 March 2003. The supplemental agreement was arrived at after arm's length negotiations between the parties, under which CCRI agreed to extend its provision of Palladium Salt subcontracting services to Kenlap for one year, up to 7 May 2004. All other terms of the Subcontracting Agreement, including the subcontracting fee charged by CCRI, remain the same.

In case the demand for Palladium Salt processing services exceeds the capacity of the Zhuhai Plant, the Group will engage CCRI to process some of the Palladium Salt for its subcontracting customers.

At present, the Group has six subcontracting customers and three of them have established business relationships with Kenlap since 1998, when Kenlap commenced its Palladium Salt subcontracting business through the cooperation with CCRI. Based on the above supplemental agreement to the Subcontracting Agreement with CCRI dated 25 March 2003, the Directors believe that the Group has sufficient capacity to handle the orders for Palladium Salt processing services.

R&D transfer and technical assistance

On 20 November 2001, the Group entered into a technology transfer agreement with CCRI ("Technology Transfer Agreement"), pursuant to which CCRI agreed to grant the Group a non-exclusive perpetual right to use its specialised technology for the manufacturing of Electroplating Chemicals in consideration of RMB12.2 million. CCRI is the owner of the above technology. To the best knowledge of the Company, apart from the Technology Transfer Agreement, CCRI has not entered into any other agreement to grant in favour of any other third party the right to use its technology for the manufacturing of Electroplating Chemicals.

CCRI has not registered its Electroplating Chemicals manufacturing technology in the PRC and there is a risk that such chemical formulae may be accidentally released to a third party. However, the Company does not consider that the leakage of these chemical formulae would materially affect the business of the Group because the chemical formulae alone cannot produce Electroplating Chemicals successfully. Successful production also requires the coordination of precise and specific production facilities and production procedures, which are unlikely to be accidentally leaked to and adopted by others. The consideration for technology

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transfer was arrived at through arm's length negotiations between the parties. In determining the amount of consideration, the Group has taken into account, among other things, the market potentials and prospects, future production costs of Electroplating Chemicals, estimated business volume, returns on investment and the feasibility of the project. In addition, CCRI agreed to supervise the installation of the production lines in the Zhuhai Plant for the manufacture of Electroplating Chemicals. The said agreement will be considered as completed 6 months after the issuance of a certificate of final inspection and acceptance issued by the Group as defined therein. If due to the default of CCRI, any three consecutive batches of the contracted products fail to pass the inspection and acceptance as provided therein, and CCRI has made known that such defaults cannot be rectified, then Kenlap Zhuhai is entitled to terminate the Technology Transfer Agreement and seek damages from CCRI. As at 31 December 2002, the Group has paid RMB11,436,000 to CCRI as part of the consideration under the Technology Transfer Agreement. The remaining RMB764,000 is payable upon the issuance of the certificate of final inspection and acceptance. The technology has already been granted to Kenlap Zhuhai and the Technology Transfer Agreement has been completed in accordance with the terms and conditions therein, except for the issuance of the certificate of final inspection and acceptance. The certificate of final inspection and acceptance has not been issued because additional testings are requested by the Group to evaluate the reliability of production facilities of the Zhuhai Plant when operating under stressful situations. The Company currently expects the remaining balance of RMB0.8 million will be paid in the second quarter of 2003.

According to the Technology Transfer Agreement, the Group agreed to keep secret and confidential the specialised technology of CCRI for a period of 20 years commencing from 20 November 2001.

The right granted by CCRI to the Group pursuant to the Technology Transfer Agreement is non-exclusive, but the Company does not consider this non-exclusive right to use the technology of CCRI in the PRC, Hong Kong and other overseas markets a risk to the Company as CCRI has further granted a right of first refusal to Kenlap Zhuhai to acquire the exclusive ownership of the Electroplating Chemicals production technology of CCRI pursuant to a supplemental agreement to the Technology Transfer Agreement dated 25 January 2002.

As the Group estimated that the Hunghom Plant would be operating at almost full capacity by early 2002, a contract for the provision of new production lines for the manufacturing of Gold Salt was entered into on 20 November, 2001 between Kenlap and CCRI pursuant to which CCRI had agreed to establish two new production lines and to provide the relevant technical assistance and training for the manufacture of Gold Salt in the Hunghom Plant in consideration of HK\$7.67 million, which has been fully paid in December 2001. The consideration was arrived at through arm's length negotiations between the parties. In determining the amount of consideration, the Group had taken into account, among other things, the market potentials and prospects, future production costs of Gold Salt, estimated business volume, returns on investment and the feasibility of the project. The two new production lines were successfully established in May 2002.

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In January 2002, Kenlap Zhuhai entered into an agreement with CQCC, a subsidiary of CCRI, pursuant to which CQCC designed and constructed the production facilities for the Zhuhai Plant in consideration of approximately RMB36.7 million. The consideration was arrived at through arm's length negotiations between the parties. In determining the amount of consideration, Kenlap Zhuhai took into account, among other things, the complexity of the facilities, the construction costs of the facilities, the quality of equipment and future maintenance arrangement. The expiry of the said agreement is six months from the date after the issuance of a certificate of final inspection and acceptance issued by the Group, certifying that the relevant production facilities have been inspected, installed and acknowledged as provided therein, while the provisions regarding arbitration and confidentiality shall survive beyond the expiration of such agreement. Currently, 50% of the RMB36.7 million was settled in December 2002 and the remaining 50% balance has not been settled due to the facts that certain equipment has not yet been delivered by CQCC and testings to the production facilities when operating under stressful situation have not been completed. The remaining balance is expected to be completed and fully settled in the third quarter of 2003. The production facilities for Silver Salt, Palladium Salt and Rhodium Sulphate were successfully constructed and installed in December 2002.

The Group further entered into two supplemental agreements to the Technology Transfer Agreement with CCRI on 25 January 2002 and 8 October 2002 respectively. Pursuant to the first supplemental agreement dated 25 January 2002, in the event that any third party wishes to purchase the right to use the same specialised technology acquired by Kenlap Zhuhai from CCRI, CCRI is required to inform that third party about the Technology Transfer Agreement, and the purchase price offered to such third party shall not be less than the price paid by Kenlap Zhuhai (i.e. RMB12.2 million). Also, in that case, Kenlap Zhuhai shall have the right of first refusal to acquire the exclusive ownership of such technology by offering to CCRI a consideration of not more than twice the consideration (i.e. RMB24.4 million) under the Technology Transfer Agreement. To the best knowledge of the Company, apart from the Technology Transfer Agreement, CCRI has not granted to any other third party the right of use its technology for the manufacturing of Electroplating Chemicals before and after the execution of the first supplemental agreement.

Pursuant to the second supplemental agreement dated 8 October 2002, CCRI has agreed to provide the enhancement and improvement of the specialised technology to the Group without any consideration for the next five years after the completion of technical transfer in November 2001 and a non-exclusive right to the Group for the sale of Electroplating Chemicals produced by using such enhanced and improved technology in the PRC, Hong Kong and overseas markets. After November 2006, CCRI will not provide any enhancement and improvement of specialized technology to the Group without consideration. The Group intends to maintain a strategic relationship with CCRI and will negotiate with CCRI for future developments including the provision of enhancement and improvement of specialized technology after November 2006, if obtaining such enhancement and improvement of specialized technology will be in the interest of the Group.

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Apart from the transactions under the Technology Transfer Agreement and the two supplemental agreements, since November 2001, CCRI had provided certain technical assistance to the Group without consideration even before the parties entered into those agreements. As all the technical assistance provided by CCRI was in the form of advice and suggestions related to improvements to the production technologies acquired by the Group from CCRI during 1991 and 1992, both CCRI and the Group considered such technical assistance as after-sales services from CCRI without additional charge.

The Directors consider that, through the assistance of CCRI, the Group is able to obtain technical know-how in manufacturing Electroplating Chemicals efficiently and to expand the production capacity of the Hunghom Plant, which is vital for the Group to further develop its Chemicals Business in the PRC and Hong Kong and eventually provide a solid foundation for the Group to exploit the overseas market.

INTELLECTUAL PROPERTY RIGHTS

The applications for the registration of the Group's trademark "Ⓜ" with the relevant governmental authorities in Hong Kong and the PRC were made by the Group's agents on 24 October 2002 and 29 October 2002 respectively. The Company has been advised by the Group's advisers that according to their past experience, the registration of the Group's trademark with the relevant governmental authorities in Hong Kong would take approximately nine months to one year to complete and the registration of the Group's trademark with the relevant governmental authorities in the PRC would take approximately 18 months to two years to complete. Thus, the advisers expect that the registrations of the Group's trademark with the relevant governmental authorities in Hong Kong and the PRC shall be completed by the end of 2003 and 2004 respectively. The Company is not aware of any reason which may render its applications to register the Group's trademark unsuccessful.

As the Directors consider that Electroplating Chemicals are expensive industrial products and have a relatively small number of suppliers, both suppliers and customers are keen to establish long-term business relationship. In such an environment, the risk of infringement of the Group's trademark is low and the Company is not aware of any infringement of the Group's trademark in the past. Therefore, the Group considers that the registration of the Group's trademark is sufficiently distinctive. At present, the Company has no intention to apply for the registration of its trade name or other trademark. They are not aware of any infringement by the Group of registered trade marks of any third party since its incorporation in 1991. Further details of the Company's intellectual property rights are set out under the section headed "Intellectual property rights" in Appendix V to this prospectus.

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QUALITY CONTROL

It is the Group's policy to manufacture Gold Salt strictly in compliance with the standards set out by the BSI, the specifications stipulated by its customers and the internal production guidelines. In addition, the Group intends to apply for ISO9001 certification in the second half of 2003 in respect of its production process in the Zhuhai Plant. The Group implements stringent quality control measures throughout its production processes, each of which is subject to quality checks. Each of the Group's quality assurance team for the Hunghom Plant and the Zhuhai Plant comprises 2 staff respectively. They are principally responsible for performing quality control and assurance exercises during different stages of production. Each bottle of its finished products is carefully labelled with a serial number to facilitate the tracing of any defective products and addressing customer enquiries.

The Group's products are sold with detailed printed information on their functions, specifications and general purposes of application. The Group's sales and technical staff make regular visits to its major customers upon their request to provide technical guidance on the use of its products and to collect their feedback with respect to product quality.

In order to maintain product quality, the Group periodically delivers selected product samples to the Hong Kong Productivity Council ("HKPC") for testing and examination. The testing results from the HKPC show that the Group's products conform to the relevant products specification, including the content and impurities of gold. The HKPC is a multi-disciplinary organisation established by statute in 1967 to promote productivity and the use of more efficient methods throughout Hong Kong's business sectors.

ENVIRONMENTAL PROTECTION AND SAFETY ISSUES

Environmental Protection Compliance

The Group has complied with the relevant environmental protection laws and regulations in Hong Kong and the PRC during the Track Record Period. On 5 March 2003, the Environmental Protection Department ("EPD") issued a letter to Kenlap confirming that EPD had no record of violation by Kenlap against several environmental ordinances of Hong Kong administered by their department.

According to the written approvals from 南屏科技工業園管理委員會 and 珠海市環境保護局 in May and August 2002 respectively, the Zhuhai Plant has complied with the relevant PRC environmental protection regulations. To the best knowledge of the Directors, the Group has, so far, not experienced any material claims brought in relation to pollution.

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The production facilities of the Group do not discharge any waste water or chemical waste during its production process in the Hunghom Plant and the Zhuhai Plant. The water used during the production cycle becomes completely purified and recycled by the end of the process, and all toxins, residual metals or chemicals become completely utilised or recycled upon the completion of a production cycle.

The level of noise and air emitted during the Group's production process in the Zhuhai Plant are within the permitted range prescribed by the PRC environmental regulatory authorities.

Safety Issues

As the production of Electroplating Chemicals involves the usage of dangerous substances, including cyanide, in order to ensure the safety of production staff and comply with the Factories and Industrial Undertakings (Dangerous Substances) Regulations (Cap. 59AB), the Group has adopted the following safety measures:

- Precious metals, chemicals and finished goods stored at the factory premises will be kept to a minimum;
- Only designated personnel are allowed access to the warehouses for raw materials and finished goods;
- Clear and conspicuous warning signs are put on equipment processing dangerous chemicals;
- Suitable fire fighting devices, such as sand buckets and carbon dioxide extinguishers for the Gold Salt production lines, are installed in the factory premises;
- Eating and drinking are strictly prohibited in the workshop area;
- Equipment is double-layered to prevent leakage where necessary;
- Only well-trained personnel are allowed to handle the raw materials and finished goods.

The Company has more than 20 technical staff in the Zhuhai Plant, and most of them were graduated from technical secondary schools with a focus on chemical engineering. Most of them have been employed by the Group since the establishment of the Zhuhai Plant in the second half of 2002.

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Under the Dangerous Goods (Application and Exemption) Regulations (Cap. 295), potassium dicyanoaurate is classified as a category 4 dangerous goods with an exempted quantity of 5kg. On 20 November 2002, Kenlap received a summons for a breach of section 6(1) of the Dangerous Goods Ordinance (Cap 295) where it did store 450 kg of potassium dicyanoaurate at the Hunghom Plant otherwise than under and in accordance with the exempted quantity of 5 kg of potassium dicyanoaurate under the Dangerous Goods Ordinance. Kenlap pleaded guilty to this charge and was fined a sum of HK\$10,000. Kenlap has already taken steps to apply for a license for the storage of the relevant Gold Salt and potassium dicyanoaurate at the Hunghom Plant. The Directors believe that this incident has not affected and will not affect the business operation of the Group. In order to prevent such case from happening again, the Group now manufactures Gold Salt in batches of not more than 5kg and does not keep inventory of potassium dicyanoaurate in excess of 5kg in the Hunghom Plant. The excess inventory of potassium dicyanoaurate will be stored in a public dangerous goods godown in Cheung Sha Wan.

Save as disclosed above, as at the Latest Practicable Date, no incident relating to any lack of safety measures has occurred.

The Zhuhai Plant is currently insured against losses arising from damage to existing properties, facilities and machinery and employee compensation.

RAW MATERIALS SUPPLY

The principal raw materials for the products of the Group include various types of precious metals and chemicals. The types of precious metals for such products include gold, silver, palladium and rhodium and the types of chemicals used during the production and processing process include potassium cyanide, hydrochloric acid, ammonium hydroxide, potassium hydrosulfate and sulphuric acid. Costs of raw materials for Gold Salt accounted for a significant part of the Group's total production costs. In each of the three years ended 31 March 2000, 2001 and 2002 and the nine months ended 31 December 2002, raw materials for Gold Salt accounted for approximately 98.7%, 98.1%, 98.3% and 98.8% respectively of the Group's total costs of goods for production of Gold Salts and approximately 95.4%, 95.1%, 94.9% and 96.3% of its turnover (excluding the revenue from trading of Silver Salt, Palladium Salt and Rhodium Salt, and the Palladium Salt subcontracting fee since (1) no raw materials are consumed for the Electroplating Chemicals trading business and (2) raw materials for Palladium Salt subcontracting services are provided by subcontracting customers). Other production costs mainly include labour costs and manufacturing overheads such as depreciation, amortisation of machinery, rental and water and electricity charges. Raw materials for production of Gold Salts are sourced from Hong Kong.

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In each of the three years ended 31 March 2000, 2001, 2002 and the nine months ended 31 December 2002, the top five largest suppliers of the Group together accounted for approximately 99.4% 100.0%, 98.7% and 97.9% respectively, of the Group's total purchases while the largest supplier accounted for approximately 39.4%, 58.3%, 44.8% and 45.1% respectively. Save for CCRI, where Mr. Yao Zongren, an executive Director of the Company, is also an independent director of CCRI, none of the Directors, the Substantial Shareholders of the Company or their respective associates (as such terms are defined in the Listing Rules) has any interest in any of the five largest suppliers of the Group. The business relationships between the Group and the five largest suppliers range from six months to eight years as at the Latest Practicable Date.

Purchases of the Group are principally denominated in Renminbi and HK Dollars with payment terms ranging from cash on delivery to 60 days open accounts. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, approximately 82.5%, 67.5%, 91.4% and 37.3%, respectively, of the Group's purchases were made by cash payments, approximately 17.5%, 32.5%, 8.6% and 62.7%, respectively, of the Group's purchases were made by open accounts with credit term of no more than 60 days.

The Group so far has not experienced any difficulties in sourcing its raw materials nor had it experienced any shortage of raw materials which had materially affect its production.

RESEARCH AND DEVELOPMENT

Since the establishment of strategic relationship with CCRI in 1991, the Group has been enjoying the benefit of R&D from CCRI through its technology transfer and technical assistance. More information of the technology transfer and technical assistance can be found under the sub-section headed "Strategic relationship with CCRI" of this section to this prospectus. During the Track Record Period, save for the technology transfer from CCRI, there is no other R&D activity conducted by the Group.

In order to improve the competitiveness of the Group, to lessen its reliance on CCRI and to sustain its long-term growth objective, in conjunction with the technology assistance CCRI, the Group will start its own R&D activities in the third quarter of 2003. The Group expects to invest substantially in developing other chemical products to complement existing product lines. Initially, research projects will focus on other electroplating chemicals with silver, palladium, rhodium content and silver dichloride, a chemical widely used in making films. It is envisaged that such research projects will be done in collaboration with other research institutes, such as CCRI.

The R&D team of the Zhuhai Plant consists of four technicians, all of whom are degree holders in chemical engineering or related discipline, who have extensive practical experiences in chemical engineering. The Group expects to enlarge its R&D team to twelve technicians within 12 months after Zhuhai Plant has full operations which is expected to be in the third quarter of 2003. Approximately 30% of the net proceeds of the Share Offer is planned to be used for R&D in the Zhuhai Plant.

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SALES AND MARKETING

A breakdown of the Group's sales during the Track Record Period is set out below:

	Year ended 31 March						Nine months ended 31 December	
	2000 HK\$'000		2001 HK\$'000		2002 HK\$'000		2002 HK\$'000	
		%		%		%		%
Turnover by product categories								
Gold Salt	61,988	68.1%	47,528	51.3%	62,256	38.9%	90,029	42.3%
Palladium Salt	14,125	15.5%	21,606	23.3%	67,241	42.1%	74,906	35.2%
Palladium Salt Subcontracting								
Services	14,872	16.4%	22,915	24.7%	30,125	18.8%	37,570	17.7%
Silver Salt	–	–	594	0.7%	318	0.2%	6,319	3.0%
Rhodium Sulphate	–	–	–	–	6	–	3,758	1.8%
Total	<u>90,985</u>	<u>100%</u>	<u>92,643</u>	<u>100%</u>	<u>159,946</u>	<u>100%</u>	<u>212,582</u>	<u>100%</u>
Gross profit (loss) by product categories								
– Gold Salt	2,084	13.1%	1,452	6.4%	2,161	6.8%	2,285	5.5%
– Palladium Salt	1,018	6.4%	1,456	6.4%	3,481	11.0%	4,351	10.6%
– Palladium Salt Subcontracting								
Services	12,767	80.5%	19,937	87.2%	26,126	82.2%	33,646	81.8%
– Silver Salt	–	–	30	–	(76)	–	364	0.9%
– Rhodium Sulphate	–	–	–	–	–	–	484	1.2%
	<u>15,869</u>	<u>100%</u>	<u>22,875</u>	<u>100%</u>	<u>31,692</u>	<u>100%</u>	<u>41,130</u>	<u>100%</u>
Gross profit by geographical locations								
– Hong Kong	3,102	19.5%	2,938	12.8%	2,213	7.0%	2,394	5.8%
– Mainland China	12,767	80.5%	19,937	87.2%	29,479	93.0%	38,736	94.2%
	<u>15,869</u>	<u>100%</u>	<u>22,875</u>	<u>100%</u>	<u>31,692</u>	<u>100%</u>	<u>41,130</u>	<u>100%</u>

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Before Kenlap Chemicals commenced its operations in August 2002, the trading operation of the Group was operated by Kenlap. In order to centralise the trading business of the Group, the Group plans to move all the trading business from Kenlap to Kenlap Chemicals gradually. Eventually, Kenlap Chemicals will become the trading arm of the Group and distribution center for all products manufactured in the Zhuhai Plant and the Hunghom Plant. Kenlap Chemicals has no staff by itself and share human resources with other Group companies such as Kenlap Zhuhai and Kenlap. After the move, Kenlap will focus on the production of Gold Salt in the Hunghom Plant. The move of its sales and marketing business to Kenlap Chemicals would clearly separate their operating functions, therefore the management could monitor each of their production and sales and marketing business effectively, making it more efficient to obtain specific production or marketing information for internal analysis. Therefore, it will enable the Group to maintain an effective internal control system.

In addition, Kenlap Chemicals is also responsible for the trading business of the Group and it will issue sales invoices and purchase orders for their sales and purchases respectively. Normally, the customers of Kenlap Chemicals will settle the amounts due to Kenlap Chemicals by cheques.

The scope of activities covered by the sales and marketing operations of Kenlap Chemicals are as follows:

- Making regular visits to customers of the Group to provide technical advice and assistance, and to identify any changes in product demand or need for special attention
- Conducting market researches
- Implementing the Group's marketing and promotion plans
- Sales coordination and control
- Payment collection
- General customer coordination and relationship management

Kenlap Chemicals works hand in hand with the flexible operation cycle of the Group as follows:

Planned production of Electroplating Chemicals

In relation to the planned production by Kenlap Chemicals, it will verbally inform staff at Kenlap Zhuhai of the production instruction when it receives orders from customers. The production instruction will include details such as quantity, packaging,

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delivery method, customer name and delivery date. Kenlap Zhuhai will manufacture and deliver the products based on the production instruction. On or around the delivery date, Kenlap Chemicals will issue its invoice to the customer. After delivery Kenlap Zhuhai will pass the acknowledgement of receipt by customer and its invoice to Kenlap Chemicals. Kenlap Chemicals is responsible for collecting money from the customers. The PRC customers will either deposit cash into Kenlap Zhuhai's bank account in the PRC or deposit cash or cheque into Kenlap Chemicals' bank account in Hong Kong.

Electroplating Chemicals processing services

Kenlap Chemicals will issue a processing instruction to Kenlap Zhuhai when it receives orders from customers. The processing instruction will include details such as quantity, packaging, the date when the precious metal is expected to be delivered to Kenlap Zhuhai, final product delivery method, customer name and final product delivery date. When Kenlap Zhuhai receives the precious metal from the customers, it will inform Kenlap Chemicals of the receipt and manufacture and deliver the products based on the processing instruction. Kenlap Chemicals will then issue its invoice to the customer for the subcontracting fee. After delivery of final products Kenlap Zhuhai will pass the acknowledgement of receipt by customer and its invoice to Kenlap Chemicals. Kenlap Chemicals is responsible for collecting money from the customers.

The PRC customers will deposit cash or cheque into Kenlap Chemicals' bank account in Hong Kong.

To minimise exposure to changes in the prices of precious metals, inventory of finished goods and goods in transit are kept at consistently low levels – typically less than a two-day production volume at any one time. Therefore, marketing efforts of Kenlap Chemicals must be carefully fitted into the flow of the market and short-term order forecasts.

In addition, the Group plans to enhance its brand name in the PRC market by reaching out to potential customers in a timely and sequential manner. Currently, the Directors envisage that customers to be visited by its sales force will include the following:

1. Hong Kong-based electroplaters with production facilities located in the PRC
2. Electroplaters in the PRC, especially in the Pearl River Delta and Kunshan, Jiangsu
3. Overseas markets including Singapore and Malaysia

The marketing team of Kenlap Chemicals in Hong Kong is responsible for the Group's marketing campaign, assisted by a sales team of about 20 salespersons in the PRC. The initial aim of the Group is to establish five to ten representative offices in the PRC within one year subsequent to the Listing Date, and at least one overseas distribution centre within two years

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after the Zhuhai Plant commenced its operation. Distribution centers in the PRC will mainly be located at the Pearl River Delta region.

PRICING POLICY AND TRADING PRACTICES

As the costs of producing and procuring Electroplating Chemicals are highly sensitive to the price fluctuation of the precious metals in the market, the Group has adopted an effective pricing policy and trading practice to minimise the risk to the Group under the rapidly changing precious metals market.

(a) Production and sales of Gold Salt

Regarding the Gold Salt produced by Kenlap in the Hunghom Plant, the selling price of each batch of finished product is based on the price of gold quoted on the London Metal Exchange on the date when order has been received plus the production cost. As the finished product is normally delivered to customers on the same day when the order is placed, Kenlap uses the same gold price quoted on that date to customers to procure the quantity of gold required for the production of the same quantity of Gold Salt from the suppliers. As a result, Kenlap is able to eliminate the risk arising from price fluctuation of the precious metals.

As the cost of the Group's finished products closely correlates with the price volatility of precious metals in the open market, it is impractical for Kenlap to enter into sales agreements with its customers on fixed price terms. Instead, the idea of a "sales contract" is represented by the sales invoice. When the product is delivered by Kenlap to its customer, the customer will acknowledge its receipt of the goods by signing on the same invoice which is presented on delivery. A sales contract is formed and the relevant invoice is later used by Kenlap to demand payment from that customer. Furthermore, for the customers in Hong Kong, Kenlap is usually able to deliver its orders within one day after an order is placed.

(b) Trading of Electroplating Chemicals

For the trading of Electroplating Chemicals, the Group adopts a pricing policy similar to those which are manufactured by Kenlap. The Group regularly places purchase orders to its suppliers and settles the orders in cash when it receives finished products from suppliers. Usually, it takes at least 3 days, but can be up to one week, for suppliers to deliver finished products to the Group. As the Group maintains close relationships with its customers and the demands for Electroplating Chemicals from customers do not fluctuate significantly, the Group normally minimises its inventory to approximate 2-week period. The selling price is based on the price of silver, palladium and rhodium quoted on the London Metal Exchange on the date when order has been received and cost of procurement from suppliers, plus certain percentage of mark-up.

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The Group is exposed to risks relating to the fluctuation of raw materials prices, such as palladium, silver and rhodium. The selling prices of Electroplating Chemicals offered to customers are based on market prices of the relevant precious materials quoted on the London Metal Exchange and procurement cost from suppliers. If there is any unfavorable fluctuation of precious metal prices during the period when the Group is holding unsold stock, the Group may suffer from fluctuations in precious metal prices.

For trading of Electroplating Chemicals, stocks are either delivered to the customers in Hong Kong or being collected by customers at Hunghom Plant. For the customers either in the PRC or Hong Kong, they settle their payments to Kenlap by depositing money in Kenlap's bank accounts in Hong Kong.

(c) Palladium Salt subcontracting and processing services

Before the establishment of the Zhuhai Plant, the Group cooperated with CCRI to provide Palladium Salt subcontracting services in the PRC. Kenlap charges its customers a pre-determined fixed subcontracting fee which was stated in the subcontracting agreements entered into between Kenlap and its customers in 1998. These agreements were negotiated by the parties on an arm's length basis.

After receiving orders from the PRC subcontracting customers, Kenlap will issue a production instructions to CCRI. The production instruction will include details such as quantity, packaging, the date when the precious metal is expected to be delivered to CCRI by the subcontracting customers, final product delivery method, customer name and final product delivery date. When CCRI receives the precious metal from the customers, it will inform Kenlap of the receipt, manufacture and deliver the Palladium Salt to subcontracting customers in the PRC, and collect the first instalment, approximately 15% of the total subcontracting fee, from the subcontracting customers on behalf of Kenlap. The proceeds collected by CCRI on behalf of Kenlap will be used to settle the processing fee payable by Kenlap to CCRI. After delivery of Palladium Salt to the customers, CCRI will pass the acknowledgement of receipt by customer and its invoice to Kenlap. Finally, the PRC subcontracting customers will pay the remaining balance of the subcontracting fee to Kenlap by depositing cheques into Kenlap's bank accounts in Hong Kong.

After the establishment of the Zhuhai Plant and the expiry of the subcontracting agreement with CCRI in May 2004, the Group will gradually cease to subcontract Palladium Salt processing services to CCRI. Instead, Kenlap Zhuhai will directly process Palladium Salt for the PRC subcontracting customers in the Zhuhai Plant.

No product liability claim has so far been made or threatened to be made against the Group.

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SALES TERMS

The Group currently adopts two billing methods. For Palladium Salt subcontracting and processing business, the Group normally allows its subcontracting customers to pay the subcontracting and processing fees by instalments. If the Palladium Salt processing orders are subcontracted to CCRI, the Group requires its subcontracting customers to pay approximately 15% of the respective subcontracting fees upon their receipt of the finished products to CCRI on behalf of Kenlap, while the remaining balance shall be payable to Kenlap within 12 months after acceptance of the finished product. The granting of a credit period of 12 months to the subcontracting customers is based on business consideration and long term business relationship with these subcontracting customers. For new subcontracting customers, the Group normally grants a credit period of 1 month under the current credit policy.

In accordance with industry research, the credit period offered by other subcontractors in the PRC is approximately 90 days. Other subcontractors may consider to extend the credit period to 12 months after these subcontractors have established stable business with their respective customers. In 1998 when the Palladium Salt subcontracting business in the PRC was first developed, Kenlap decided to attract more business by granting new subcontracting customers a credit period of 12 months for approximately 85% of the subcontracting fee with the remaining balance payable at delivery of goods. Since Palladium Salt subcontracting is a provision of service, not a trading of goods, Kenlap does not have to put up a significant amount of working capital for its operation, and therefore the business risk associated with a 12 month credit term for approximately 85% of the fee was assessed to be acceptable. On the other hand, by allowing a longer credit period for the subcontracting customers, it is reasonable to believe that they will have more working capital and therefore are able to run a larger operation which results in higher business volume to Kenlap.

At present, Kenlap has established stable and long term business relationships with its subcontracting customers. As confirmed by the Company, the credit term offered to the subcontracting customers has remained unchanged since 1998 and so far there has not been any bad debt from any of the subcontracting customers. Kenlap does not expect there to be any significant bad debt from the subcontracting customers in the next one or two years. Therefore, the Directors consider that the 12 months credit period offered to subcontracting customers do not result in an onerous financial burden to the Group.

In addition, Kenlap entered into a supplemental agreement to the subcontracting agreement (“Supplemental Subcontracting Agreement”) with each of its four existing subcontracting customers on 28 March 2003. Pursuant to each Supplemental Subcontracting Agreement, the subcontracting customer agreed to deliver the minimum quantity of Palladium powder as provided therein to the Zhuhai Plant as a pledge on their outstanding trade receivables due to the Group within 14 days from the date of execution of each date of the Supplemental Subcontracting Agreement. If any subcontracting customer is unable to settle

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their outstanding trade receivables within the credit period in accordance with its subcontracting agreement, the Company will have the right to sell the pledged Palladium powder. Also, each of the four subcontracting customers is required to maintain the minimum quantity of Palladium powder as agreed in their respective Supplemental Subcontracting Agreements until the expiry of the relevant subcontracting agreement. The Directors believe that the pledge of Palladium powder in accordance with the Supplemental Subcontracting Agreements could strengthen the internal credit control and further secure the financial position of the Group. As at the Latest Practicable Date, the subcontracting customers delivered an aggregate of 260 kg of Palladium powder to the Zhuhai Plant as a pledge on their outstanding trade receivables due to the Group. Up to 12 May 2003, the unsettled trade receivables from these four existing subcontracting customers as at 31 December 2002 amounted to approximately HK\$27.7 million.

For the sales and trading of Electroplating Chemicals, most of the Group's sales are made on credit terms, ranging from 7 to 45 days.

At present, the Group has no specific credit policy. However, its normal practice is to allow its subcontracting customers repayment periods ranging from one to twelve months. In order to assess new customers' payment ability in relation to the sales of Electroplating Chemicals, the Group usually will not offer credit sales to new customers with less than 3-month trading records. Credit limit and credit period are determined with reference to the trading history, payment history and knowledge, including financial background, of the customer. The payment method includes post-dated cheques, L/C and cheques deposit.

During the nine months ended 31 December 2002, post-dated cheques, L/C, and cheques deposit (Kenlap's bank account in Hong Kong) accounted for approximately 33.1%, 0.7% and 66.2% of the Group's total turnover respectively.

The Group has no specific bad debts provision policy. However, by normal practice, provision for doubtful debts is assessed on specific basis when the debtor is known to be unable to repay. The management would follow up overdue balances by making contact or visits to the debtors and setting payment schedules with them if necessary. Outstanding amounts will be written off as bad debts when the customer's business is closed down and the amounts due are not expected to be recoverable. Up to 12 May 2003, the unsettled trade receivables of the Group as at 31 December 2002, after the provision of HK\$0.89 million, amounted to approximately HK\$28.4 million, out of which approximately HK\$27.7 million is from four of the Group's existing subcontracting customers, and their respective trade receivables have not been overdue according to their payment terms. The expected due dates of credits to these subcontracting customers range from June 2003 to December 2003. The remaining approximately HK\$0.7 million is from 12 customers for the sales of Electroplating Chemicals and the trade receivables for the sales of Electroplating Chemical are already overdue.

BUSINESS OF THE GROUP

Based on the history of business relationships with these subcontracting customers, the Company considers that there should not be any problem with receiving amount due from these subcontracting customers.

The Group adopts a stringent credit control policy through site visits to customer's offices attended by sales staff on a regular basis. After the site visit, an assessment of the customer's business operation will then be made to review the credit limit and credit period to be granted to the respective customers. In addition, the credit will only be granted to customers after careful consideration. All credit terms must be approved by senior management. Sales persons do not have authority to grant credit terms.

The bad debts experienced by the Group and the provision for doubtful debts were insignificant in relation to the Group's sales. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the amount of bad debts and the provision for doubtful debts were approximately HK\$0.13 million, HK\$0.26 million, HK\$0.89 million and HK\$0 respectively, representing approximately 0.15%, 0.28%, 0.56% and 0% respectively of the Group's turnover for the same periods. The bad debt during the Track Record Period is the long overdue amounts from the Group's customers which had ceased businesses. The provision for doubtful debts was for the sales of Electroplating Chemicals. No provision has been made for the Palladium Salt subcontracting business since 1998.

CUSTOMERS

As at the Latest Practicable Date, the Group has approximately 90 active customers, comprising 84 for its sale of Electroplating Chemicals and 6 for its subcontracting business respectively. For the subcontracting business, the Group's customers are mainly chemical distributors. For the Electroplating Chemicals sales businesses, the Group's customers are mainly electroplating service providers, watches and clocks manufacturers, jewellery manufacturers and printed circuit board manufacturers.

For each of the three years ended 31 March 2002 and the nine months ended 31 December 2002, total sales to the Group's top five customers accounted for approximately 38.5%, 39.3%, 64.0% and 58.6% respectively of the Group's total sales. The largest customer of the Group accounted for approximately 14.0%, 10.4%, 23.2% and 37.2% respectively of the Group's total sales for each of these periods. For the nine months ended 31 December 2002 four of the top five largest customers were from the PRC.

BUSINESS OF THE GROUP

For the sales of Electroplating Chemicals, the top five customers accounted for approximately 35.6%, 33.8%, 47.9% and 50.4% respectively of the Group's total turnover for the three years ended 31 March 2002 and the nine months ended 31 December 2002. Also, the largest customer for the sales of Electroplating Chemicals accounted for approximately 14.0%, 10.4%, 17.8% and 37.2% respectively of the Group's total turnover for the same period.

For Palladium Salt subcontracting services, the Group provided subcontracting services to three customers in the financial year of 2000 and four customers in the financial years of 2001 and 2002 and the nine months period end 31 December 2002. The top three customers accounted for approximately 16.3% for the year ended 31 March 2000 and the top four customers accounted for approximately 24.7%, 18.8% and 17.7% respectively of the Group's total turnover for the three years ended 31 March 2002 and the nine months ended 31 December 2002. Also, the largest customer for subcontracting business accounted for approximately 5.9%, 7.7%, 6.0% and 6.7% respectively of the Group's total turnover for the same period.

None of the Directors nor the substantial shareholders of the Group or their respective associates (as such terms are defined in the Listing Rules) has any interest in any of the five largest customers of the Group.

COMPETITION

As the PRC is expected to continue its role as a major consumer products production base of the world, the Directors believe that there will be increasing demand for Electroplating Chemicals in the PRC based on their industry experience and knowledge. In Hong Kong, being one of the major exporters of watches, clocks and jewellery, the demand for Electroplating Chemicals is expected to remain stable.

The Directors expect that the increase in business opportunities in the industry will attract more overseas Electroplating Chemicals suppliers to enter into the PRC market through setting up packaging centers or appointing local distributors.

To the best knowledge of the Company, there are other Electroplating Chemicals subcontractors which offer Palladium Salt processing services in the PRC and in accordance with industry research, the subcontracting and processing fees for Palladium Salt charged by the Group are in line with the rates charged by other market players in the PRC. Even if the subcontracting fee charged by Kenlap and Kenlap Zhuhai is slightly higher than other subcontractors in the PRC, the Company considers that the Group have certain advantages over its competitors.

BUSINESS OF THE GROUP

Firstly, the Company is of the view that there will be an exponential growth in demand for Palladium Salt in the PRC in the foreseeable future. The Group is already well-positioned and well-established in the PRC market in Palladium Salt subcontracting while there are only few companies in the PRC which are able to handle large scale Palladium Salt subcontracting and processing services due to the nature of the product, which involves the use of dangerous goods that requires a vigorous approval process and close scrutiny by the relevant regulatory authorities. Thus, the Directors believe that the barriers to entry for such businesses are high.

Secondly, the Company believes that the subcontracting customers do not choose a subcontractor solely by reference to processing fees because the subcontractor must be trustworthy to the customers before the customers entrust it with Palladium powder which is an expensive precious metal.

Thirdly, the production facilities of the Zhuhai Plant were acquired recently from CQCC (a subsidiary of CCRI) and the Zhuhai Plant is catered for operation in a sizable capacity with the support of an experienced management and production team.

With the shifting of production facilities of Hong Kong manufacturers towards the PRC, the Group is able to leverage on its established track record in the Electroplating Chemicals industry. By having production facilities in both Hong Kong and the PRC, the Group is able to secure business contracts from its existing customers through supplying the Electroplating Chemicals in both places. The Directors consider its ability to maintain business relationship with customers one of its competitive advantages.

The Directors believe that the Group is able to continue to compete effectively with its competitors based on its production facilities, strategic relationship with CCRI and proven track record in the Electroplating Chemicals industry.

BUSINESS OF THE GROUP

VENDORS

On 30 April 2002 and 17 May 2002, OGH L and Kenlap entered into the Subscription Agreements with each of the Independent Subscribers respectively in relation to the private placement of an aggregate of 113,352 shares in Kenlap to the Independent Subscribers. The Subscription Agreements were conditional upon, inter alia, a satisfactory due diligence review by the Independent Subscribers on the business, trading positions and operations of Kenlap. The due diligence review was completed and the conditions were satisfied. Details of Kenlap's shares subscribed for and the subscription consideration paid by each of the Independent Subscribers are set out below:

Name of investor	Kenlap's shares subscribed	Subscription consideration (HK\$)
Sino First Profits Limited	48,582	14,999,692.50
Sino Metro Group Limited	3,238	999,732.50
Golden Base International Inc.	9,716	2,999,815.00
Top Billion Limited	6,477	1,999,773.75
Southern Star Investments Limited	1,619	499,866.25
Lee Yuen Yee Ada	1,619	499,866.25
Lam Sze Ming	1,619	499,866.25
Rich Easy Limited	16,194	4,999,897.50
Bank Sarasin-Rabo (Asia) Limited	6,477	1,999,773.75
Lai Suk Kuen	4,210	1,299,837.50
Wong Wai Kuen	3,238	999,732.50
Ng Yau Keung	1,619	499,866.25
Liu Chi Bun	8,744	2,699,710.00
Total	113,352	34,997,430.00

In connection with the subscription of the Subscription Shares, each of the Independent Subscribers also entered into a Put Option Deed with OGH L, pursuant to which OGH L or its agent is required to repurchase from the relevant Independent Subscriber the relevant Subscription Shares at a 20% premium to the relevant subscription consideration if the Company would not be listed on the Main Board on or before 16 May 2003.

As the Proposed Spin-off could not be completed on or before 16 May 2003, OGH L approached the Independent Subscribers to negotiate an extension of time to complete the listing of Shares on the Main Board. After negotiation with the Independent Subscribers, on 15 May 2003, twelve of the Independent Subscribers entered into (i) the supplemental agreements to the Subscription Agreements with OGH L and Kenlap; and (ii) the supplemental deeds to the Put Option Deeds with OGH L, to amend certain terms of the Subscription Agreements and the Put Option Deeds.

BUSINESS OF THE GROUP

The principal amendments to the terms of the Subscription Agreements and the Put Option Deeds include:

- (i) twelve of the Independent Subscribers have agreed to extend the latest time for the listing of the Shares on the Main Board to 15 July 2003;
- (ii) OGHL would repurchase from the relevant Independent Subscribers the relevant Subscription Shares originally owned by the Independent Subscribers at a 23.33% premium, instead of 20% premium, to the relevant subscription consideration if the Company shall not be listed on the Main Board on or before 15 July 2003; and
- (iii) OGHL has increased the guaranteed market capitalisation of the Company from HK\$475 million to HK\$525 million.

Bank Sarasin-Rabo (Asia) Limited, one of the Independent Subscribers, informed OGHL that it would exercise its right under the terms of its Put Option Deed and sell all its shares in Kenlap to OGHL after 16 May 2003. OGHL, through Successful Gold, purchased the 6,477 shares of Kenlap originally owned by Bank Sarasin-Rabo (Asia) Limited on 27 May 2003. After the purchase, OGHL, through Successful Gold, owned approximately 90.4% of the entire issued share capital of Kenlap.

As part of the Reorganisation, twelve of the Independent Subscribers will be allotted and issued an aggregate of 38,057,580 Shares, representing approximately 8.01% of the enlarged issued share capital of the Company immediately after the completion of the Share Offer and the Capitalisation Issue while Successful Gold will be allotted and issued an aggregate of 358,442,420 Shares, representing approximately 75.46% of enlarged issued share capital of the Company immediately after the completion of the Share Offer and the Capitalisation Issue.

In order to ensure a 25% minimum public float as required under Rule 8.08 of the Listing Rules, OGHL intends to dispose of approximately 2,306,420 Shares, representing approximately 0.49% of the enlarged issued share capital of the Company after the Capitalisation Issue and the Share Offer, under the Share Offer. In addition, after negotiations with OGHL, twelve of the Independent Subscribers will also dispose of all of their respective shareholdings in the Company under the Share Offer.

The cost of investment per Share for the Independent Subscribers was approximately HK\$0.87, representing 1.1% discount to the Offer Price.

All Independent Subscribers are independent of and not connected with the Directors, chief executive, Substantial Shareholders of the Company or any of its Subsidiaries or their respective associates.

BUSINESS OF THE GROUP

RELATIONSHIP WITH OGHL

As at the Latest Practicable Date, the Company is a subsidiary of Successful Gold which is in turn wholly-owned by OGHL. The OGHL Group will, following the spin-off of the Company, continue to primarily engage in the manufacturing and wholesaling of aluminium extrusion and stainless steel products. The Group will engage in the processing, production and trading of Electroplating Chemicals in the PRC and Hong Kong. Therefore, the Directors believe that there is a clear delineation between the businesses to be retained by the OGHL Group and those of the Group.

After completion of the Share Offer, OGHL will hold approximately 75% of the issued share capital of the Company (not taking into account of any Shares which may fall to be issued under the Over-allotment Option). After taking into account the Shares which may fall to be issued under the Over-allotment Option, OGHL will hold approximately 72.3% of the issued share capital of the Company.

Independence of Directors and Senior Management

The Board consists of 7 members, 2 of which are the executive Directors of OGHL. These two executive Directors are Mr. Yip Kim Po and Mr. Hui Ho Ming, Herbert. As the majority of the Directors are not directors or officers of OGHL, the senior management team is fully devoted to the Group's business operations. For the above reasons, the Directors believe that there is sufficient independence for the management to operate independently from OGHL.

In this regard, each of Mr. Yip Kim Po and Mr. Hui Ho Ming, Herbert who are also directors of OGHL has agreed in his service agreement entered into with the Company to avoid putting himself in a position which shall be in conflict with the interest of the Group. If any one of them contemplates or foresees any potential or actual conflict between the Group and the OGHL Group, according to the said service agreement, he shall declare his interest at the board meeting and abstain from voting in respect of any board resolution considering and/or approving matters for which the conflict exists.

Independence of Administrative Capability

Currently, the Group has its own administration and accounting teams which consist of 18 and 2 employees in the Zhuhai Plant and the Hunghom Plant respectively. Through its own accounting and internal control system, company secretariat, office space as well as its business is subject to independent management, the Directors consider that the administration of the Group is independent from OGHL.

BUSINESS OF THE GROUP

Independence of Business Operations

Through its own production facilities in the Hunghom Plant and the Zhuhai Plant, the Group is independent from the OGH L Group for its processing, production and sales of Electroplating Chemicals. In addition, each of the Group and the OGH L Group has different and separate focus in terms of products, markets and business plans. In light of the foregoing, the Directors believe that there is a clear delineation between the Group and the OGH L Group in terms of its target customers, mode of operations and market positioning.

BENEFITS OF THE PROPOSED SPIN-OFF AND SHARE OFFER TO THE COMPANY

The Directors believe that the proposed spin-off and the Share Offer will provide a number of benefits to the Company including:

- making the performance of business operations of the Company more transparent given that the Company's business has different characteristics when compared with those of the OGH L Group;
- providing the Company with added flexibility in funding its operations and capital expenditures to meet its specific capital requirements through direct access to capital markets as a separate entity;
- enabling investors to invest separately in the Company and allowing the Company to establish its own shareholder base;
- providing incentives for the management and staff of the Company to develop its business by making the performance of the business operations more transparent and linking part of management's remuneration to the Company's performance through share options;
- assisting the Company to expand its business through raising the Group's profile; and
- enabling the management team of the Company to be more focused on its business, thus enhancing the decision-making process and its responsiveness to market changes.

CONNECTED TRANSACTIONS

During the Track Record Period, the Group entered into various related party transactions, details of which are set out under the paragraph headed "Related party transactions" in the accountants' report set out in Appendix I to this prospectus.

BUSINESS OF THE GROUP

Upon the listing of the Shares on the Stock Exchange, OGHL, being a substantial shareholder of the Company, and Mr. Yip Kim Po, being an executive Director of the Company and OGHL, will become a connected person (as defined in the Listing Rules) of the Company. A number of related party transactions (as described in the accountants' report) which have been entered into by the Group with Mr. Yip Kim Po, OGHL and/or their respective associates or subsidiaries will constitute connected transactions for the Company under the Listing Rules upon the listing of the Shares on the Stock Exchange. However, the Directors have confirmed that the transactions (a) and (b) below had already ceased to exist since March 2001 and July 2002 respectively whereas the transactions (c) and (d) below will cease to continue upon the listing of the Shares on the Stock Exchange.

(a) A banking facility letter in relation to a guarantee given by Kenlap (Holding) Limited and Mr. Yip Kim Po for Kenlap's bank loan amounting to HK\$17,796,000

As at 31 March 2000, Kenlap had outstanding bank loans amounted to HK\$17,796,000 which were pledged by (i) properties beneficially owned by Kenlap (Holding) Limited and Ms Yip Wan Fung (director of OGHL), (ii) continuing personal guarantee provided by Mr. Yip Kim Po; and (iii) corporate guarantee provided by Kenlap (Holding) Limited. Mr. Yip Kim Po is a director of the Company and OGHL. Kenlap (Holding) Limited is a company beneficially owned and controlled by Mr. Yip Kim Po. The bank loans were repaid early during the year ended 31 March 2001.

(b) Guarantee by Kenlap for a term loan facility granted to Successful Gold

During the year ended 31 March 2002, Kenlap provided a corporate guarantee and a negative pledge over all charge-free assets in respect of a US\$17 million term loan facility with a repayment period of 3 years granted to Successful Gold, its immediate holding company. Full amount of the term loan was drawdown during the year ended 31 March 2002, of which US\$11 million was used to finance the establishment of the production base of Kenlap Zhuhai. The loan was repaid early in July 2002 and accordingly the corporate guarantee and negative pledge were released.

(c) Guarantee by Kenlap for a banking facilities granted to Hing Yip Holdings (Hong Kong) Limited

Kenlap has provided a corporate guarantee in favour of Dao Heng Bank Limited (the "**Bank**") to secure the banking facility granted to Hing Yip Holdings (Hong Kong) Limited ("**Hing Yip**"), a wholly-owned subsidiary of OGHL. Kenlap has not charged any fee in respect of its provision of this corporate guarantee. According to the letter issued by the Bank to Hing Yip on 12 November 2002, the Bank provided an in-principle approval to Hing Yip that the Bank will release such corporate guarantee upon the successful listing of the Company on the Stock Exchange.

BUSINESS OF THE GROUP

A deed of undertaking dated 27 May 2003 was executed by OGHL and Hing Yip in favour of Kenlap, pursuant to which OGHL and Hing Yip have both undertaken to take all necessary steps and procedures to procure the Bank to release Kenlap as guarantor under the said corporate guarantee absolutely immediately upon the successful listing of the Company on the Stock Exchange.

(d) The intercompany balance between the Group and OGHL Group

Pursuant to Rule 14.25(2) of the Listing Rules, the financial assistance from OGHL to the Group constitute connected transaction for the Company under the Listing Rules upon the listing of the Shares on the Stock Exchange. As at 31 December 2002, the receivables due from the OGHL Group amounted to HK\$41.0 million which mainly represented excess funds transferred to the respective companies of OGHL Group for working capital purposes or payments made by the group on behalf of the respective companies of OGHL Group. As at 31 December 2002, the payable due to OGHL Group amounted to HK\$64.8 million which mainly consisted of syndicated loans advanced from OGHL to finance the set up of Kenlap Zhuhai. Based on the above figures, the net balance payable to OGHL is around HK\$23.8 million and is expected to be settled by cash immediately before the listing of the Company.

NON-COMPETITION UNDERTAKING

In order to avoid direct and indirect competition between the OGHL Group and the Group, OGHL has entered into a deed of non-competition undertaking with the Group. Pursuant to the non-competition deed of undertaking (“**Deed of Non-competition Undertaking**”) dated 10 June 2003 executed by OGHL in favour of the Group, OGHL has undertaken that insofar as OGHL holds not less than 30% of the interests in the Company, OGHL will not, directly or indirectly, either alone or jointly with or as manager or agent for any person, firm or company and whether or not for gain:

- (a) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in relation to:
 - (i) the processing, production and trading of Electroplating Chemicals and the provision of Palladium Salt subcontracting and processing services to customers (“**Restricted Activities**”) in places where the operation of any member of the Group is situated (collectively the “**Territory**”); and/or
 - (ii) any other business in the Territory similar to any business carried on by any member of the Group as disclosed in this prospectus;
- (b) take any action which constitutes an intentional undue interference with or a disruption of any of the Group’s business activities including, but not limited to, solicitation of the Group’s customers or personnel.

BUSINESS OF THE GROUP

The Deed of Non-competition Undertaking contains the following exceptions to the above undertaking:

- (a) there is no restriction on any member of the OGHL Group holding or being interested in shares or other securities in any company (the “**Subject Company**”) which conducts or is engaged in any Restricted Activity whose shares or securities are listed on a stock exchange and provided further that the aggregate number of shares held by OGHL, when aggregated with such shares held by any member of the OGHL Group, or in which any member of the OGHL Group are interested do not amount to more than 10% of the issued shares of the Subject Company; and
- (b) there is no restriction on any member of the OGHL Group directly or indirectly owning or continuing to participate in the holding of or investment in the businesses in which any member of OGHL is already directly or indirectly involved as at the date of this prospectus of the Company and disclosed in this prospectus.

OGHL has further undertaken that in the future, if there is any product development and/or research activity in respect of the Restricted Activities conducted by any member of the OGHL Group that could be commercialised and will directly compete with any chemical products of the Company, OGHL shall grant to the Company the right of first refusal to participate in any such product development and/or research activity and to commercialise such product. In such event, OGHL shall forthwith notify the Company in writing (“**Notice**”) of such business opportunity and shall offer to the Company (“**Offer**”) to jointly participate in such product development and/or research activity and to commercialise such product. If within 1 month after the service of the Notice, OGHL has not received any written acceptance of the Offer from the Company, the Offer shall lapse and have no further effect, and OGHL shall be entitled to pursue the business opportunity set out in the Offer on its own, irrespective of any provisions contained herein.

The undertakings contained in the Deed of Non-competition Undertaking will cease to have any effect on the earliest of the date on which (i) OGHL and/or any member of OGHL Group cease to be the controlling shareholder of the Company as defined under the Listing Rules; (ii) the Shares cease to be listed and traded on the Stock Exchange; or (iii) the principal business of the Group ceases to be the Restricted Activities.