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INDEBTEDNESS

Borrowings

At the close of business on 30 April 2003, being the Latest Practicable Date for the purpose of preparing the indebtedness statement prior to the printing of this prospectus, the Group has outstanding bank borrowings of approximately HK\$35.7 million secured by the Group's properties located in Hong Kong with carrying values of HK\$7.4 million and corporate guarantees given by OGHL.

Securities

As at 30 April 2003, the Group had no material debt securities outstanding.

Disclaimer

Save as aforesaid and apart from intra-Group liabilities, the Group did not, at the close of business on 30 April 2003, have any outstanding, and authorised or otherwise created but unissued, loan capital or debentures, mortgages, charges, bank overdrafts, liabilities under acceptances or other similar indebtedness or acceptance credits or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness or contingent liabilities of the Group since 30 April 2003.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 to the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital structure

As at 30 April 2003, the Group had total assets of approximately HK\$268.6 million, comprising non-current assets of approximately HK\$91.9 million and current assets of approximately HK\$176.7 million. The non-current assets comprised 1) investment properties of approximately HK\$4.8 million; 2) intangible assets of approximately HK\$8.9 million; 3) property, plant and equipment of approximately HK\$73.9 million; and prepayments and deposits of approximately HK\$4.3 million. The property, plant and equipment increased from HK\$11.6 million as at 31 March 2002 to HK\$73.9 million as at 30 April 2003. The increase of approximately HK\$62.3 million is mainly attributed by 1) the acquisition of land to setup the

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Zhuhai Plant amounted to approximately HK\$15.6 million; 2) the payment to acquire the plant and equipment in Zhuhai Plant amounted to approximately HK\$41.9 million; and 3) the expenditure amounted to approximately HK\$4.8 million to upgrade the Gold Salt production facility in Hunghom Plant.

The current assets comprised cash on hand and at banks of approximately HK\$10.2 million, inventories of approximately HK\$5.0 million and accounts receivables, prepayments and other receivables collectively of approximately HK\$161.5 million. As at 30 April 2003, the Group had non-current liabilities of approximately HK\$2.1 million. The current liabilities of the Group comprised short term bank loans of approximately HK\$33.0 million, accounts payable, accruals and other payables collectively of approximately HK\$66.5 million, tax payable of approximately HK\$2.6 million and current portion of long-term bank borrowings of HK\$0.6 million.

Borrowings and banking facilities

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers in Hong Kong.

As at 30 April 2003, the Group had aggregate composite banking facilities of approximately 83.6 million, of which approximately 35.7 million had been utilised. The banking facilities were secured by the Group's properties located in Hong Kong with carrying values of HK\$7.4 million and corporate guarantees given by OGHL.

TRADING RECORD

The Directors are aware of the following requirements:

- (i) Rule 4.04(1) of the Listing Rules requires that the accountants' report must include the combined results of the Group in respect of each of the three financial years immediately preceding the issue of the listing document; and**
- (ii) Paragraph 27 of Part I of the Third Schedule to the Companies Ordinance requires the Company to set out in the listing document a statement as to the gross trading income or sales turnover during the three years preceding the date of the listing document, including an explanation of the method used for the computation of such income or turnover and a reasonable break-down between the more important trading activities, and Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance requires the Company to include in the listing document a report by the auditors with respect to the profits and losses and assets and liabilities of the Group in respect of each of the three financial years immediately preceding the issue of the listing document.**

As the financial year of the Group ends on 31 March and this prospectus includes the combined results of the Group covering each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 only, the Company has applied for and has been

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granted waivers from compliance with the requirements referred to in (i) above by the Stock Exchange and in (ii) above by the Securities and Futures Commission. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31 December 2002 and there is no event which would materially affect the information shown in the accountants' report of the Group as set out in Appendix I to this prospectus.

The following is a summary of the audited combined results of the Group during the Track Record Period which is derived from and should be read in conjunction with the accountants' report in Appendix I to this prospectus.

	Year ended 31 March		Nine months ended 31 December	
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover				
Sale of goods				
– Gold Salt	61,988	47,528	62,256	90,029
– Palladium Salt	14,125	21,606	67,241	74,906
– Silver Salt	–	594	318	6,319
– Rhodium Sulphate	–	–	6	3,758
Palladium Salt subcontracting fee	14,872	22,915	30,125	37,570
Total	90,985	92,643	159,946	212,582
Cost of sales	(75,116)	(69,768)	(128,254)	(171,452)
Gross profit	15,869	22,875	31,692	41,130
Other revenue				
Interest income	1,642	814	324	212
Rental and sundry income	3	105	191	12
	17,514	23,794	32,207	41,354
Administrative expenses	(2,348)	(2,406)	(3,358)	(4,142)
Other operating expenses	(604)	(607)	(3,852)	(4,568)
Profit from operations	14,562	20,781	24,997	32,644
Finance costs	(1,867)	(1,043)	(1,703)	(920)
Profit from ordinary activities				
before taxation	12,695	19,738	23,294	31,724
Taxation	(222)	(258)	(101)	(496)
Net profit attributable				
to shareholders (Note 2)	12,473	19,480	23,193	31,228
Dividends (Note 1)	16,904	–	–	–
Earnings per share – basic (Note 2)	3.2 cents	4.9 cents	5.9 cents	7.9 cents

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Note:

- (1) The dividends of the Group amounting to about HK\$16.9 million for the year ended 31 March 2000 was financed by internal resources of the Group.
- (2) After the adjustment of all income and expense items relating to all non-core activities, comprising: (i) excluding other revenue (interest income from bank deposits and reimbursed from Kenlap (Holding) Limited and rental income), which amounted to an aggregate of approximately HK\$1,645,000, HK\$919,000 and HK\$515,000 for the three years ended 31 March 2002; (ii) excluding interest expenses incurred from outstanding bank loans, which amounted to approximately HK\$1,375,000 and HK\$623,000 for the two years ended 31 March 2002. For details, please refer to note (g)(i) under the section headed “Combined Results” in Appendix I to the prospectus; and (iii) including interest expenses for the amount due to OGH of approximately HK\$22,000 for financial year of 2000 (the interest rate used in the calculation was the average prime rate for the financial year 2000 plus 2.5%), the Company had aggregate combined profit of approximately HK\$31,365,000 for the two years ended 31 March 2001 and combined profit of approximately HK\$22,678,000 for the year ended 31 March 2002. Thus the Company can satisfy the requirements of Rule 8.05 of the Listing Rules.

RESULTS OF OPERATIONS

Overview

The following paragraphs illustrate the Directors’ discussion regarding the financial performance of the Group during the Track Record Period.

Revenue and expense items

Operating revenue. The key components of the Group’s operating revenues are:

- Production and sale of Gold Salt. It represents the revenue from the sales of Gold Salt produced by the Group. As the price of Gold Salt is positively correlated to the market price of gold which account for significant portion of cost of production, the revenue from the sales of Gold Salt produced by the Group will be affected by fluctuation of gold price.
- Trading of Electroplating Chemicals. It represents the revenue from the sales of Electroplating Chemicals sourced by the Group from chemicals suppliers in Hong Kong and the PRC.
- Palladium Salt subcontracting services. It represents the revenue received by the Group in providing Palladium Salt subcontracting service to customers in the PRC through the cooperation with CCRI.

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Operating expenses. The key components of the Group's operating expenses are:

- Cost of sales. It represents the raw material procurement cost, labour cost and factory overhead.
- Subcontracting charges. It represents the fee charged by CCRI in providing processing service for the Palladium Salt to the Group.
- Administrative expenses. It mainly consists of management and administrative staff costs, travel, entertainment and rental expenses.
- Other operating expenses. It mainly consists of legal and professional fee, provision for doubtful debts, exchange loss and revaluation deficit on investment properties.

Comparison of the nine-month periods ended 31 December 2001 and 2002

Operating revenue

The Group's revenue increased by 69.2% from approximately HK\$125.6 million in the nine months ended 31 December 2001 to approximately HK\$212.6 million in the nine months ended 31 December 2002. This increase mainly reflected the new business contracts secured by the Group from new customers in the PRC and Hong Kong. During the nine months ended 31 December 2002, the Group established business relationships with five major new customers and the revenue from these new customers during the same period amounted to HK\$108.0 million.

- Production and sale of Gold Salt. The revenue from production and sale of Gold Salt increased by 79.8% from approximately HK\$50.1 million in the nine months ended 31 December 2001 to HK\$90.0 million in the nine months ended 31 December 2002. Before the completion of production expansion in the Hunghom Plant in May 2002, the Hunghom Plant was nearly operating at full capacity. The maximum annual production capacity of Gold Salt at Hunghom Plant was expanded from 2,000 kg to 7,000 kg per annum in May 2002. The increase in revenue generated from production and sale of Gold Salt reflected the Group was able to increase its production of Gold Salt to satisfy the increasing demand from both existing and new customers. During the nine months ended 31 December 2002, the Group established business relationship with three new customers who contributed HK\$14.6 million revenue to the Group. In addition, the gold price quoted on London Metal Exchange increased from approximately US\$278 per oz on 31 December 2001 to approximately US\$347 per oz on 31 December 2002. The increase of gold price resulted in the rise of the unit price of Gold Salt and the amount of revenue generated from the production and sale of Gold Salt.

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- Trading of Electroplating Chemicals. The revenue from trading of Electroplating Chemicals increased by 51% from approximately HK\$56.3 million for the nine months ended 31 December 2001 to approximately HK\$85.0 million for the nine months ended 31 December 2002. The increase in turnover was mainly attributable to the continuous strong demand of Palladium Salt in the PRC market and the establishment of business relationship with one new customer who contributed HK\$ 79.2 million revenue to the Group.
- Palladium Salt subcontracting services. The revenue from Palladium Salt subcontracting services increased by 94.9% from approximately HK\$19.3 million for the nine months ended 31 December 2001 to HK\$37.6 million for the nine months ended 31 December 2002. This increase mainly reflected the increase in demand for the Group's Palladium Salt subcontracting services from the existing customers and the establishment of business relationship with one new customer who contributed HK\$ 14.2 million revenue to the Group.

Operating expenses

The Group's total operating expenses increased by 67.3% from approximately HK\$107.7 million for the nine months ended 31 December 2001 to approximately HK\$180.2 million for the nine months ended 31 December 2002. This increase mainly reflected the increase in Group's revenue which brings higher operating expenses.

- Cost of sales. Costs of sales increased 64.2% from approximately HK\$102.0 million for the nine-month period ended 31 December 2001 to approximately HK\$167.5 million for the same period in 2002. This increase reflected the growth of the Group in production and trading of Electroplating Chemicals, and the increase of gold price.
- Subcontracting charges. Subcontracting charges increased 43.9% from approximately HK\$2.7 million for the nine months period ended 31 December 2001 to HK\$3.9 million for the same period in 2002. This increase was in line with the increase of Palladium Salt processing services subcontracted to CCRI during the year.
- Administrative expenses. Administrative expenses increased 149% from approximately HK\$1.7 million for the nine months period ended 31 December 2001 to approximately HK\$4.1 million for the same period in 2002. This increase mainly reflected the set up of Kenlap Zhuhai in July 2001.
- Other operating expenses. Other operating expenses increased 257.3% from approximately HK\$1.3 million for the nine months period ended 31 December 2001 to approximately HK\$4.6 million for the same period in 2002. This increase was mainly caused by the increase in unrealised loss on gold loan payable and revaluation deficit on investment property.

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Net finance costs

Finance costs decreased 25.4% from approximately HK\$1.2 million for the nine months period ended 31 December 2001 to approximately HK\$0.9 million for the same period in 2002. The decrease in finance costs is mainly due to lower interest rate charged.

Profit

- Gross profit. Gross profit increased 97.1% from approximately HK\$20.9 million for the nine months ended 31 December 2001 to approximately HK\$41.1 million for the same period in 2002. The gross profit margin increased from 16.6% for the nine months period ended 31 December 2001 to 19.3% for the same period in 2002.
- Net profit. Net profit increased 94.7% from approximately HK\$16 million for the nine months ended 31 December 2001 to approximately HK\$31.2 million for the same period in 2002. The net profit margin increased from 12.8% for the nine months ended 31 December 2001 to 14.7% for the same period in 2002.
- The rise of gross and net profit margin were due to the proportion of turnover contributing from Palladium Salt subcontracting, which had higher profit margin, over the total turnover of the Group increased from 15.3% for the nine months ended 31 December 2001 to 17.7% over the same period in 2002.

Fiscal year 2002 compared to fiscal year 2001

Operating revenue

The Group's revenue increased by 72.6% from approximately HK\$92.6 million in the fiscal year 2001 to approximately HK\$159.9 million in the fiscal year 2002. The Directors believe that the increase was largely attributable to the increase of prices and volume of Gold Salt produced by the Group, a higher demand for the Group's Electroplating Chemicals and Palladium Salt subcontracting services.

- Production and sale of Gold Salt. The revenue from production of Gold Salt increased by 31.0% from approximately HK\$47.5 million in the fiscal year 2001 to approximately HK\$62.3 million in the fiscal year 2002. The total volume of Gold Salt produced by the Group increased from 970 kg in the fiscal year 2001 to 1,390 kg in the fiscal year 2002. The increase of revenue reflected the new business contracts secured from 13 new customers and the rise of gold price during the fiscal year of 2002.

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- Trading of Electroplating Chemicals. The revenue from trading of Electroplating Chemicals increased by 204.3% from approximately HK\$22.2 million in the fiscal year 2001 to approximately HK\$67.6 million in the fiscal year 2002. The increase of revenue reflected the Group's effort in strengthening the trading of Palladium Salt during the fiscal year of 2002.
- Palladium Salt subcontracting services. The revenue from Palladium Salt subcontracting services increased by 31.5% from approximately HK\$22.9 million in the fiscal year 2001 to approximately HK\$30.1 million in the fiscal year 2002. This increase mainly reflected the increase in demand for the Group's Palladium Salt subcontracting services from the existing customers of the Group.

Operating Expenses

The Group's total operating expenses increased by 86.1% from approximately HK\$72.8 million in the fiscal year 2001 to approximately HK\$135.5 million in the fiscal year 2002. This increase mainly reflected the increase in cost of sales which was in line with the growth of the Group's revenue.

- Cost of sales. Cost of sales increased by 86.0% from approximately HK\$66.8 million in the fiscal year 2001 to approximately HK\$124.3 million in the fiscal year 2002. This increase reflected the growth of the Group in production and trading of Electroplating Chemicals.
- Subcontracting charges. Subcontracting charges increased by 34.3% from approximately HK\$3.0 million in the fiscal year 2001 to approximately HK\$4.0 million in the fiscal year 2002. This increase was in line with increase of Palladium Salt processing services subcontracted to CCRI during the year.
- Administrative expenses. Administrative expenses increased by 39.6% from approximately HK\$2.4 million in the fiscal year 2001 to approximately HK\$3.4 million in the fiscal year 2002. This increase mainly reflected the set up of Kenlap Zhuhai during the year.
- Other operating expenses. Other operating expenses increased by 535% from approximately HK\$0.6 million in the fiscal year 2001 to approximately HK\$3.9 million in the fiscal year 2002. This increase mainly reflected the provision for doubtful debts and revaluation deficit on investment properties which amounted to HK\$0.9 million and HK\$1.2 million respectively.

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Net financial costs

Financial cost increased 63.3% from approximately HK\$1.0 million in the fiscal year 2001 to approximately HK\$1.7 million in the fiscal year 2002. This increase mainly reflected the increase of interest expense which was due to the increase of bank borrowing and bank overdraft from approximately HK\$6.2 million in 2001 to approximately HK\$18.4 million in 2002 to finance the expansion of Palladium Salt trading business.

Profit

- Gross profit. Gross profit increased 38.5% from approximately HK\$22.9 million in the fiscal year 2001 to approximately HK\$31.7 million in the fiscal year 2002. This increase mainly reflected the increase in the demand for the Group's Electroplating Chemicals and Palladium Salt subcontracting services. The gross profit margin decreased from 24.7% in the fiscal year 2001 to 19.8% in the fiscal year 2002.
- Net profit. Net profit increased 19.1% from approximately HK\$19.5 million in the fiscal year 2001 to approximately HK\$23.2 million in the fiscal year 2002. This increase mainly reflected the increase in the Group's revenue. The net profit margin decreased from 21.0% in the fiscal year 2001 to 14.5% in the fiscal year 2002.
- The fall of gross and net profit margin were due to the proportion of turnover contributing from Palladium Salt subcontracting, which had higher profit margin, over the total turnover of the Group decreased from 24.7% in fiscal year in 2001 to 18.8% in fiscal year of 2002.

Fiscal year 2001 compared to fiscal year 2000

Operating revenue

The Group's revenue increased by 1.8% from approximately HK\$90.9 million in the fiscal year 2000 to approximately HK\$92.7 million in the fiscal year 2001. This increase mainly reflected the strong demand for the Group's Palladium Salt subcontracting services.

- Production and sale of Gold Salt. The revenue from production and sale of Gold Salt decreased by 23.3% from approximately HK\$62.0 million in the fiscal year 2000 to approximately HK\$47.5 million in the fiscal year 2001. The decrease of revenue mainly reflected the fall of gold price from US\$280 per oz in March 2000 to US\$259 per oz in March 2001. The fall of gold price resulted in lower unit price of Gold Salt and revenue received by the Group from the production and sale of Gold Salt.

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- Trading of Electroplating Chemicals. The revenue from trading of Electroplating Chemicals increased by 57.2% from approximately HK\$14.1 million in the fiscal year 2000 to approximately HK\$22.2 million in the fiscal year 2001. The increase in turnover was mainly attributable to the continuous strong demand of Palladium Salt in the PRC market and the increase in palladium price.
- Palladium Salt subcontracting services. The revenue from Palladium Salt subcontracting services increased by 54.1% from approximately HK\$14.9 million in the fiscal year 2000 to approximately HK\$23.0 million in the fiscal year 2001. This increase mainly reflected the increasing business contracts secured from new and existing customers in the PRC. During the year 2001, the Group entered into a subcontracting agreement with a new customer who generated HK\$4.5 million revenue to the Group.

Operating Expenses

The Group's total operating expenses decreased by 6.8% from approximately HK\$78.1 million in the fiscal year 2000 to approximately HK\$72.8 million in the fiscal year 2001. This decrease mainly reflected the decrease in the cost of sales of Gold Salt.

- Cost of sales. Cost of sales decreased by 8.5% from approximately HK\$73.1 million in the fiscal year 2001 to approximately HK\$66.8 million in the fiscal year 2002. This decrease mainly reflected the lower raw material procurement cost because of the slowdown of the demand for Gold Salt in Hong Kong for the same period.
- Subcontracting charges. Subcontracting charges increased by 41.5% from approximately HK\$2.1 million in the fiscal year 2000 to approximately HK\$3.0 million in the fiscal year 2001. This increase was in line with the increase of Palladium Salt processing services subcontracting to CCRI during the year.
- Administrative expenses. Administrative expenses increased slightly by 2.5% from approximately HK\$2.3 million in the fiscal year 2000 to approximately HK\$2.4 million in the fiscal year 2001.
- Other operating expenses. Other operating expenses decreased slightly by 0.5% from approximately HK\$0.6 million in the fiscal year 2000 to approximately HK\$0.6 million in the fiscal year 2001. This decrease mainly caused by the decrease of consultancy fee paid by the Group and no provision for doubtful debts for the same period. The consultancy fee, amounting HK\$346,000, was paid to 珠海星火精細化工研究所, a research institute in Zhuhai, to provide promotion services and technical support to the Group. On 1 April 2002, the Group terminated such arrangement as the newly established Kenlap Zhuhai has taken up such responsibilities.

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Net financial costs

Financial cost decreased 44.1% from approximately HK\$1.9 million in the fiscal year 2000 to approximately HK\$1.0 million in the fiscal year 2001. This decrease mainly reflected the effect of lower interest rate and lower debt level of the Group (2000: HK\$17.8 million; 2001: HK\$6.2 million).

Profit

- Gross profit. Gross profit increased 44.2% from approximately HK\$15.9 million in the fiscal year 2000 to approximately HK\$22.9 million in the fiscal year 2001. The gross profit margin increased from 17.4% in the fiscal year 2000 to 24.7% in the fiscal year 2001. This increase mainly reflected the increase in the revenue from the Group's Palladium Salt subcontracting services which enjoys a high gross profit margin than other lines of businesses.
- Net profit. Net profit increased 56.2% from approximately HK\$12.5 million in the fiscal year 2000 to approximately HK\$19.5 million in the fiscal year 2001. This increase mainly reflected the increase in the revenue from the Group's Palladium Salt subcontracting services. The net profit margin increased from 13.7% in the fiscal year 2000 to 21.0% in the fiscal year 2001.

Profitability ratios

A breakdown of the Group's gross profit and gross profit margin during the Track Record Period is set out below:

	Gross profit for the 9 months ended 31 December 2002 (HK\$'000)		Gross profit for the year ended 31 March 2002 (HK\$'000)		Gross profit for the year ended 31 March 2001 (HK\$'000)		Gross profit for the year ended 31 March 2000 (HK\$'000)	
	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)
Gold Salt production	2,285	2.5%	2,161	3.5%	1,452	3.1%	2,084	3.4%
Palladium Salt subcontracting services	33,646	89.6%	26,126	86.7%	19,937	87.0%	12,767	85.8%
Trading of Electroplating Chemicals	5,199	6.1%	3,405	5.0%	1,486	6.7%	1,018	7.2%
The gross profit of the Group	<u>41,130</u>	19.3%	<u>31,692</u>	19.8%	<u>22,875</u>	24.7%	<u>15,869</u>	17.4%

The Group's gross margin was relatively stable and maintained at approximately 17.4%, 24.7%, 19.8% and 19.3% respectively for the three years ended 31 March 2002 and the nine months ended 31 December 2002. Similar to the trend of the gross profit margin, the net profit margin maintained at approximately 13.7% 21.0%, 14.5% and 14.7%, respectively, for the three years ended 31 March 2002 and the nine months ended 31 December 2002.

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The relatively high gross and net profit margin for the year ended 31 March 2001 as compared to the previous financial year was mainly due to the increase in the proportion of turnover contributing from the Palladium Salt subcontracting business, which generates a gross profit margin of approximately 86% to 92%, which is much higher than the other lines of business of the Group. The proportion of turnover contributing from the Palladium Salt subcontracting business increased from 16.4% for the financial year of 2000 to 24.7% for the financial year of 2001.

The proportion of turnover contributing from the Palladium Salt subcontracting services also explain the falls of gross profit margin and net profit margin for the year ended 31 March 2002. The proportion of turnover contributing from the Palladium Salt subcontracting services decreased, from approximately 24.7% for the financial year of 2001 to approximately 18.8% for the financial year of 2002.

The ratio for return on equity for the three years ended 31 March 2002 and the nine months ended 31 December 2002 amounted to approximately 83.3%, 56.5%, 40.4% and 25.8% respectively.

The ratio of return of equity decreased from approximately 83.3% for the financial year of 2000 to approximately 56.5% for the financial year of 2001 and further decreased to approximately 40.4% for the financial year of 2002 was mainly due to the higher increment rates for the shareholders' equity as compared with the respective net profit attributable to the shareholders.

The Group's net profit attributable to the shareholders amounted to approximately HK\$12.5 million, HK\$19.5 million and HK\$23.2 million respectively for the three years ended 31 March 2002, representing the overall increases of approximately 56.2% and 19.1% respectively.

Contrary to the growth in net profit attributable to the shareholders, the shareholder's equity increased approximately 130.1% from the financial year of 2000 (approximately HK\$15.0 million) to the financial year of 2002 (approximately HK\$34.5 million) and approximately 66.8% from the financial year of 2001 to the financial year of 2002 (approximately HK\$57.5 million) respectively.

The ratio for return on equity was further decreased from approximately 40.4% for the financial year of 2002 to approximately 25.8% for the nine months ended 31 December 2002, which was mainly attributable to the proceeds from the issuance of an aggregate 113,352 shares of Kenlap to Independent Subscribers in April and May 2002. The issuance of shares of Kenlap and the net profits of the Group of approximately HK\$31.2 million lead the increase in the shareholders' equity of the Company from approximately HK\$57.5 million as at 31 March 2002 to approximately HK\$121.1 million as at 31 December 2002.

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Gearing ratio

The gearing ratio for the three years ended 31 March 2002 and the nine months ended 31 December 2002 was approximately 57.4%, 18.3%, 61.3% and 55.3% respectively.

The decrease of gearing ratio from 57.4% for the financial year of 2000 to 18.3% for the financial year of 2001 was mainly attributable to the repayment of long-term bank borrowings of the amount HK\$13.4 million by the Group during the financial year of 2001.

The gearing ratio increased from 18.3% for the financial year of 2001 to 61.3% for the financial year of 2002. The increase was mainly attributable to the borrowings of approximately HK\$71.6 million from Successful Gold. Such borrowings was used to finance the setup of the Zhuhai Plant during the financial year of 2002.

The gearing ratio decreased from 61.3% for the financial year of 2002 to 55.3% for the nine months ended 31 December 2002. The decrease was mainly attributable to the increase of total asset of the Group arising from the placing of an aggregate of 113,352 shares of Kenlap to Independent Subscribers in April and May 2002 and Kenlap received the proceeds of approximately HK\$32.7 million.

Liquidity ratios

The current ratio for the three years ended 31 March 2002 and the nine months ended 31 December 2002 amounted to approximately 9.2, 7.5, 1.1, and 1.1 respectively, and the quick ratio for the same period amounted to approximately 8.7, 7.1, 1.1 and 1.1 respectively.

The Group's investment in the Zhuhai Plant since 2002 has mainly been financed by advances from the immediate holding company, representing approximately HK\$71.6 million and HK\$64.8 million respectively for the year ended 31 March 2002 and the nine months ended 31 December 2002. As the amount due to immediate holdings company has been included in current liabilities, it explains the drop in the current ratio and quick ratio in the fiscal year of 2002 and the nine months ended 31 December 2002. In addition, the Company has adopted the debt financing to further develop its Electroplating Chemicals trading business since the fiscal year of 2002. As a result, the short-term bank borrowing has increased from approximately HK\$9.1 million as at 31 March 2002 to approximately HK\$20.5 million as at 31 December 2002.

Debtors' turnover

The debtors' turnover for each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 was approximately 92, 81, 78, and 46 days respectively.

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The debtors' turnover days for different business segments of the Group during the Track Record Period are summarised as follow:

	Year ended 31 March			Nine months ended 31 December 2002
	2000	2001	2002	
Sales and trading of Electroplating Chemicals	35 days	40 days	21 days	34 days
Palladium Salt subcontracting services	387 days	208 days	320 days	215 days

The debtors turnover days of the sales and trading of Electroplating Chemicals increased from 21 days for the financial year of 2002 to 34 days for the nine months ended 31 December 2002. The changes in debtors' turnover days were attributable to the increase of unsettled trade receivables of Kenlap Chemicals, which commenced its Electroplating Chemicals trading business in late November 2002.

Kenlap Chemicals offers a 30 to 45 days credit period to its customers for the trading business. Up to 31 December 2002, Kenlap Chemicals contributed approximately HK\$49.6 million turnover to the Group. According to the 30 to 45 days credit period offered by Kenlap Chemicals, the trade receivables from these customers were not overdue as at 31 December 2002. As a result, the trade receivables of Kenlap Chemicals increased by HK\$49.6 million as at 31 December 2002 and the debtors' turnover days increased to 99 days, compared with 21 days for the year ended 31 March 2002. The trade receivables of HK\$49.6 million were fully settled after 31 December 2002.

As at the Latest Practicable Date, the Group has six customers for its Palladium Salt subcontracting services. Five out of them were offered a credit period up to 12 months since the Group started to offer Palladium Salt subcontracting services to these five subcontracting customers in 1998, 2000 and 2002 respectively.

During the Track Record Period, the turnover from Palladium Salt subcontracting services amounted approximately HK\$14.9 million, HK\$22.9 million, HK\$30.1 million and HK\$37.6 million, respectively. As at 31 December 2002, the trade receivables of the Group amounted to approximately HK\$92.5 million. 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 these subcontracting

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customers are ranging 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.

Creditors' turnover

The creditors' turnover days for each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 was approximately 45, 21, 18 and 34 days respectively.

The decrease of the creditors turnover days from 45 days for the financial year of 2000 to 18 days for the financial year of 2002 was mainly due to the Group wanted to enhance the relationship with the supplier, i.e. CCRI, and thus shortened the payment period. The payment period from Kenlap to CCRI decreased from 45 days in financial year 2000 to 20 days in financial year 2002.

For the nine months ended 31 December 2002, the creditors' turnover period increased to 34 days, compared with 18 days for the year ended 31 March 2002. The increase in the creditors' turnover days was mainly attributable to the increase of unsettled trade payables arising from Kenlap Chemicals, which commenced its Electroplating Chemicals trading business in late November 2002.

Since late November 2002, Kenlap Chemicals procured Electroplating Chemicals from a Hong Kong-based supplier. The volume of procurement from this supplier amounted to HK\$46.5 million as at 31 December 2002. According to the 30 to 45 days credit period offered to Kenlap Chemicals, the trade payables to this supplier were not overdue as at 31 December 2002.

As a result, the amount payable to this supplier was unsettled as at 31 December 2002, in turn, increased the Group's total trade payables to HK\$46.9 million and increased the creditors' turnover days of the Group as at 31 December 2002 to 34 days. After 31 December 2002, the trade payables to this supplier in the amount of HK\$46.5 million were fully settled by Kenlap Chemicals.

Inventory turnover

The inventory turnover for each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 was approximately 8, 10, 11, and 9 days respectively.

There is no material fluctuation in the inventory turnover during the Track Record Period. As the selling prices of Electroplating Chemicals are closely correlates with the price of precious metals in the open market, the Group implements a prudent inventory management policy which is administered by the management of Hunghom Plant and Zhuhai Plant.

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At the Hunghom Plant and Zhuhai Plant, the management review on the inventory level on a monthly basis and determines the desirable inventory level with reference to the demand of customers. Upon receipt of raw materials, the quality control staff will check the raw materials received against the purchase order to ensure that the category of the raw materials and quantity are in order.

TAXATION

For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the Group's operation, which was mainly carried out by Kenlap and Kenlap Chemicals, was subject to Hong Kong Profits Tax. Provisions for Hong Kong Profits Tax of the Group for the three years ended 31 March 2002 and the nine months ended 31 December 2002 have been calculated at a rate of 16% on the estimated assessable profits for each of the relevant year. The effective tax rates of the Group for each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 were approximately 1.8%, 1.3%, 0.4% and 1.6% respectively. The low effective tax rates of the Group as compared to the Hong Kong Profits Tax statutory tax rate of 16% was mainly because profit generated from the subcontracting arrangement with CCRI is not subject to Hong Kong Profits Tax.

Section 14 of the Inland Revenue Ordinance stipulates that profits tax shall be charged in respect of assessable profits arising in or derived from Hong Kong. Kenlap's subcontracting income was earned from agreements for the subcontracting of products with customers in the PRC. The subcontracting work was in turn contracted out to CCRI, a PRC entity. As all the subcontracting agreements were negotiated, concluded and executed by Kenlap with the customers and CCRI in the PRC, the source of the profits generated is non-Hong Kong based and thus the profits should not be taxable. Throughout the Track Record Period, the Hong Kong Inland Revenue Department has not raised any queries regarding this tax treatment and allowed the offshore claims as per the tax returns that was initially submitted during the year of assessment of 1998/1999.

Under the prevailing PRC tax laws and regulations, the income and profit generated from the subcontracting arrangements with the PRC subcontracting customers (the "Customers") are subject to PRC value-added tax and corporate income tax. As Kenlap has no permanent establishment in the PRC, the Customers, in accordance with the PRC tax laws and regulations, are obliged to deduct such taxes at source and make payment to the PRC tax authority. Such obligation of the Customers has been specifically mentioned in their subcontracting agreements with Kenlap. As disclosed in section 2 of the Accountants' Report in this prospectus, it is the Group's accounting policy to recognise the subcontracting fee income, net of PRC taxes deducted at source, when services are rendered. As the revenue is recognised on a net basis, the relevant portion of the PRC corporate income taxes has not been included in the taxation charge for the year. It also explains the seemingly low effective tax rates for the Track Record Period.

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An uniform income tax rate of 33% is generally applicable to all Chinese enterprises, including the Company's wholly-owned subsidiary, Kenlap Zhuhai. Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Kenlap Zhuhai is exempted from income tax for its first two profitable years of operation and is entitled to a 50% relief on the income tax in the PRC for the following three years. As Kenlap Zhuhai was incorporated on 1 July 2001, there is no tax filing for PRC tax in accordance with the applicable laws and regulations of the PRC. No provision of the PRC tax has been made as Kenlap Zhuhai has no assessable profit in the PRC since its incorporation. According to the current tax and regulations of the PRC, the applicable VAT for sale of manufactured Electroplating Chemicals or processing fee earned by the Kenlap Zhuhai is subject to 17%.

PROFIT ESTIMATE, DIVIDENDS AND WORKING CAPITAL

Profit estimate

The Directors estimate that, in the absence of unforeseen circumstances, and on the bases set out in Appendix II to this prospectus, the combined net profit for the year ended 31 March 2003 will not be less than HK\$63.5 million. The Directors are not aware of any extraordinary items which may arise during the year ended 31 March 2003. The text of a letter from Moores Rowland, the auditors and reporting accountants of the Company in respect of the profit estimate are set out in Appendix II to this prospectus.

On a fully diluted basis and on the assumption that the Share Offer had been completed and a total of 475,000,000 Shares were in issue on 1 April 2002, the estimated earning per Share on a fully diluted basis is equivalent to approximately HK13.37 cents representing a fully diluted price-earning multiple of approximately 6.58 times based on the Offer Price.

The above estimated earning per Share and price-earnings multiples do not take into account any Shares which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue and purchase of Shares granted by the Company dated 10 June 2003 as referred to in Appendix V to this prospectus.

Dividend

During the year ended 31 March 2000, Kenlap declared and paid interim dividends of HK\$16,904,000 to its then shareholders. Save for the disclosed in this prospectus, no dividend has been paid or declared by the Company since the date of its incorporation. The payment of the aforesaid interim dividends by a member of the Group should not be used as a reference for the Company's dividend policy. The declaration and payment of future dividends by the Company is at the discretion of the Board subject to the approval of the Shareholders at its general meetings and will depend upon, among other things, the Company's operations, capital requirements and surplus, and such other factors as the Board may deem relevant.

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Subject to the foregoing, the Company intends to make interim dividend payments in or about December of each year and final payment in or about August of each year. It is the Company's current intention to recommend annually the distribution to shareholders of about 30% of the Company's distributable annual earnings as cash dividends. The payments of cash dividends would be financed by the internal resources of the Group.

For the financial year ended 31 March 2003, the Directors currently intend to recommend a total dividend of HK 4.0 cents per Share, representing a prospective dividend yield of 4.55% at the price of HK\$0.88 per Offer Share. Since the Directors' priority will be given to retain earnings for future capital growth and expansion of the Group, the declaration of future payment and amount of dividends will be subject to, among others, the discretion of the Directors, the Group's earnings, financial conditions, cash requirements and availability and such other factors as the Directors may deem relevant.

Working Capital

The Directors are of the opinion that, taking into account the present available facilities and cash balance of the Group and the estimated net proceeds of the Share Offer received by the Group, the Group has sufficient working capital for its present requirements.

DIRECTORS' REMUNERATION

For the three years ended 31 March 2002 and nine months ended 31 December 2002, the amounts of Directors' remuneration were HK\$304,000, HK\$307,000, HK\$368,000 and HK\$477,000 respectively.

For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the Company did not provide any remuneration to Mr. Yip Kim Po and Mr. Hui Ho Ming, Herbert, two of the executive Directors.

Under the existing arrangements in force and the service contracts to be entered into by the Directors upon listing, the aggregate emoluments of the Directors payable for the year ending 31 March 2004, including benefits and contributions, are estimated to be approximately HK\$3.4 million. The significant increase in Directors' remuneration for the year ending 31 March 2004 is mainly due to the appointment of three additional Directors by the Company in May 2003 and the commencement of payment of salaries by the Company to each of Mr. Yip Kim Po and Mr. Hui Ho Ming Herbert after the listing.

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Each of the executive Directors has entered into a service agreement with the Company commencing on the Listing Date for an initial term of two years and shall continue thereafter until terminated by either party with three months' notice in writing served on the other side. Under the service agreements, the executive Directors are entitled to an aggregate monthly salaries of HK\$294,500 without bonus. All executive Directors will also be entitled to all reasonable out-of-pocket expenses and medical benefits on terms to be agreed between the Company and the executive Directors.

Each of the non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for an initial term of one year commencing from the Listing Date and shall continue for further successive periods of one year, provided that the Company may terminate the service agreement by giving at least one month's notice in writing. Under the service agreements, the non-executive director and the independent non-executive Directors are entitled to an aggregate fee of HK\$540,000 per year.

No remuneration was paid or payable to any independent non-executive Director as at the Latest Practicable Date.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company was just incorporated and hence, there was no reserve available for distribution to shareholders of the Company.

Pursuant to PRC law, a wholly foreign owned enterprise shall make reservation on reserve fund and bonus and welfare funds. The proportion of reserve fund to be withdrawn shall not be lower than 10% of the total amount of profits after payment of tax. The withdrawal of reserve fund may be stopped when the total cumulative reserve has reached 50% of the registered capital. The proportion of bonus and welfare funds for workers and staff members to be withdrawn shall be determined by the wholly foreign owned enterprise. Under the PRC law, the reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholdings, and the bonus and welfare funds are utilised for the capital expenditure on employees' welfare facilities. No appropriation was made to the reserve fund and bonus and welfare funds as the Group's PRC subsidiary has not yet earned any profit.

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ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 December 2002, as shown in the Accountants' Report the text of which is set out in Appendix I to this Prospectus, adjusted as described below:

	At Offer Price of HK\$0.88 HK\$'000
Audited net assets of the Group as at 31 December 2002	121,084
Prepayments in relation to the technology transfer fee to CCRI which was capitalised as intangible assets when the Zhuhai Plant commenced its operation in January 2003	(9,346)
Audited net tangible assets of the Group as at 31 December 2002	111,738
Unaudited profit after taxation of the Group for the four months ended 30 April 2003, based on its unaudited management accounts (<i>Note 1</i>)	41,600
Surplus arising on revaluation of the properties held by the Group for owner-occupation as at 31 December 2002 (<i>Note 2</i>)	8,000
Estimated net proceeds to the Company from the Share Offer (<i>Note 3</i>)	55,000
Adjusted net tangible assets	216,338
Adjusted net tangible asset value per Share (<i>Note 4</i>)	HK45.55 cents

Note:

1. For the four months ended 30 April 2003, the Group recorded unaudited results with a turnover of approximately HK\$280.9 million and a profit attributable to shareholders of approximately HK\$41.6 million respectively.
2. According to the Group's accounting policy, properties held for owner-occupation are stated at cost less provision for impairment loss. Therefore, the respective surplus arising on revaluation will not be taken up in the future accounts of the Group.
3. The estimated net proceeds from the Share Offer takes no account of proceeds arising from the issue of any Shares upon the exercise of the Over-allotment Option. The estimated net proceeds to the Company from the Share Offer is calculated on an assumption of an Offer Price of HK\$0.88 per Share and excludes the estimated net proceeds to the Vendors from their sale of Sale Shares.

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4. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 475,000,000 Shares in issue and to be issued immediately following completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described under “Written resolutions of the shareholder of the Company passed on 10 June 2003” in Appendix V to this Prospectus.

PROPERTY INTERESTS

Property interest held for owner occupation by the Group in the PRC

The Group owns an industrial plant located at No. B6-2 of Nan Bing Technological and Industrial Park, Zhuhai City, Guangdong Province, the PRC with a total gross floor area of approximately 42,129 sq.ft. (3,913.87 sq.m.). The property comprises an industrial building, an office building, a research and development building, a storage building, a sewage pump room, and a canteen. The property is the principal manufacturing base of the Company in the PRC.

Property interest held for investment by the Group in Hong Kong

The Group owns four office units situated on the 14th and 15th Floor, Hilltop Plaza (formerly known as Hollywood Tower, Nos. 49 and 51 Hollywood Road), No. 49 Hollywood Road, Hong Kong with a total gross floor area of approximately 2,826 sq.ft. (262.54 sq.m.). The property is currently vacant and ready to be leased out by the Group.

Property interest held for owner-occupation by the Group in Hong Kong

The Group holds a workshop unit situated on the 5th Floor of Harbour Centre, Tower 1, No. 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong as its head office and principal place of business in Hong Kong.

The property contains a gross floor area of approximately 3,332 sq.ft. (309.55 sq.m.) and is currently occupied by the Group for workshop and ancillary office purposes.

Property interest rented by the Group in Hong Kong

The Group rents two workshop units situated on the 5th Floor of Harbour Centre, Tower 1, No. 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong with a total gross floor area of approximately 6,664 sq.ft. (619.1 sq.m.). The property is currently occupied by the Group for workshop and ancillary office purposes.

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Property valuation

The property interests as at 31 May 2003 have been valued by BMI Appraisals Limited, an independent property valuer, at an aggregate value of HK\$31,200,000. The text of a letter, summary of values and valuation certificates from BMI Appraisals Limited are set out in Appendix III to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has not been any material adverse change in the financial or trading positions or prospects of the Group since 31 December 2002, the date to which the latest published audited combined financial statements of the Group were made up.