

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Messrs. Moores Rowland, Chartered Accountants, Certified Public Accountants.



34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

17 June 2003

The Directors
Ocean Grand Chemicals Holdings Limited
JS Cresvale Securities International Limited
Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Ocean Grand Chemicals Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 March 2002 and the nine months ended 31 December 2002 (the “Relevant Periods”) prepared on the basis set out in Section 1 below for inclusion in the prospectus of the Company dated 17 June 2003 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda on 29 July 2002 under the Companies Act 1981 of Bermuda for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. On 9 June 2003, the Company acquired the entire issued share capital of Ocean Grand Chemicals (BVI) Limited (“OG Chemicals BVI”), a company incorporated in the British Virgin Islands, through a share exchange and consequently became the holding company of the Group. OG Chemicals BVI, at the date of this report, acts as the intermediate holding company of other companies comprising the Group set out in Section 1 below.

We have acted as auditors of the companies now comprising the Group throughout the Relevant Periods (or since their respective dates of incorporation or establishment where there is a shorter period) except for Kenlap P.G.C. Manufacturer Company Limited (“Kenlap”), the Company’s subsidiary incorporated in Hong Kong, the auditors of which during the years ended 31 March 2000 and 31 March 2001 were Chow & Lee C.P.A. Ltd. and Victor Ling, Tang & Partners, Certified Public Accountants, respectively. We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 31 December 2002.

At the date of this report, no audited financial statements have been prepared for the Company, OG Chemicals BVI and Dynamic Market Trading Limited, as they have not carried on any business since their respective dates of incorporation, other than the Reorganisation referred to in Appendix V of the Prospectus. We have, however, reviewed all relevant transactions since their respective dates of incorporation.

For the purpose of the report, we have examined the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group for the Relevant Periods (or where the companies were incorporated or established at a date later than 1 April 1999, for the period from their respective dates of incorporation to 31 December 2002) in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

The directors of the Company are responsible for the preparation of the summaries of the combined results, statements of changes in equity and cash flows of the Group for the Relevant Periods and of the combined balance sheets as at 31 March 2000, 2001 and 2002 and 31 December 2002 (the “Summaries”), together with the notes thereto, set out in this report, which have been prepared based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section 1 below, after making such adjustments as are appropriate. The directors of the respective companies of the Group are responsible for preparing these financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion on the Summaries.

In our opinion, on the basis of presentation set out in Section 1 below, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 31 March 2000, 2001 and 2002 and 31 December 2002.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements and unaudited management accounts of the companies now comprising the Group, after making such adjustments as we consider appropriate, include the results, changes in equity, cash flows and balance sheets of the companies now comprising the Group, as if the current Group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation of the companies now comprising the Group, where this is a shorter period.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of Company	Place and date of incorporation/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company		Principal activities
			Direct	Indirect	
Ocean Grand Chemicals (BVI) Limited	British Virgin Islands 24 July 2002	US\$50,000	100%	–	Investment holding
Dynamic Market Trading Limited	British Virgin Islands 31 January 2002	US\$1	–	100%	Inactive
Kenlap Chemicals Limited (formerly Trilink Global Resources Company Limited)	Hong Kong 7 September 2001	HK\$100	–	100%	Trading of chemicals for electroplating of precious metals
僑立精細化工(珠海) 科技有限公司 (“Kenlap Zhuhai”) (Note)	People’s Republic of China (“PRC”) 1 July 2001	HK\$80,000,000	–	100%	Production, trading and refining of chemicals for electroplating of precious metals
Kenlap P.G.C. Manufacturer Company Limited	Hong Kong 4 January 1991	HK\$1,113,352	–	100%	Investment holding, and production, trading and refining of chemicals for electroplating of precious metals

Note: Kenlap Zhuhai is a wholly foreign-owned entity established in the PRC for a period of 30 years expiring in 2031, with a registered capital of HK\$80,000,000. At the date of this report, HK\$80 million (HK\$36 million in form of cash and HK\$44 million in form of asset) has been contributed by Kenlap as the paid-up registered capital, representing 100% of the total amount of registered capital of Kenlap Zhuhai.

2. PRINCIPAL ACCOUNTING POLICIES

The Summaries have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of preparation

The measurement basis used in the preparation of the Summaries is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential.

Investment properties are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property valuation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be credited to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Construction-in-progress represents factory buildings, plant and machinery under construction/installation, and is stated at cost. Cost comprises cost of land, construction/installation expenditure and other direct costs, including interest costs, attributable to the construction/installation. No depreciation is provided in respect of construction-in-progress until it is completed and put into commercial operation.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated losses of property, plant and equipment other than construction-in-progress over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Land and buildings	2%
Plant and machinery	10%
Furniture, fixtures, equipment and leasehold improvement	10%
Motor vehicles	10%

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of any individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Impairment loss (Continued)

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, except where the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately, except where the relevant asset is carried at a revaluation, in which case the reversal of impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the terms of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are recognised as an expense on a straight-line basis over the term of the relevant lease.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered and title has passed.

Subcontracting fee, net of PRC taxes deducted at source, is recognised in the period when services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

Taxation

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Capitalisation of borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas operations denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with as movements in reserves.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to the insignificant risk of change in value, net of bank overdrafts.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Pension scheme and costs

The Group operates a Mandatory Provident Fund (“MPF”) plans for its Hong Kong employees. The assets of the MPF are held separately in provident fund managed by independent trustee. Contributions are made based on a percentage of the employees’ remuneration and are recognised as expenses as they become payable in accordance with the rules of the scheme.

Employees in the subsidiary in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage on the salaries and wages for those eligible employees to the central pension scheme, which are recognised as expenses in the period to which they relate.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, and after making such adjustments as we consider appropriate:

	<i>Notes</i>	Year ended 31 March			Nine months ended 31 December
		2000	2001	2002	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>(a)</i>	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	<i>(a)</i>	1,645	919	515	224
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	<i>(b)</i>	(1,867)	(1,043)	(1,703)	(920)
Profit from ordinary activities before taxation	<i>(b)</i>	12,695	19,738	23,294	31,724
Taxation	<i>(d)</i>	(222)	(258)	(101)	(496)
Net profit attributable to shareholders		<u>12,473</u>	<u>19,480</u>	<u>23,193</u>	<u>31,228</u>
Dividends	<i>(e)</i>	<u>16,904</u>	–	–	–
Earnings per share – basic	<i>(f)</i>	<u>3.2 cents</u>	<u>4.9 cents</u>	<u>5.9 cents</u>	<u>7.9 cents</u>

Notes:

(a) Turnover and revenue

The principal activities of the Group are the production, trading and refining of chemicals for electroplating of precious metals.

Turnover and revenue recognised by category are analysed as follows:

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Turnover				
Sale of goods	76,113	69,728	129,821	175,012
Subcontracting fees	14,872	22,915	30,125	37,570
	<u>90,985</u>	<u>92,643</u>	<u>159,946</u>	<u>212,582</u>
Other revenue				
Interest income	1,642	814	324	212
Rental and sundry income	3	105	191	12
	<u>1,645</u>	<u>919</u>	<u>515</u>	<u>224</u>
Revenue	<u>92,630</u>	<u>93,562</u>	<u>160,461</u>	<u>212,806</u>

(b) Profit from ordinary activities before taxation

This is stated after charging:

(i) Finance costs

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Interest on bank overdrafts and borrowings wholly repayable within five years	1,858	218	2,314	2,649
Interest on bank borrowings wholly repayable after five years	–	816	252	–
Finance charges on obligations under finance leases	9	9	3	–
Other borrowing costs	–	–	721	4,296
Total borrowing costs	<u>1,867</u>	<u>1,043</u>	<u>3,290</u>	<u>6,945</u>
Less: Borrowing costs capitalised into construction-in-progress	–	–	(1,587)	(6,025)
	<u>1,867</u>	<u>1,043</u>	<u>1,703</u>	<u>920</u>

(b) Profit from ordinary activities before taxation (Continued)*(ii) Other items*

	Year ended 31 March			Nine months ended 31 December
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000
Auditors' remuneration	116	78	197	–
Bad debts written off /Provision for doubtful debts	133	258	890	–
Cost of inventories and services provided	75,116	69,768	128,254	171,452
Depreciation:				
Owned assets	145	148	165	661
Assets held under finance leases	13	13	4	–
Loss on disposals of property, plant and equipment	–	–	–	117
Operating lease charges on premises	202	190	341	531
Revaluation deficit on investment properties	–	–	1,206	200
Staff costs, including directors' emoluments (<i>Note c</i>)				
– Wages and salaries	1,824	1,583	1,741	2,067
– Contribution to retirement schemes	–	33	55	49
	<u>–</u>	<u>33</u>	<u>55</u>	<u>49</u>

(c) Directors' and senior executives' emoluments

Details of the directors' remuneration are as follows:

	Year ended 31 March			Nine months ended 31 December
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000
Fees	–	–	–	–
Salaries, other emoluments and other benefits in kind	304	307	358	469
Contributions to pension scheme	–	–	10	8
	<u>304</u>	<u>307</u>	<u>368</u>	<u>477</u>

Rental expenses amounting to HK\$71,100 (year ended 31 March 2002: HK\$99,000, 2001: HK\$100,000, 2000: HK\$96,000) in respect of a director's accommodation have been included in directors' other emoluments.

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 March			Nine months ended 31 December
	2000 <i>Number of directors</i>	2001 <i>Number of directors</i>	2002 <i>Number of directors</i>	2002 <i>Number of directors</i>
HK\$Nil	4	4	3	3
HK\$1 to HK\$1,000,000	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>

(c) Directors' and senior executives' emoluments (Continued)

The five highest-paid individuals in the Group included 1 (year ended 31 March 2002: 1, 2001: 1, 2000: 1) director whose emoluments have been disclosed above. The details of the emoluments of the remaining 4 (year ended 31 March 2002: 4, 2001: 4, 2000: 4) individuals other than directors are set out below:

	Year ended 31 March			Nine months ended 31 December
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000
Salaries, other emoluments and other benefits in kind	1,311	1,159	1,143	1,082
Contributions to pension scheme	–	14	39	30
	<u>1,311</u>	<u>1,173</u>	<u>1,182</u>	<u>1,112</u>

The emoluments of each of the above individuals were within HK\$Nil to HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest-paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived or agreed to waive any emoluments during the Relevant Periods.

(d) Taxation

Hong Kong Profits Tax has been provided at the rate of 16% on the Group's estimated assessable profits arising in Hong Kong for the Relevant Periods.

	Year ended 31 March			Nine months ended 31 December
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax:				
Current year	140	193	74	496
Underprovision in prior year	82	65	27	–
	<u>222</u>	<u>258</u>	<u>101</u>	<u>496</u>

The major components of deferred taxation not provided (credited) for the Relevant Periods are as follows:

	Year ended 31 March			Nine months ended 31 December
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2002 HK\$'000
Excess of tax allowances over depreciation	(239)	9	40	694
Tax losses arising	–	–	–	(986)
	<u>(239)</u>	<u>9</u>	<u>40</u>	<u>(292)</u>

(e) Dividends

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the year ended 31 March 2000, Kenlap declared and paid interim dividends of HK\$16,904,000 to its then shareholders.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this report.

(f) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the combined net profit from ordinary activities attributable to the shareholders for each of the Relevant Periods and on the assumption that 396,500,000 shares were deemed to have been in issue and issuable during the Relevant Periods, comprising 2,226,676 shares in issue as at the date of the Prospectus and 394,273,324 shares to be issued pursuant to the Capitalisation Issue referred to in Appendix V of the Prospectus.

No diluted earnings per share have been presented as the Company did not have any dilutive potential ordinary shares in issue during the Relevant Periods.

(g) Related party transactions

- (i) As at 31 March 2000, Kenlap had outstanding bank loans amounted to HK\$17,796,000 which were pledged by properties beneficially owned by Kenlap (Holding) Limited and Ms Yip Wan Fung, personal guarantee provided by Mr. Yip Kim Po and corporate guarantee provided by Kenlap (Holding) Limited. Mr. Yip Kim Po is a director of the Company and Ocean Grand Holdings Limited ("OGHL"). Kenlap (Holding) Limited is beneficially owned and controlled by Mr. Yip Kim Po. The bank loans were repaid early during the year ended 31 March 2001. As the loans proceeds were transferred to and used by Kenlap (Holding) Limited for working capital purposes before its repayment during the year ended 31 March 2001, full amount of the interest expenses incurred by Kenlap were reimbursed by Kenlap (Holding) Limited.

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Interest income from				
Kenlap (Holding) Limited	1,375	623	–	–

- (ii) During the year ended 31 March 2002 and the nine months ended 31 December 2002, Kenlap provided 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 Profits Limited ("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.

The borrowing costs, which include arrangement fees and interest expenses, incurred in relation to the above-mentioned loans were recharged to Kenlap Zhuhai by Successful Gold in proportion to the funds actually used by Kenlap Zhuhai for the acquisition of factory land and construction of manufacturing facilities as follows:

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Borrowing costs recharged	—	—	4,109	5,093

(iii) During the year ended 31 March 2002 and the nine months ended 31 December 2002, Kenlap provided corporate guarantee and a negative pledge over all its charge-free assets against banking facilities granted to Hing Yip Holdings (Hong Kong) Limited, a wholly-owned subsidiary of OGHL. These arrangements will be terminated upon the listing of the Company.

(iv) OGHL had provided corporate guarantee against certain banking facilities of the Group as follows:

	At 31 March			At 31 December
	2000	2001	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banking facilities with corporate guarantee from OGHL				
– granted to the Group	—	18,000	32,050	57,050
– utilised by the Group	—	6,183	15,372	23,358

These arrangements will be released upon the listing of the Company.

(v) On 30 April 2002, Kenlap entered into 12 conditional subscription agreements with 12 institutional investors (“the Subscribers”) respectively, pursuant to which Kenlap would on completion issue an aggregate of 178,132 shares at an aggregate consideration of HK\$54,998,255 (“Subscription Consideration”). On 13 May 2002, 4 of the Subscribers decided not to proceed with the subscription of 89,068 shares of the Company, 8 of the other Subscribers would proceed to complete the subscription of 89,064 shares raising HK\$27,498,510. On 17 May 2002, Kenlap entered into 5 new conditional subscription agreements with 5 new institutional investors for 24,288 shares at HK\$7,498,920.

The Subscription Agreements are conditional upon, inter alia, a satisfactory due diligence review by the Subscribers on the business, trading positions and operations of Kenlap. The due diligence review was completed and the conditions have been satisfied.

In addition, it is a condition to each subscription agreement that OGHL would enter into a put option deed in favour of the relevant subscriber to the effect that:

- (i) OGHL would acquire the relevant shares at a 20% premium to the relevant subscription consideration if the Company shall not be listed on the Main Board of the Stock Exchange within 12 months from the completion date of the subscription agreement; and
- (ii) OGHL would compensate the relevant subscriber if the market capitalisation of the Company immediately upon its listing would be less than HK\$475 million.

4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group for the Relevant Periods, prepared on the basis set out in Section 1, and after making such adjustments as we consider appropriate:

		At 31 March			At 31
		2000	2001	2002	December
	Note	HK\$'000	HK\$'000	HK\$'000	2002
					HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Investment properties	(a)	–	6,206	5,000	4,800
Property, plant and equipment	(b)	3,208	3,071	11,656	69,097
Prepayments and deposits		–	–	36,873	30,041
		<u>3,208</u>	<u>9,277</u>	<u>53,529</u>	<u>103,938</u>
Current assets					
Inventories	(c)	1,573	1,760	1,943	2,763
Trade receivables	(d)	22,987	20,587	33,082	92,514
Other receivables	(e)	6,919	10,393	57,063	57,555
Tax recoverable		–	24	11	119
Bank balances and cash		480	133	3,054	13,789
		<u>31,959</u>	<u>32,897</u>	<u>95,153</u>	<u>166,740</u>
Current liabilities					
Bank overdrafts		–	606	1,028	–
Short-term bank borrowings		–	–	9,161	20,458
Trade payables	(f)	1,534	1,390	626	46,906
Other payables	(g)	731	1,767	77,046	78,834
Current portion of long-term bank borrowings	(h)	1,087	600	600	600
Current portion of obligations under finance leases	(i)	27	11	–	–
Taxation		98	–	–	496
		<u>3,477</u>	<u>4,374</u>	<u>88,461</u>	<u>147,294</u>
Net current assets		<u>28,482</u>	<u>28,523</u>	<u>6,692</u>	<u>19,446</u>
Total assets less current liabilities		<u>31,690</u>	<u>37,800</u>	<u>60,221</u>	<u>123,384</u>
Non-current liabilities					
Long-term bank borrowings	(h)	16,709	3,350	2,750	2,300
Obligations under finance leases	(i)	11	–	–	–
		<u>16,720</u>	<u>3,350</u>	<u>2,750</u>	<u>2,300</u>
Net assets		<u>14,970</u>	<u>34,450</u>	<u>57,471</u>	<u>121,084</u>
CAPITAL AND RESERVES					
Issued capital	(k)	100	100	100	100
Reserves	(l)	14,870	34,350	57,371	120,984
		<u>14,970</u>	<u>34,450</u>	<u>57,471</u>	<u>121,084</u>

Notes:

(a) Investment properties

		At 31 March			At 31 December
	2000	2001	2002	2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation					
At beginning of year	–	–	6,206	5,000	
Additions	–	6,206	–	–	
Revaluation deficit	–	–	(1,206)	(200)	
At balance sheet date	(i) <u>–</u>	<u>6,206</u>	<u>5,000</u>	<u>4,800</u>	
Analysis of cost or valuation at balance sheet date					
At cost	(ii) –	6,206	–	–	
At valuation	(iii), (iv) –	–	5,000	4,800	
At balance sheet date	<u>–</u>	<u>6,206</u>	<u>5,000</u>	<u>4,800</u>	

- (i) The investment properties are situated in Hong Kong and are held on long leases.
- (ii) The investment properties, which were purchased during the year ended 31 March 2001, were stated at cost as at the then balance sheet date. No further revaluation was carried out as the management considered that their carrying amounts would not be materially different from their latest determined value of HK\$6,400,000 as appraised by Brooke International Appraisals Limited, independent qualified valuers, in August 2000.
- (iii) The investment properties were revalued at their open market value at 31 March 2002 by BMI Appraisals Limited, independent Chartered Surveyors.
- (iv) The open market value of the investment properties at 31 December 2002 were estimated by the directors, with reference to the advice provided by BMI Appraisals Limited, independent Chartered Surveyors.

(b) Property, plant and equipment

	Land and buildings	Construction -in-progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March 2000						
Cost						
At 1 April 1999	2,900	–	313	537	110	3,860
Additions	–	–	21	22	–	43
At 31 March 2000	<u>2,900</u>	<u>–</u>	<u>334</u>	<u>559</u>	<u>110</u>	<u>3,903</u>
Accumulated depreciation						
At 1 April 1999	58	–	110	332	37	537
Charge for the year	58	–	33	56	11	158
At 31 March 2000	<u>116</u>	<u>–</u>	<u>143</u>	<u>388</u>	<u>48</u>	<u>695</u>
Net book value						
At 31 March 2000	<u>2,784</u>	<u>–</u>	<u>191</u>	<u>171</u>	<u>62</u>	<u>3,208</u>
At 1 April 1999	<u>2,842</u>	<u>–</u>	<u>203</u>	<u>205</u>	<u>73</u>	<u>3,323</u>

(b) Property, plant and equipment (Continued)

	Land and buildings <i>HK\$'000</i>	Construction -in-progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 March 2001						
Cost						
At 1 April 2000	2,900	–	334	559	110	3,903
Additions	–	–	2	22	–	24
At 31 March 2001	2,900	–	336	581	110	3,927
Accumulated depreciation						
At 1 April 2000	116	–	143	388	48	695
Charge for the year	58	–	34	58	11	161
At 31 March 2001	174	–	177	446	59	856
Net book value						
At 31 March 2001	2,726	–	159	135	51	3,071
At 1 April 2000	2,784	–	191	171	62	3,208
At 31 March 2002						
Cost						
At 1 April 2001	2,900	–	336	581	110	3,927
Additions	–	7,710	37	1,007	–	8,754
At 31 March 2002	2,900	7,710	373	1,588	110	12,681
Accumulated depreciation						
At 1 April 2001	174	–	177	446	59	856
Charge for the year	58	–	38	62	11	169
At 31 March 2002	232	–	215	508	70	1,025
Net book value						
At 31 March 2002	2,668	7,710	158	1,080	40	11,656
At 1 April 2001	2,726	–	159	135	51	3,071

(b) Property, plant and equipment (Continued)

	Land and buildings <i>HK\$'000</i>	Construction -in-progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2002						
Cost						
At 1 April 2002	2,900	7,710	373	1,588	110	12,681
Additions	–	52,345	4,824	865	185	58,219
Disposals	–	–	(342)	–	–	(342)
Reclassification	15,579	(15,579)	–	–	–	–
At 31 December 2002	18,479	44,476	4,855	2,453	295	70,558
Accumulated depreciation						
At 1 April 2002	232	–	215	508	70	1,025
Charge for the period	43	–	369	216	33	661
Eliminated on disposals	–	–	(225)	–	–	(225)
At 31 December 2002	275	–	359	724	103	1,461
Net book value						
At 31 December 2002	18,204	44,476	4,496	1,729	192	69,097
At 1 April 2002	2,668	7,710	158	1,080	40	11,656

(i) Land and buildings

The Group's land and buildings are held on medium term leases and their net book value is analysed as follows:

	2000 <i>HK\$'000</i>	At 31 March 2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Hong Kong	2,784	2,726	2,668	2,625
Mainland China	–	–	–	15,579
	2,784	2,726	2,668	18,204

The land use rights of the properties located in Zhuhai, Mainland China are granted for a term of 50 years expiring in 2051. As of date of this report, Kenlap Zhuhai is in the process of obtaining the building ownership certificate of the properties located in Zhuhai, Mainland China.

(ii) Construction-in-progress

	2000 <i>HK\$'000</i>	At 31 March 2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
At cost:				
Factory buildings	–	–	5,375	–
Plant and machinery	–	–	748	42,293
			6,123	42,293
Borrowing costs capitalised	–	–	1,587	2,183
	–	–	7,710	44,476

(iii) Finance leases

The net book value of the Group's property, plant and equipment at 31 March 2000, 2001 and 2002 and at 31 December 2002 includes an amount of HK\$77,000, HK\$64,000, HK\$11,000 and HK\$Nil respectively in respect of assets held under finance leases.

(c) Inventories

	At 31 March			At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
At cost:				
Raw materials	77	51	92	359
Work-in-progress	398	389	506	472
Finished goods	1,098	1,320	1,345	1,932
	<u>1,573</u>	<u>1,760</u>	<u>1,943</u>	<u>2,763</u>

(d) Trade receivables

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

	At 31 March			At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
Current (within 1 month)	7,971	9,298	7,432	52,954
1 to 2 months	2,642	3,510	4,567	18,390
2 to 3 months	2,357	3,150	4,076	4,907
More than 3 months but less than 12 months	6,838	4,418	17,000	16,256
More than 12 months but less than 24 months	3,179	211	7	7
	<u>22,987</u>	<u>20,587</u>	<u>33,082</u>	<u>92,514</u>

(e) Other receivables

	Note	At 31 March			At 31
		2000	2001	2002	December
		HK\$ '000	HK\$ '000	HK\$ '000	2002
					HK\$ '000
Deposits, prepayments and other debtors	(i)	1,206	1,251	24,230	16,534
Due from fellow subsidiaries	(ii)	5,713	5,713	32,833	35,771
Due from immediate holding company	(ii)	–	3,429	–	–
Due from ultimate holding company	(ii)	–	–	–	5,250
		<u>6,919</u>	<u>10,393</u>	<u>57,063</u>	<u>57,555</u>

- (i) The balances mainly comprised amount held by an agent for arranging purchases of factory building and machinery for Kenlap Zhuhai (31 March 2000: Nil, 31 March 2001: Nil, 31 March 2002: HK\$21,341,000; 31 December 2002: HK\$11,636,000).
- (ii) The amount due mainly represented excess funds transferred to the respective companies for working capital purposes or payments made by the Group on behalf of the respective companies. The amounts due are unsecured, interest-free and will be fully settled upon the listing of the Company.

(f) Trade payables

(i) The ageing analysis of trade payables is as follows:

	At 31 March			At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
Current (within 1 month)	1,290	1,268	626	36,018
1 to 2 months	244	122	–	10,888
	<u>1,534</u>	<u>1,390</u>	<u>626</u>	<u>46,906</u>

(g) Other payables

	Note	At 31 March			At 31
		2000	2001	2002	December
		HK\$ '000	HK\$ '000	HK\$ '000	2002
					HK\$ '000
Bills payables		–	1,627	4,846	–
Accrued charges and other creditors		535	140	581	14,078
Due to immediate holding company	(i)	196	–	71,619	64,756
		<u>731</u>	<u>1,767</u>	<u>77,046</u>	<u>78,834</u>

(i) Except as disclosed in note g(ii) in Section 3 above, the amount due is unsecured, interest-free and will be fully settled upon the listing of the Company. The amount due mainly consisted of syndicated loans, representing US\$11 million, advanced from the immediate holding company to finance the set up of Kenlap Zhuhai.

(h) Long-term bank borrowings

The long-term bank borrowings, which were secured, are repayable as follows:

	At 31 March			At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
Not exceeding 1 year	1,087	600	600	600
More than 1 year but not exceeding 2 years	1,708	600	600	600
More than 2 years but not exceeding 5 years	9,552	1,800	1,800	1,700
More than 5 years	5,449	950	350	–
	17,796	3,950	3,350	2,900
Portion classified as current liabilities	<u>(1,087)</u>	<u>(600)</u>	<u>(600)</u>	<u>(600)</u>
Long-term portion	<u>16,709</u>	<u>3,350</u>	<u>2,750</u>	<u>2,300</u>

(i) Obligations under finance leases

The obligations under finance leases are repayable as follows:

	Present value of minimum lease payments			
		At 31 March		At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
Not exceeding 1 year	27	11	–	–
More than 1 year but not exceeding 2 years	11	–	–	–
Present value of lease obligations	<u>38</u>	<u>11</u>	<u>–</u>	<u>–</u>
	Minimum lease payments			
		At 31 March		At 31
	2000	2001	2002	December
	HK\$ '000	HK\$ '000	HK\$ '000	2002
				HK\$ '000
Not exceeding 1 year	37	14	–	–
More than 1 year but not exceeding 2 years	14	–	–	–
Future finance charge	51 (13)	14 (3)	–	–
Present value of lease obligations	<u>38</u>	<u>11</u>	<u>–</u>	<u>–</u>

(j) Deferred Taxation

At the balance sheet date, the major components of the deferred taxation liabilities (assets) unprovided are as follows:

	At 31			
		March		December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Excess of tax allowances over depreciation	22	31	71	765
Tax losses carried forward	–	–	–	(986)
	<u>22</u>	<u>31</u>	<u>71</u>	<u>(221)</u>

(k) Issued capital

	At 31			
		March		December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Authorised, issued and fully paid:				
1,000,000 shares of HK\$0.1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

For the purpose of the preparation of the combined balance sheets, the share capital disclosed above represents the share capital of the Company, assuming that it has been incorporated throughout the Relevant Periods.

(l) Reserves

Movements in reserves of the Group for the Relevant Periods prepared on the basis described in Section 1 above are set out below:

	Exchange reserve <i>HK\$ '000</i>	Special reserve <i>HK\$ '000</i>	Accumu- lated profits <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 April 1999	–	1,000	18,301	19,301
Net profit attributable to shareholders	–	–	12,473	12,473
Interim dividends	–	–	(16,904)	(16,904)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000	–	1,000	13,870	14,870
Net profit attributable to shareholders	–	–	19,480	19,480
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	–	1,000	33,350	34,350
Exchange differences on translation of a foreign subsidiary	(172)	–	–	(172)
Net profit attributable to shareholders	–	–	23,193	23,193
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	(172)	1,000	56,543	57,371
Reserve arising from further issue of shares by a subsidiary	–	32,829	–	32,829
Exchange differences on translation of a foreign subsidiary	(444)	–	–	(444)
Net profit attributable to shareholders	–	–	31,228	31,228
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>(616)</u>	<u>33,829</u>	<u>87,771</u>	<u>120,984</u>

Special reserve of the Group represents the aggregate amount of nominal value of share capital and share premium of subsidiaries.

(m) Commitments*Capital expenditure commitments*

	2000 <i>HK\$ '000</i>	At 31 March 2001 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	At 31 December 2002 <i>HK\$ '000</i>
Contracted but not provide for (net of deposits paid)	–	–	26,804	22,888
	<hr/>	<hr/>	<hr/>	<hr/>

In addition, as at 31 December 2002, the Group had only contributed HK\$69,788,000 into Kenlap Zhuhai. Out of the total approved registered capital of HK\$80,000,000, the Group had an outstanding commitment of HK\$10,212,000 in respect of the capital contribution of Kenlap Zhuhai as at 31 December 2002. All the outstanding capital contribution had been paid up by 27 May 2003.

Operating lease commitments payable

The Group had total outstanding commitments in respect of land and buildings under non-cancellable operating leases, which are payable as follows:

	2000	At 31 March		At 31
	2001	2002	2002	December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2002</i>
				<i>HK\$'000</i>
Within one year	–	87	681	607
Within two to five years	–	–	387	31
	<u>–</u>	<u>87</u>	<u>1,068</u>	<u>638</u>

(n) Contingent liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements are as follows:

	2000	At 31 March		At 31
	2001	2002	2002	December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2002</i>
				<i>HK\$'000</i>
Guarantee given to banks, in respect of banking facilities granted to immediate holding company	–	–	132,600	–
Guarantee given to a bank, in respect of banking facilities granted to a fellow subsidiary	–	–	30,000	30,000
	<u>–</u>	<u>–</u>	<u>162,600</u>	<u>30,000</u>

As at 31 March 2002, the banking facilities utilised by the immediate holding company and fellow subsidiary amounted to HK\$132,600,000 and 4,652,000. As at 31 December 2002, the banking facilities utilised by the fellow subsidiary amounted to HK\$28,484,000.

The guarantee given to banks in respect of banking facilities granted to immediate holding company was released in July 2002 while that for the fellow subsidiary will be released upon the listing of the Company.

In addition, in connection with the subscription agreements mentioned in the paragraph headed Summary of Material Contracts in Appendix V to the Prospectus, OGHL, an agent and each of the subscribers to the subscriptions agreements have entered into an escrow agreement pursuant to which OGHL has agreed to place the escrow money with the agent and the agent has agreed to act as an escrow agent in relation to the escrow money. On the other hand, Kenlap entered into a Deed of Indemnity with the agent on 10 May 2002 pursuant to which Kenlap undertakes to fully indemnify and keep the agent fully indemnified against all actions, taxes, liabilities, damages, claims, costs and expenses or otherwise whatsoever in respect of any claim, action or otherwise brought by any of the subscribers and/or any third party against the agent whatsoever and howsoever for acting in accordance with the terms of any of the escrow agreements. This indemnity given by Kenlap shall continue notwithstanding the termination of any or all of the escrow agreements.

Save as aforesaid, the Group has no other material contingent liabilities.

(o) Pledge of assets

Save as disclosed in note (g) of Section 3 above, Kenlap has pledged the following assets to secure general banking facilities granted.

	2000	At 31 March		At 31
	<i>HK\$'000</i>	2001	2002	December
		<i>HK\$'000</i>	<i>HK\$'000</i>	2002
				<i>HK\$'000</i>
Investment properties	–	–	5,000	4,800
Leasehold land and buildings	–	–	2,688	2,625
	–	–	<u>7,688</u>	<u>7,425</u>

(p) Distributable reserves

The Company was incorporated on 29 July 2002 and has not carried on any business since its incorporation save for the acquisition on of the entire issued share capital of OG Chemicals BVI on 9 June 2003. Accordingly, the Company had no reserve available for distribution to shareholders as at 31 December 2002.

(q) Net assets of the Company

On the basis set out in Section 1 above, the net assets of the Company at 31 December 2002 would have been approximately HK\$121,084,000, representing mainly investments in subsidiaries.

5. SEGMENT INFORMATION

The analysis of the principal activities and geographical locations of the Group during the Relevant Periods are as follows:

(a) By business segment

	Manufacturing	Trading Subcontracting		Rental	Combined
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 March 2000					
External sales	<u>61,988</u>	<u>14,125</u>	<u>14,872</u>	<u>–</u>	<u>90,985</u>
Segment results	<u>2,084</u>	<u>1,018</u>	<u>12,767</u>	<u>–</u>	<u>15,869</u>
Unallocated operating income and expenses					<u>(1,307)</u>
Profit from operations					14,562
Finance costs					<u>(1,867)</u>
Profit before taxation					12,695
Taxation					<u>(222)</u>
Net profit attributable to shareholders					<u>12,473</u>

OTHER INFORMATION

Capital expenditure	42	–	–	–	42
Depreciation	158	–	–	–	158
Other non-cash expenses other than depreciation	<u>133</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>133</u>

(a) By business segment (Continued)

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Subcontracting <i>HK\$'000</i>	Rental <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Year ended					
31 March 2001					
External sales	47,528	22,200	22,915	105	92,748
Segment results	1,452	1,486	19,937	(63)	22,812
Unallocated operating income and expenses					(2,031)
Profit from operations					20,781
Finance costs					(1,043)
Profit before taxation					19,738
Taxation					(258)
Net profit attributable to shareholders					19,480
OTHER INFORMATION					
Capital expenditure	24	–	–	6,206	6,230
Depreciation	161	–	–	–	161
Other non-cash expenses other than depreciation	258	–	–	–	258

(a) By business segment (Continued)

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Subcontracting <i>HK\$'000</i>	Rental <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Year ended					
31 March 2002					
External sales	<u>62,255</u>	<u>67,566</u>	<u>30,125</u>	<u>191</u>	<u>160,137</u>
Segment results	<u>2,161</u>	<u>3,405</u>	<u>26,126</u>	<u>(125)</u>	31,567
Unallocated operating income and expenses					<u>(6,570)</u>
Profit from operations					24,997
Finance costs					<u>(1,703)</u>
Profit before taxation					23,294
Taxation					<u>(101)</u>
Net profit attributable to shareholders					<u>23,193</u>

OTHER INFORMATION

Capital expenditure	46,221	–	–	–	46,221
Depreciation	169	–	–	–	169
Other non-cash expenses other than depreciation	<u>890</u>	<u>–</u>	<u>–</u>	<u>1,206</u>	<u>2,096</u>

(a) By business segment (Continued)

	Manufacturing <i>HK\$'000</i>	Trading	Subcontracting <i>HK\$'000</i>	Rental <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Nine months ended					
31 December 2002					
External sales	<u>90,029</u>	<u>84,983</u>	<u>37,570</u>	<u>–</u>	<u>212,582</u>
Segment results	<u>2,285</u>	<u>5,199</u>	<u>33,646</u>	<u>–</u>	<u>41,130</u>
Unallocated operating income and expenses					<u>(8,486)</u>
Profit from operations					32,644
Finance costs					<u>(920)</u>
Profit before taxation					31,724
Taxation					<u>(496)</u>
Net profit attributable to shareholders					<u>31,228</u>
OTHER INFORMATION					
Capital expenditure	54,591	–	–	–	54,591
Depreciation	661	–	–	–	661
Other non-cash expenses other than depreciation	<u>117</u>	<u>–</u>	<u>–</u>	<u>200</u>	<u>317</u>

(a) By business segment (Continued)

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Subcontracting <i>HK\$'000</i>	Rental <i>HK\$'000</i>	Combined <i>HK\$'000</i>
At 31 March 2000					
Assets					
Segment assets	13,141	–	15,756	–	28,897
Unallocated assets					6,270
Total assets					35,167
Liabilities					
Segment liabilities	(1,376)	–	(255)	–	(1,631)
Unallocated liabilities					(18,566)
Total liabilities					(20,197)
At 31 March 2001					
Assets					
Segment assets	13,475	–	13,033	6,206	32,714
Unallocated assets					9,460
Total assets					42,174
Liabilities					
Segment liabilities	(2,502)	–	(515)	(3,950)	(6,967)
Unallocated liabilities					(757)
Total liabilities					(7,724)
At 31 March 2002					
Assets					
Segment assets	80,277	7	26,392	5,000	111,676
Unallocated assets					37,006
Total assets					148,682
Liabilities					
Segment liabilities	(14,220)	–	(413)	(3,350)	(17,983)
Unallocated liabilities					(73,228)
Total liabilities					(91,211)

(a) By business segment (Continued)

	Manufacturing <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Subcontracting <i>HK\$'000</i>	Rental <i>HK\$'000</i>	Combined <i>HK\$'000</i>
At 31 December 2002					
Assets					
Segment assets	127,333	49,636	29,405	4,800	211,174
Unallocated assets					59,504
Total assets					270,678
Liabilities					
Segment liabilities	(34,007)	(47,158)	(245)	(2,900)	(84,310)
Unallocated liabilities					(65,284)
Total liabilities					(149,594)

(b) By geographical segment

	Year ended 31 March 2000			
	Carrying amount of segment assets <i>HK\$'000</i>	Capital expenditure incurred <i>HK\$'000</i>	Revenue from external customers <i>HK\$'000</i>	Contributions to profit from operation <i>HK\$'000</i>
Hong Kong	19,411	42	77,758	1,795
PRC	15,756	–	14,872	12,767
	35,167	42	92,630	14,562
	Year ended 31 March 2001			
	Carrying amount of segment assets <i>HK\$'000</i>	Capital expenditure incurred <i>HK\$'000</i>	Revenue from external customers <i>HK\$'000</i>	Contributions to profit from operation <i>HK\$'000</i>
Hong Kong	29,141	6,230	70,647	844
PRC	13,033	–	22,915	19,937
	42,174	6,230	93,562	20,781

(b) By geographical segment (Continued)

	Year ended 31 March 2002			
	Carrying amount of segment assets	Capital expenditure incurred	Revenue from external customers	Contributions to profit from operation
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Hong Kong	33,799	8,861	69,816	(3,551)
PRC	114,883	37,360	90,645	28,548
	<u>148,682</u>	<u>46,221</u>	<u>160,461</u>	<u>24,997</u>
Nine months ended 31 December 2002				
	Carrying amount of segment assets	Capital expenditure incurred	Revenue from external customers	Contributions to profit from operation
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Hong Kong	57,914	541	92,981	(4,956)
PRC	212,764	54,050	119,838	37,600
	<u>270,678</u>	<u>54,591</u>	<u>212,819</u>	<u>32,644</u>

6. COMBINED CASH FLOW STATEMENTS

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods on the basis set out in Section 1 and in accordance with the accounting policies set out in Section 2 above:

	Note	Year ended 31 March			
		2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	Nine months ended 31 December 2002 HK\$'000
Operating activities					
Cash generated					
from operations	(a)	21,302	23,384	(6,885)	41,743
Dividend paid by a subsidiary		(16,904)	–	–	–
Interest received		1,642	814	324	212
Interest paid		(1,858)	(1,034)	(1,700)	(920)
Interest on obligations					
under finance leases		(9)	(9)	(3)	–
Hong Kong Profits Tax paid		(164)	(380)	(88)	(108)
Net cash from operating activities		<u>4,009</u>	<u>22,775</u>	<u>(8,352)</u>	<u>40,927</u>
Investing activities					
Deposits paid for purchase					
of property, plant					
and equipment		–	–	(36,873)	(3,559)
Purchase of property,					
plant and equipment		(42)	(6,230)	(7,167)	(47,528)
Net advances to fellow subsidiaries		(5,713)	–	(27,120)	(2,938)
Advances to ultimate					
holding company		–	–	–	(5,250)
Interest paid		–	–	(1,587)	(3,503)
Net cash used in investing activities		<u>(5,755)</u>	<u>(6,230)</u>	<u>(72,747)</u>	<u>(62,778)</u>

	Note	Year ended 31 March		Nine months ended 31 December	
		2000	2001	2002	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financing activities	(b)				
Inception of short-term bank borrowings		–	–	9,161	81,843
Inception of long-term bank borrowings		8,480	4,200	–	–
Inception of obligations under finance leases		16	–	–	–
Repayment of short-term bank borrowings		–	–	–	(73,745)
Repayment of long-term bank borrowings		(16,875)	(18,046)	(600)	(450)
Repayment of obligations under finance leases		(27)	(27)	(11)	–
Issue of shares by a subsidiary		–	–	–	35,081
Expenditure on issue of shares		–	–	–	(2,252)
Net advances from (repayment to) immediate holding company		17,212	(3,625)	75,048	(6,863)
Net cash from (used in) financing activities		<u>8,806</u>	<u>(17,498)</u>	<u>83,598</u>	<u>33,614</u>
Increase (Decrease) in cash and cash equivalents		7,060	(953)	2,499	11,763
Cash and cash equivalents at beginning of year/period		<u>(6,580)</u>	<u>480</u>	<u>(473)</u>	<u>2,026</u>
Cash and cash equivalents at end of year/period		<u><u>480</u></u>	<u><u>(473)</u></u>	<u><u>2,026</u></u>	<u><u>13,789</u></u>
Analysis of balances of cash and cash equivalents					
Bank balances and cash		480	133	3,054	13,789
Bank overdrafts		–	(606)	(1,028)	–
		<u><u>480</u></u>	<u><u>(473)</u></u>	<u><u>2,026</u></u>	<u><u>13,789</u></u>

Notes:

(a) Cash generated from operations

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Profit before taxation	12,695	19,738	23,294	31,724
Depreciation	158	161	169	661
Interest income	(1,642)	(814)	(324)	(212)
Interest expenses	1,858	1,034	1,700	920
Interest on obligations under finance leases	9	9	3	–
Loss on disposals of property, plant and equipment	–	–	–	117
Bad debts written off / Provision for doubtful debts	133	258	890	–
Revaluation deficit on investment properties	–	–	1,206	200
Changes in working capital:				
Inventories	25	(187)	(183)	(820)
Trade and other receivables	7,175	2,097	(32,935)	(48,918)
Trade and other payables	891	1,088	(533)	58,515
Effect of exchange rate changes	–	–	(172)	(444)
	<u>21,302</u>	<u>23,384</u>	<u>(6,885)</u>	<u>41,743</u>
Net cash inflow from operating activities				

(b) Analysis of changes in financing

	Special reserve HK\$ '000	Short-term bank borrowings HK\$ '000	Long-term bank borrowings HK\$ '000	Obligations under finance leases HK\$ '000	Due to immediate holding company HK\$ '000
At 1 April 1999	1,000	–	22,791	49	(19,916)
Cash inflow (outflow) from financing	–	–	(4,995)	(11)	20,112
At 31 March 2000	1,000	–	17,796	38	196
Cash outflow from financing	–	–	(13,846)	(27)	(3,625)
At 31 March 2001	1,000	–	3,950	11	(3,429)
Cash inflow (outflow) from financing	–	9,161	(600)	(11)	75,048
At 31 March 2002	1,000	9,161	3,350	–	71,619
Cash inflow (outflow) from financing	32,829	11,297	(450)	–	(6,863)
At 31 December 2002	<u>33,829</u>	<u>20,458</u>	<u>2,900</u>	<u>–</u>	<u>64,756</u>

7. COMBINED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the combined statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in Section 1 and in accordance with the accounting policies set out in Section 2 above:

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	19,401	14,970	34,450	57,471
Net profit attributable to shareholders	12,473	19,480	23,193	31,228
Interim dividends	(16,904)	–	–	–
Exchange differences on translation of a foreign subsidiary	–	–	(172)	(444)
Reserve arising from further issue of shares by a subsidiary	–	–	–	32,829
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year/period	<u>14,970</u>	<u>34,450</u>	<u>57,471</u>	<u>121,084</u>

8. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the Company in respect of the Relevant Periods by the Company, or any of the companies now comprising the Group. Under the arrangement presently in force, the estimated aggregate amount of the Group's directors' remuneration payable for the three-month period ended 31 March 2003 is approximately HK\$194,000.

9. ULTIMATE HOLDING COMPANY

At the date of this report, the directors of the Company consider Ocean Grand Holdings Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company of the Company.

10. SUBSEQUENT EVENTS

On 9 June 2003, the companies now comprising the Group underwent a Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed Corporate Reorganisation in Appendix V to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 December 2002.

11. SUBSEQUENT ACCOUNTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2002.

Yours faithfully
Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong