

# Notes to the Financial Statements

*Year ended 31 March 2004*

## 1. GENERAL

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

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

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

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, these financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group, or since the dates of incorporation of the companies now comprising the Group to 31 March 2004.

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

## 2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

### **Basis of preparation**

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

# Notes to the Financial Statements

Year ended 31 March 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and companies which became the Company's subsidiaries on 9 June 2003 made up to 31 March 2004.

The consolidated financial statements incorporate the effects of the Reorganisation completed on 9 June 2003 (as described in note 1 and note 18 above). For the purposes of the presentation, the Reorganisation has been accounted for by using merger accounting in accordance with SSAP 27 "Accounting for Group Reconstructions".

The results of subsidiaries acquired in and disposed of during the year are accounted for from the effective dates of acquisition or to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

### Subsidiaries

A subsidiary is an enterprise, in which the Group or the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

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 revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess 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 released to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years since the valuations take into account the state of each property at the date of valuation.

# Notes to the Financial Statements

Year ended 31 March 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Property, plant and equipment

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

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, and plant and machinery under construction/installation, and is stated at cost less any accumulated impairment loss. Cost comprises cost of land, construction/installation expenditure and other direct costs, including interest costs, attributable to the construction/installation. Costs on completed construction/installation works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and put into effective use.

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 of property, plant and equipment, other than construction-in-progress, less accumulated impairment loss 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	7% to 10%
Furniture, fixtures and equipment	10%
Motor vehicles	10%

It is the Group's policy to periodically review the depreciation methods and estimated useful lives of its property, plant and equipment to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment. This review during the year indicated that the useful lives of the plant and machinery purchased in recent years, which are to be operated at their expected optimum capacity with obsolescence and impairment being factored in, could reach 15 years. As a result, the depreciable period of those plant and equipment purchased in recent years is extended from 10 years to 15 years, retroactive from 1 April 2003. The effect of this change in estimate was to reduce depreciation charge and increase net profit for the year by approximately HK\$1,500,000.

### Intangible asset

Intangible asset represents the right to use of specialised technology for the manufacturing of electroplating chemicals which is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost of intangible asset on a straight-line basis over 4 years.

# Notes to the Financial Statements

Year ended 31 March 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### 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 or impairment loss previously recognised no longer exist or may be reduced. 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, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an 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).

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 valuation, 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.

### 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 the People's Republic of China ("PRC") taxes deducted at source, is recognised in the period when services are rendered.

# Notes to the Financial Statements

Year ended 31 March 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credit can be utilised.

In prior year, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability was expected to be payable in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental receivable and payable under operating leases are recognised as an income and expense on the straight-line basis over the lease terms.

### Foreign currencies

Transactions in foreign currencies are translated at the 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 subsidiaries denominated in currencies other than Hong Kong dollars is 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 in the exchange reserve.

# Notes to the Financial Statements

Year ended 31 March 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Cash equivalents

For the purpose of consolidated cash flow statements, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an 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.

### Defined contribution plans

The obligations for contributions to defined contribution retirement schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group in independently administrated funds.

## 3. TURNOVER AND REVENUE

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing, trading and refining of chemicals for electroplating of precious metals.

Turnover and revenue recognised by category are analysed as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
Sale of goods	<b>645,244</b>	367,095
Subcontracting fees	<b>93,492</b>	67,107
<b>Revenue</b>	<b>738,736</b>	434,202

# Notes to the Financial Statements

Year ended 31 March 2004

## 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

### (a) Provision for long outstanding trade receivables

Demand of the Group's products in the fourth quarter of 2003 and the first quarter of 2004, primarily benefiting from the pent-up demand from the SARS period, the crack down by the local government on illegal precious metal electroplating chemicals and the positive business sentiment from a fast-growing Chinese economy, had exceeded the Group's expectation and resulted in a significant sales and turnover growth as compared with the year ended 31 March 2003.

The onset of the macro-economic austerity program in 2004 in China has tightened the banking facilities and had a cooling effect on most business in China, resulting in some settlement delays from certain key customers of trade receivables who request temporary financial accommodation by lengthening the credit terms. After taking into account of its financial position and the long term business relationships with the customers and the fact that the macro-economic outlook of China was going to benefit from the austerity program in the long term, the Group decided to temporarily extend the credit terms to some special customers.

As the uncertainties regarding the macro-economic austerity program began to dissipate, settlements for these trade receivables were gradually collected. The Group is of the opinion that the probability of a material portion of these accounts receivable becoming uncollectible is low.

The incident highlights the risk and challenge of operating in China which requires a good balance between business growth and trade receivable risk exposure. In response, the Group has decided on two initiatives. First, a customer relationship management ("CRM") program will be implemented as a platform for better customer management. Assessments on customers will be made based on a methodical and systematic approach to facilitate the formulation of customer credit decisions. Second, provisioning regime is adopted to the effect that a 10% to 50% provision, depending on the credit history of the customer, will be made for trade receivables which are overdue. The Group believes that the CRM and the provisioning regime will instill a discipline of tight trade receivable risk management throughout the Group and provide adequate safeguard and warning signals to both the management and the sales team regarding long outstanding trade receivables.

Accordingly, the Group has made a provision of HK\$8,766,000 (2003: Nil) for long outstanding trade receivables during the Year.

# Notes to the Financial Statements

Year ended 31 March 2004

## 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (continued)

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
(b) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	<b>2,781</b>	1,254
Other borrowing costs	<b>474</b>	6,239
Total borrowing costs	<b>3,255</b>	7,493
Less: Borrowing costs capitalised into construction-in-progress	–	(6,080)
	<b>3,255</b>	1,413
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
(c) Other items		
Amortisation of intangible assets included in other operating expenses	<b>1,902</b>	400
Auditors' remuneration	<b>500</b>	450
Cost of inventories and services provided	<b>618,998</b>	354,512
Depreciation	<b>5,137</b>	1,715
Loss on disposals of property, plant and equipment	–	117
Operating lease charges on		
– premises	<b>2,870</b>	715
– others	<b>240</b>	–
Revaluation deficit on investment properties	–	200
Staff costs, including Directors' emoluments:		
Wages and salaries	<b>10,291</b>	2,873
Contributions to retirement schemes	<b>353</b>	109

# Notes to the Financial Statements

Year ended 31 March 2004

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees	<b>270</b>	–
Salaries, other emoluments and other benefits in kind	<b>2,014</b>	674
Discretionary bonus	<b>280</b>	–
Contributions to pension schemes	<b>27</b>	11
	<b>2,591</b>	685

Included in the Directors' remuneration were fees of HK\$270,000 (2003: Nil) paid to the Independent Non-Executive Directors during the year.

Rental expenses amounting to HK\$94,000 (2003: HK\$95,000) in respect of a Director's accommodation have been included in Directors' other emoluments.

The remuneration of Directors were within the following bands:

	<b>Number of Directors</b>	
<b>HK\$</b>	<b>2004</b>	2003
Nil	<b>1</b>	4
1 to \$1,000,000	<b>6</b>	2
	<b>7</b>	6

# Notes to the Financial Statements

Year ended 31 March 2004

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

Of the five (2003: five) individuals with the highest emoluments, two (2003: one) were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2003: four) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other emoluments	1,171	953
Discretionary bonus	900	–
Contributions to pension schemes	27	30
	<b>2,098</b>	<b>983</b>
	<b>Number of individuals</b>	
	2004	2003
HK\$		
Nil to \$1,000,000	<b>3</b>	<b>4</b>

During the year, 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. Except for a Director who waived his salaries of HK\$1,485,000, there was no arrangement under which a Director waived or agreed to waive any emoluments during the year.

## 6. TAXATION

	2004 HK\$'000	2003 HK\$'000
<b>Current tax</b>		
Hong Kong Profits Tax:		
– Current year	<b>1,500</b>	<b>2,217</b>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year.

# Notes to the Financial Statements

Year ended 31 March 2004

## 6. TAXATION (continued)

PRC enterprise income tax has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC. However, Kenlap Fine Chemical (Zhuhai) Technology Company Limited is exempted from PRC state income tax and local income tax for two years starting from its first profit-making year of operation after offsetting prior year losses, followed by a 50% relief for the following three years.

The Group has not recognised deferred tax assets in respect of tax losses of the subsidiaries amounting to HK\$3,624,000 (2003: HK\$5,594,000). Tax losses of the Hong Kong subsidiary do not expire under the current tax legislation while the tax losses of the PRC subsidiary would be expired after five years.

### Reconciliation of effective tax rate

	2004 %	2003 %
Applicable tax rate	17	16
Non-deductible expenses	5	2
Tax-exempted revenue	(18)	(16)
Effect of tax holiday	(2)	–
Others	–	1
Effective tax rate for the year	<u>2</u>	<u>3</u>

The applicable tax rate is the weighted average tax rates prevailing in the territories in which the Group operates.

# Notes to the Financial Statements

Year ended 31 March 2004

## 7. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of HK\$47,634,000 (2003: loss of HK\$52,000) which has been dealt with in the financial statements of the Company.

## 8. DIVIDENDS

### (a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend of HK\$0.02 (2003: Nil) per share	9,500	–
Final dividend of HK\$0.04 (2003: HK\$0.04) per share	19,000	19,000
	<b>28,500</b>	<b>19,000</b>

### (b) Dividends approved and paid during the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend in respect of 2004 of HK\$0.02 (2003: Nil) per share	9,500	–
Final dividend in respect of 2003 of HK\$0.04 (2002: Nil) per share	19,000	–
	<b>28,500</b>	<b>–</b>

# Notes to the Financial Statements

Year ended 31 March 2004

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 March 2004 is based on the net profit attributable to shareholders of approximately HK\$70,545,000 (2003: HK\$63,689,000) and on the weighted average number of 455,170,554 ordinary shares in issue during the year (2003: 396,500,000 shares in issue and issuable comprising 1,000,000 shares in issue as at 31 March 2003 and 395,500,000 shares issued pursuant to the Reorganisation and capitalisation issue as referred to in notes 1 and 18 to these financial statements).

The diluted earnings per share for 2004 have not been presented as the exercise price of the Company's share options was higher than the average market price of the Company's shares for the year.

The diluted earnings per share for 2003 have not been presented as the Company did not have any dilutive potential shares in issue during the year ended 31 March 2003.

## 10. INVESTMENT PROPERTIES

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>Valuation</b>		
At beginning of year	4,800	5,000
Revaluation deficit	–	(200)
<b>At balance sheet date</b>	<b>4,800</b>	<b>4,800</b>

The investment properties are situated in Hong Kong, held on medium-term leases and currently vacant. They were valued at their open market value at 31 March 2004 by BMI Appraisals Limited, independent Chartered Surveyors.

# Notes to the Financial Statements

Year ended 31 March 2004

## 11. PROPERTY, PLANT AND EQUIPMENT

### Group

	Land and buildings HK\$'000	Construction- in-progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>						
At beginning of year	19,848	–	52,715	3,634	295	76,492
Additions	2,783	3,703	10,907	6,084	594	24,071
Reclassification	–	–	(44)	44	–	–
<b>At balance sheet date</b>	<b>22,631</b>	<b>3,703</b>	<b>63,578</b>	<b>9,762</b>	<b>889</b>	<b>100,563</b>
<b>Accumulated depreciation</b>						
At beginning of year	333	–	1,276	793	113	2,515
Charge for the year	497	–	3,622	970	48	5,137
<b>At balance sheet date</b>	<b>830</b>	<b>–</b>	<b>4,898</b>	<b>1,763</b>	<b>161</b>	<b>7,652</b>
<b>Net book value</b>						
<b>At balance sheet date</b>	<b>21,801</b>	<b>3,703</b>	<b>58,680</b>	<b>7,999</b>	<b>728</b>	<b>92,911</b>
At beginning of year	19,515	–	51,439	2,841	182	73,977

# Notes to the Financial Statements

Year ended 31 March 2004

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

### (a) Land and buildings

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	2,552	2,610
PRC	19,249	16,905
	<b>21,801</b>	<b>19,515</b>

The land use rights of the properties located in Zhuhai, the PRC are granted for a term of 50 years expiring in 2051.

### (b) Construction-in-progress

	Group	
	2004 HK\$'000	2003 HK\$'000
At cost:		
Factory buildings	3,703	11,485
Plant and machinery	–	45,656
	<b>3,703</b>	57,141
Borrowing costs capitalised	–	7,667
Less: Reclassification	–	(64,808)
	<b>3,703</b>	<b>–</b>

# Notes to the Financial Statements

Year ended 31 March 2004

## 12. INTANGIBLE ASSET

	<b>Group</b>
	<b>HK\$'000</b>
<b>Cost</b>	
At beginning of year and <b>at balance sheet date</b>	<b>9,434</b>
<b>Accumulated amortisation</b>	
At beginning of year	(400)
Amortisation charges for the year	(1,902)
<b>At balance sheet date</b>	<b>(2,302)</b>
<b>Net book value</b>	
<b>At balance sheet date</b>	<b>7,132</b>
At beginning of year	9,034

## 13. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>123</b>	–
Due from subsidiaries	<b>75,397</b>	–
	<b>75,520</b>	–

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

## Notes to the Financial Statements

Year ended 31 March 2004

### 13. INTERESTS IN SUBSIDIARIES (continued)

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Dynamic Market Trading Limited	British Virgin Islands	US\$1	–	100%	Inactive
Kenlap Chemicals Limited	Hong Kong	HK\$100	–	100%	Trading electroplating chemicals
Kenlap P.G.C. Manufacturer Company Limited ("Kenlap PGC")	Hong Kong	HK\$2 ordinary, HK\$1,113,352 non-voting deferred (Note)	–	100%	Manufacturing chemicals for electroplating and trading and refining precious metal material
Ocean Grand Chemicals (BVI) Limited ("OG Chemicals BVI")	British Virgin Islands	US\$0.01	100%	–	Investment holding
OGC Management Services Limited	Hong Kong	HK\$2	–	100%	Management services
Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai")	PRC	HK\$80,000,000	–	100%	Manufacturing chemicals for electroplating and trading and refining precious metal material

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.

None of the subsidiaries had any loan capital in issue at any time during the year.

*Note:* The non-voting deferred shares of Kenlap PGC have no voting rights, are not entitled to dividends and are not entitled to any distribution upon winding up unless a sum of HK\$100,000,000,000,000,000 has been distributed by Kenlap PGC to the holders of ordinary shares.

# Notes to the Financial Statements

Year ended 31 March 2004

## 14. INVENTORIES

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At cost:		
Raw materials	<b>982</b>	1,189
Work-in-progress	<b>1,369</b>	543
Finished goods	<b>9,307</b>	3,294
	<b>11,658</b>	5,026

## 15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Trade receivables</b> (Note 15a)	<b>318,001</b>	149,173	–	–
<b>Other receivables</b>				
Deposits, prepayments and other debtors	<b>12,726</b>	20,902	–	–
Due from immediate holding company (Note 15b)	<b>126</b>	–	–	–
Due from a fellow subsidiary (Note 15b)	<b>4,316</b>	–	–	–
	<b>17,168</b>	20,902	–	–
	<b>335,169</b>	170,075	–	–

## Notes to the Financial Statements

Year ended 31 March 2004

### 15. TRADE AND OTHER RECEIVABLES (continued)

#### (a) 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 their relationship with the Group and settlement history. The ageing analysis of trade receivables is as follows:

	2004 HK\$'000	2003 HK\$'000
Current (within 1 month)	118,988	69,838
1 month to 2 months	84,264	40,558
2 months to 3 months	52,593	10,388
More than 3 months but less than 12 months	61,843	27,886
More than 12 months but less than 24 months	313	503
	<b>318,001</b>	<b>149,173</b>

#### (b) Due from immediate holding company/a fellow subsidiary

The amounts due are unsecured, interest-free and have no fixed repayment terms.

### 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Trade payables</b> (Note 16a)	<b>61,577</b>	105,391	–	–
<b>Other payables</b>				
Accrued charges and other creditors	4,950	1,398	–	–
Due to immediate holding company (Note 16b)	433	9,565	432	3
Due to a fellow subsidiary	–	–	–	3
	<b>5,383</b>	10,963	<b>432</b>	6
	<b>66,960</b>	116,354	<b>432</b>	6

# Notes to the Financial Statements

Year ended 31 March 2004

## 16. TRADE AND OTHER PAYABLES (continued)

### (a) Trade payables

The ageing analysis of trade payables is as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current (within 1 month)	<b>42,746</b>	45,154
1 month to 2 months	<b>18,828</b>	44,227
2 months to 3 months	<b>3</b>	15,812
More than 3 months but less than 12 months	<b>–</b>	198
	<b>61,577</b>	105,391

### (b) Due to immediate holding company

The amount due is unsecured, interest-free and has no fixed repayment terms.

## 17. BANK BORROWINGS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Short-term bank borrowings:		
Secured	<b>4,492</b>	6,176
Unsecured	<b>75,905</b>	21,608
	<b>80,397</b>	27,784
Long-term bank borrowings:		
Secured	<b>2,150</b>	2,750
Unsecured	<b>133,483</b>	–
	<b>135,633</b>	2,750
	<b>216,030</b>	30,534

# Notes to the Financial Statements

Year ended 31 March 2004

## 17. BANK BORROWINGS (continued)

The long-term bank borrowings are repayable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not exceeding 1 year	5,633	600
More than 1 year but not exceeding 2 years	35,664	600
More than 2 years but not exceeding 5 years	94,336	1,550
	<b>135,633</b>	2,750
Portion classified as current liabilities	(5,633)	(600)
Long-term portion	<b>130,000</b>	2,150

# Notes to the Financial Statements

Year ended 31 March 2004

## 18. ISSUED CAPITAL

	Number of shares '000	Amount HK\$'000
<i>Ordinary shares of HK\$0.10 each</i>		
<b>Authorised:</b>		
On incorporation and at 31 March 2003	1,000	100
Increase during the year	999,000	99,900
<b>At 31 March 2004</b>	<b><u>1,000,000</u></b>	<b><u>100,000</u></b>
<b>Issued and fully paid:</b>		
Shares issued and allotted fully paid at 31 March 2003	1,000	100
Shares issued as consideration for the acquisition of the entire issued share capital of OG Chemicals BVI	1,227	123
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public offer and placing in the Stock Exchange	394,273	39,427
Shares issued for cash at HK\$0.88 each under the initial public offering of the Company's shares	78,500	7,850
<b>At 31 March 2004</b>	<b><u>475,000</u></b>	<b><u>47,500</u></b>

# Notes to the Financial Statements

Year ended 31 March 2004

## 18. ISSUED CAPITAL (continued)

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

- (a) The Company was incorporated in Bermuda with limited liability on 29 July 2002 (date of incorporation) with HK\$100,000 authorised share capital of 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted fully paid on 19 August 2002.
- (b) By written resolutions of the shareholders of the Company passed on 9 June 2003, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 shares of HK\$0.10 each.
- (c) On 9 June 2003, as part of the Reorganisation, the Company acquired 1,113,352 shares of US\$0.01 each of OG Chemicals BVI from Successful Gold Profits Limited (“Successful Gold”) and the twelve independent investors, and issued 1,012,915 shares, credited as fully paid, to Successful Gold and 213,761 shares, credited as fully paid, to the twelve independent investors.
- (d) Pursuant to the written resolutions of the shareholders of the Company passed on 10 June 2003:
  - (i) the issue of 78,500,000 shares of HK\$0.10 each for cash at HK\$0.88 per share by way of public offer and placing was approved (the “Share Offer”) and the Directors were authorised to allot and issue these new shares;
  - (ii) conditional on the share premium account being credited as a result of the Share Offer, a total of 394,273,324 shares of HK\$0.10 each were allotted as fully paid at par to the shareholders whose names appeared on the register of the members of the Company at the close of business on 25 June 2003, in proportion to their then existing shareholdings in the Company by way of capitalisation of the sum of HK\$39,427,332 standing to the credit of the share premium account of the Company.
- (e) On 26 June 2003, 78,500,000 new shares of the Company were issued for cash at HK\$0.88 each under the initial public offering of the Company’s shares.
- (f) In accordance with the terms as mentioned in note 18(d)(ii) above, 394,273,324 of HK\$0.10 each new shares were allotted on 26 June 2003.

# Notes to the Financial Statements

Year ended 31 March 2004

## 19. SHARE OPTIONS

On 4 September 2003, the Company adopted a share option scheme, which complied with Chapter 17 of the Rules Governing the Listing of Securities of the Stock Exchange, under which it could grant options to employees (including Executive Directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's Board of Directors, and will be the higher of the nominal value of the shares, the closing price of the shares quoted on the Stock Exchange on the date of offer of the options and the average of the closing price of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the options.

Share options granted under the share option scheme which remain outstanding at the balance sheet date were:

Date of grant	Exercise period	Subscription price per share HK\$	Beginning of year '000	Number of share option			End of year '000
				Granted '000	Exercised '000	Lapsed '000	
9 February 2004	9 February 2004 to 3 September 2013	1.38	–	47,000	–	–	47,000

## Notes to the Financial Statements

Year ended 31 March 2004

### 20. RESERVES

Group	Share premium HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Acc- umulated profits HK\$'000	Total HK\$'000
At 1 April 2002	–	(172)	877	56,543	57,248
Reserve arising from shares exchange with a subsidiary	–	–	32,829	–	32,829
Exchange difference on translation of the financial statements of a foreign subsidiary	–	839	–	–	839
Profit for the year	–	–	–	63,689	63,689
At 31 March 2003	<u>–</u>	<u>667</u>	<u>33,706</u>	<u>120,232</u>	<u>154,605</u>
Representing:					
At 31 March 2003 after proposed final dividend					135,605
2003 final dividend proposed					19,000
					<u>154,605</u>

# Notes to the Financial Statements

Year ended 31 March 2004

## 20. RESERVES (continued)

Group	Share premium HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Acc- umulated profits HK\$'000	Total HK\$'000
At 1 April 2003	–	667	33,706	120,232	154,605
Dividend approved in respect of previous year	–	–	–	(19,000)	(19,000)
Interim dividend approved	–	–	–	(9,500)	(9,500)
Premium arising from issue of shares upon initial public offering	61,230	–	–	–	61,230
Capitalisation issue credited as fully paid shares	(39,427)	–	–	–	(39,427)
Expenditure in relation to the issue of shares upon initial public offering	(13,208)	–	–	–	(13,208)
Exchange difference on translation of the financial statements of a foreign subsidiary	–	(631)	–	–	(631)
Profit for the year	–	–	–	70,545	70,545
At 31 March 2004	<u>8,595</u>	<u>36</u>	<u>33,706</u>	<u>162,277</u>	<u>204,614</u>
Representing: At 31 March 2004 after proposed final dividend					185,614
2004 final dividend proposed					19,000
					<u>204,614</u>

Special reserve represents difference between the nominal value of share capital of the Company issued and the aggregate amount of nominal value of share capital and share premium of the subsidiaries acquired by the Company through an exchange of shares.

# Notes to the Financial Statements

Year ended 31 March 2004

## 20. RESERVES (continued)

Company	Share premium HK\$'000	Accumulated Profit/ (loss) HK\$'000	Total HK\$'000
At 1 April 2002	–	–	–
Loss for the year	–	(52)	(52)
At 31 March 2003	–	(52)	(52)
Representing:			
At 31 March 2003 after proposed dividend			(19,052)
2003 final dividend proposed			19,000
			(52)
<b>At 1 April 2003</b>	–	(52)	(52)
<b>Dividend approved in respect of previous year</b>	–	(19,000)	(19,000)
<b>Interim dividend approved</b>	–	(9,500)	(9,500)
<b>Premium arising from issue of shares upon initial public offering</b>	61,230	–	61,230
<b>Capitalisation issue credited as fully paid shares</b>	(39,427)	–	(39,427)
<b>Expenditure in relation to the issue of shares upon initial public offering</b>	(13,208)	–	(13,208)
<b>Profit for the year</b>	–	47,634	47,634
At 31 March 2004	8,595	19,082	27,677
Representing:			
At 31 March 2004 after proposed dividend			8,677
2004 final dividend proposed			19,000
			27,677

# Notes to the Financial Statements

Year ended 31 March 2004

## 21. CASH (USED IN) GENERATED FROM OPERATIONS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit from ordinary activities before taxation	<b>72,045</b>	65,906
Amortisation of intangible assets	<b>1,902</b>	400
Depreciation	<b>5,137</b>	1,715
Provision for long outstanding trade receivables	<b>8,766</b>	–
Interest income	<b>(225)</b>	(240)
Interest expenses	<b>3,255</b>	1,412
Loss on disposals of property, plant and equipment	–	117
Revaluation deficit on investment properties	–	200
Changes in working capital:		
Inventories	<b>(6,632)</b>	(3,083)
Trade and other receivables	<b>(169,418)</b>	(112,556)
Trade and other payables	<b>(40,262)</b>	104,320
Effect of exchange rate changes	<b>(631)</b>	29
Cash (used in) generated from operations	<b>(126,063)</b>	58,220

## 22. PENSION SCHEMES

As stipulated by the PRC regulations, the PRC subsidiary of the Company maintain a defined contribution retirement plan for all of its employees. All of their retired employees are entitled to an annual pension equal to their basic annual salary upon retirement. The PRC subsidiary would contribute to a state sponsored retirement plan a percentage of the basic salary of its employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The costs of the state sponsored retirement plan of the PRC subsidiary of the Company are charged to the income statement. The Group's contributions for the year ended 31 March 2004 amounted to approximately HK\$71,000 (2003: HK\$42,000).

The Hong Kong subsidiaries operate two defined contribution Mandatory Provident Fund Schemes (the "MPF Schemes"), which are defined contribution schemes, for its Hong Kong employees. The assets of the MPF Schemes are held separately in provident funds managed by independent trustees. Under the MPF Schemes, both the Group and the employees make monthly contributions at the lower of HK\$1,000 or 5% of the relevant payroll costs. The costs of the MPF Scheme of the subsidiaries are charged to the income statement. The Group's contributions to the MPF Schemes for the year ended 31 March 2004 were approximately HK\$190,000 (2003: HK\$67,000).

# Notes to the Financial Statements

Year ended 31 March 2004

## 23. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these financial statements, the Group had the following transactions with related parties:

- (a) The Company's ultimate holding company had provided corporate guarantees to banks for banking facilities granted to the Group amounting to HK\$197,590,000 during the year. The corporate guarantees were all released during the year.
- (b) The Group had provided a corporate guarantee to a bank in respect of banking facilities granted to a fellow subsidiary amounting to HK\$30,000,000 during the year. The corporate guarantee was released during the year.
- (c) During the year, the Group paid consultancy fee of HK\$1,000,000 to a company which is beneficially owned by a Director of the Company's ultimate holding company.

## 24. COMMITMENTS

### (a) Capital expenditure commitments

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided net of deposit paid	<b>18,389</b>	21,398

The Group is planning to invest around HK\$80,000,000 in setting up of two new production lines, being the silver nitrate production line and the electroplating fluid recovery line, in the coming year.

### (b) Operating leases commitments

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follow:

The Group	Premises		Others	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within 1 year	<b>3,539</b>	459	<b>720</b>	–
Between 2 to 5 years	<b>4,516</b>	21	–	–
	<b>8,055</b>	480	<b>720</b>	–

# Notes to the Financial Statements

Year ended 31 March 2004

## 24. COMMITMENTS (continued)

### (b) Operating leases commitments (continued)

The Company	Premises		Others	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within 1 year	2,660	–	–	–
Between 2 to 5 years	3,991	–	–	–
	<b>6,651</b>	–	–	–

## 25. CONTINGENT LIABILITIES

- (a) During the year, the Company has executed corporate guarantees to banks for facilities given to the subsidiaries. As at the balance sheet date, the banking facilities granted to and utilised by the subsidiaries amounted to HK\$357,058,000 (2003: Nil) and HK\$216,030,000 (2003: Nil) respectively.
- (b) In connection with the subscription agreements entered into between a subsidiary of the Group, its ultimate holding company and the independent subscribers (the "Subscribers") in relation to the subscription of shares in the subsidiary of the Company by the Subscribers, its ultimate holding company, an agent and each of the Subscribers have entered into an escrow agreement pursuant to which its ultimate holding company 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, the subsidiary of the Group entered into a Deed of Indemnity with the agent on 10 May 2002 pursuant to which it 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 the subsidiary of the Company shall continue notwithstanding the termination of any or all of the escrow agreements.

# Notes to the Financial Statements

Year ended 31 March 2004

## 26. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure general banking facilities granted:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Investment properties	<b>4,800</b>	4,800
Leasehold land and buildings	<b>2,552</b>	2,610
	<b><u>7,352</u></b>	<u>7,410</u>

# Notes to the Financial Statements

Year ended 31 March 2004

## 27. SEGMENTAL INFORMATION

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

### (a) By business segments

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

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Rental HK\$'000	Consolidated HK\$'000
<b>Year ended 31 March 2004</b>					
External sales	<u>276,643</u>	<u>368,601</u>	<u>93,492</u>	–	<u>738,736</u>
Segment results	<u>11,978</u>	<u>20,280</u>	<u>78,714</u>	–	<u>110,972</u>
Unallocated operating income and expenses					<u>(35,672)</u>
Profit from operations					75,300
Finance costs					<u>(3,255)</u>
Profit before taxation					72,045
Taxation					<u>(1,500)</u>
Net profit attributable to shareholders					<u>70,545</u>
Other information					
Capital expenditures	6,586	5,505	11,980	–	24,071
Depreciation and amortisation	2,052	527	4,460	–	7,039
Other non-cash expenses other than depreciation and amortisation	<u>–</u>	<u>2,290</u>	<u>6,476</u>	–	<u>8,766</u>

# Notes to the Financial Statements

Year ended 31 March 2004

## 27. SEGMENTAL INFORMATION (continued)

### (a) By business segments (continued)

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Rental HK\$'000	Consolidated HK\$'000
Year ended 31 March 2003					
External sales	<u>130,779</u>	<u>236,316</u>	<u>67,107</u>	<u>–</u>	<u>434,202</u>
Segment results	<u>3,285</u>	<u>15,955</u>	<u>60,450</u>	<u>–</u>	<u>79,690</u>
Unallocated operating income and expenses					<u>(12,371)</u>
Profit from operations					<u>67,319</u>
Finance costs					<u>(1,413)</u>
Profit before taxation					<u>65,906</u>
Taxation					<u>(2,217)</u>
Net profit attributable to shareholders					<u>63,689</u>
<b>Other information</b>					
Capital expenditures	557	–	40,620	–	41,177
Depreciation and amortisation	879	–	1,236	–	2,115
Other non-cash expenses other than depreciation and amortisation	<u>117</u>	<u>–</u>	<u>–</u>	<u>200</u>	<u>317</u>

# Notes to the Financial Statements

Year ended 31 March 2004

## 27. SEGMENTAL INFORMATION (continued)

### (a) By business segments (continued)

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Rental HK\$'000	Consolidated HK\$'000
<b>Year ended 31 March 2004</b>					
<b>Assets</b>					
Segment assets	<u>81,828</u>	<u>230,972</u>	<u>123,399</u>	<u>4,800</u>	<u>440,999</u>
Unallocated assets					<u>94,686</u>
<b>Total assets</b>					<u><b>535,685</b></u>
<b>Liabilities</b>					
Segment liabilities	<u>65,467</u>	<u>61,290</u>	<u>22,661</u>	<u>2,150</u>	<u>151,568</u>
Unallocated liabilities					<u>132,003</u>
<b>Total liabilities</b>					<u><b>283,571</b></u>
<b>Year ended 31 March 2003</b>					
<b>Assets</b>					
Segment assets	<u>41,169</u>	<u>86,105</u>	<u>127,149</u>	<u>4,800</u>	<u>259,223</u>
Unallocated assets					<u>44,710</u>
<b>Total assets</b>					<u><b>303,933</b></u>
<b>Liabilities</b>					
Segment liabilities	<u>27,784</u>	<u>107,311</u>	<u>698</u>	<u>2,750</u>	<u>138,543</u>
Unallocated liabilities					<u>10,562</u>
<b>Total liabilities</b>					<u><b>149,105</b></u>

# Notes to the Financial Statements

Year ended 31 March 2004

## 27. SEGMENTAL INFORMATION (continued)

### (b) By geographical segments

#### Year ended 31 March 2004

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	237,975	277	428,833	(7,508)
PRC	297,710	23,794	309,903	82,808
	<u>535,685</u>	<u>24,071</u>	<u>738,736</u>	<u>75,300</u>

#### Year ended 31 March 2003

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	99,131	557	188,848	(592)
PRC	204,802	40,620	245,354	67,911
	<u>303,933</u>	<u>41,177</u>	<u>434,202</u>	<u>67,319</u>