

Corporate Information

BOARD OF DIRECTORS

Mr YIP Kim Po (Chairman), *FHKIoD*
 Mr HUI Ho Ming, Herbert, *JP, FHKIoD*
 (Deputy & Vice Chairman)
 Mr CHOY Tak Ho*
 Mr CHAU Po Fan*
 Mr KWAN Yan
 Mr LEE Kwan Ho, Vincent Marshall*
 Mr LI Lee Cheung
 Ms YIP Wan Fung

* Independent Non-Executive Director

COMPANY SECRETARY

Mr LO Hang Fong

SOLICITORS

Stevenson, Wong & Co.

AUDITORS

Moores Rowland Mazars

PRINCIPAL BANKERS

WestLB AG
 HSH Nordbank AG
 The Hongkong and Shanghai Banking
 Corporation Limited
 Bangkok Bank Public Company Limited
 ORIX Asia Limited
 Nanyang Commercial Bank, Ltd
 BNP Paribas Hong Kong Branch
 Hang Seng Bank Limited
 Indover bank (Asia) Limited

PRINCIPAL OFFICE

Room 2805, 28th Floor
 Admiralty Centre, Tower 1
 18 Harcourt Road, Hong Kong

REGISTERED OFFICE

Clarendon House, 2 Church Street
 Hamilton HM11, Bermuda

HOMEPAGE

<http://www.ogholdings.com>

INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited

CORE GROUP STRUCTURE



* Listed on the Main Board of the Stock Exchange of Hong Kong Limited

** Disposal is expected to be completed in the 4th quarter of 2004

● - Precious metal electroplating chemicals business

● - Aluminium business

● - Stainless steel business

Management Discussion and Analysis – Chairman’s Letter to Shareholders

Dear shareholders,

It is my pleasure to report to you the results of Ocean Grand Holdings Limited (the “Company”) and its subsidiaries (collectively “Ocean Grand” or the “Group”) for the six months ended 30 June 2004 (the “Reporting Period”), and share with you my thoughts in leading the Group in this challenging and exciting business environment.

RESULTS OF THE REPORTING PERIOD

Due to an increase in trading activities in aluminium ingots and electroplating chemicals, turnover of the Group in the Reporting Period has reached HK\$1,446,249,000 (*six months ended 30 June 2003: HK\$1,081,603,000*), an increase of 33.7% as compared with the corresponding figure in 2003. Profit from operations has increased by 17.8% to HK\$123,284,000 (*six months ended 30 June 2003: HK\$104,687,000*), while the net profit attributable to shareholders increased to HK\$88,226,000 (*six months ended 30 June 2003: HK\$79,521,000*), up 10.9%.

The business environment in the Reporting Period was very challenging. The onset of the macro-economic austerity program in China has created a temporary credit crunch affecting many enterprises in China including some of our customers, and added uncertainty to the short term prospect of the Chinese market. Nationwide power shortage also posed a large obstacle to many enterprises in maintaining normal operation.

Partly in response to the changes in the Chinese market, the price of aluminium had become very volatile. After reaching the peak at US\$1,826 per ton on 20 April 2004, it plummeted by more than US\$100 per ton in the following day, and then went on to tumble down to US\$1,575 per ton on 10 May 2004, recording a 13.7% drop over three weeks. As aluminium cost constitutes a major part of the Group’s cost of goods sold, volatility in aluminium price represents a substantial risk which the Group must address.

Amidst such an unfavourable environment I am glad to say that the Group’s result in the Reporting Period is remarkable. It is only possible because of the commitment and dedication of all our staff members, and I would like to take this opportunity to extend my heartfelt appreciation for their effort.

ALUMINIUM BUSINESS

Review

Turnover and contributions to operating profits of the aluminium business segment in 2004 were an encouraging HK\$828,097,000 (*six months ended 30 June 2003: HK\$675,674,000*) and HK\$76,667,000 (*six months ended 30 June 2003: HK\$70,921,000*) respectively, and average gross profit margin for extrusion products in the Reporting Period was approximately 21%.

ALUMINIUM BUSINESS (continued)

Challenges

During the Reporting Period, Ocean Grand maintained its strategy of not taking any aluminium position risk and adhered to the cost-plus basis of pricing steadfastly. As a result, the volatility in aluminium price did not have any significant effect on the Group’s bottom line.

The exuberance in the aluminum market, the cause of much speculation and an exceptional volatility in the first few months in 2004, came to an abrupt end with the onset of the macro-economic austerity program in China which specifically targets, among a few others, the aluminium smelting industry. As a player in the aluminium extrusion industry, which is downstream to the aluminium smelting industry, Ocean Grand’s business in China has not been significantly affected by the austerity program.



Power shortage has also been acute in certain parts of China and rationing of power becomes necessary. Our Nanhai Factory is experiencing power shut down of one day per week. As aluminium extrusion is not a high energy consuming industry, Ocean Grand has been able to cope with this change by scheduling the comparatively more power-consuming processes to night shift and relying on our internal power generators during the power-off hours.

Growth and Prospects

International Markets

During the Reporting Period, the Group continued its inroads into international markets such as the USA, Europe, Australia and Japan. Of these markets, the management is particularly optimistic about the USA because of the benefits from the relationship with William L Bonnell Company Inc., the fourth largest aluminium extruder in the USA. There were mutual visits between the two companies in 2004 and William L Bonnell Company Inc. has now designated a team of professionals to liaise with Ocean Grand on a full time basis.

Armed with its capability to provide premium products and a competitive cost structure in China, the management believes that Ocean Grand’s business potential in the international market is tremendous. This potential is confirmed by a strong order book for the rest of 2004, and in the short to medium term the international market will be the focus for its growth.

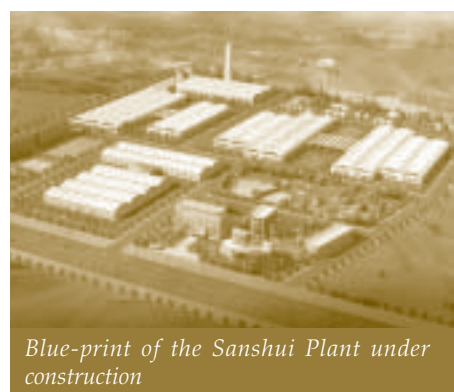
ALUMINIUM BUSINESS (continued)

Growth and Prospects (continued)

Sanshui New Factory – a capital expenditure plan

In the Group’s last annual report, I reported to you that Ocean Grand would invest HK\$600 million to establish a new plant in Sanshui District, Foshan City, with an annual production capacity exceeding 100,000 metric tonnes of aluminium products.

I am glad to report to you this time that the establishment of the Sanshui Plant has been progressing satisfactorily and in accordance with schedule. The foundation setting ceremony, witnessed by approximately 200 guests from the local government, business community, banks and investment community, was held on 21 May 2004. In order to ensure that the Sanshui Plant will be properly equipped to support the Group’s growth in the coming decade, we have engaged the highly renowned Luoyang Engineering & Research Institute for Non-ferrous Metals Processing to design the layouts for factory buildings and the production lines. Negotiation with overseas suppliers for top-of-the-line direct extrusion presses, indirect extrusion presses, conformed extrusion presses, brite-dip production line and fabrication equipment are pushing ahead in full steam.



Blue-print of the Sanshui Plant under construction

The Sanshui Plant is expected to be fully operational in three years, with the first phase of production, the manufacture of aluminium alloy ingots and aluminium billets, expected to commence in early 2005. Apart from augmenting capacity, its specialised machinery will give the Group the highly desirable capacity on producing high-end, high-margin and fabricated products. It will also allow Ocean Grand to better service the automobile, maritime and other industries.

The investment capital will be injected in phases over a period of three years, and will be funded by the Group’s internal resources and bank financing.

I believe that establishing the Sanshui Plant is a strategic milestone in Ocean Grand’s development. I have every confidence that it will enhance our overall productivity and expand our product portfolio, and further strengthen our market position and market share.

PRECIOUS METAL ELECTROPLATING CHEMICALS BUSINESS

Review

This business is undertaken by the 75% owned subsidiary, Ocean Grand Chemicals Holdings Limited (“OG Chemicals”), which is also listed on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Turnover and contributions to operating profits generated by this business for the Reporting Period were HK\$610,702,000 (*six months ended 30 June 2003: HK\$348,836,000*) and HK\$56,323,000 (*six months ended 30 June 2003: HK\$54,346,000*).



Laboratory of the Research and Development Department in the Zhuhai Plant

Prospects

We remain cautiously optimistic about the business outlook and prospect of the electroplating chemicals business. With China continuing on its path to become the largest industrial production base of the world, the demand of precious metal electroplating chemicals within China should remain strong and growing. OG Chemicals will strengthen its marketing effort in the Yang-tze River Delta to capture deeper market penetration and consolidate its position.

Regarding its effort in widening its product range, OG Chemicals has begun its preparatory work on the silver nitrate and electroplating fluid recovery lines, which are expected to be operational by early 2005. Meanwhile, the Research and Development Department of our Zhuhai Factory is pushing full steam ahead for developing new products such as palladium chloride and palladium tetra-ammonia chloride. OG Chemicals is also working with renowned academic institutions in the region, such as the University of Hong Kong and Nanjing University, on product development projects. The management is confident that these new products and services will be well-received by the market when they are rolled out.

OG Chemicals will continue to broaden and improve the quality of its products and services with an aim to become the premier supplier of precious metal chemical products in the region.

STAINLESS STEEL BUSINESS

Disposal

On 30 July 2004, Ocean Grand has entered into an agreement to dispose of its entire interest in the stainless steel business, which is undertaken by an associate of the Group, to an independent third party for a cash consideration of HK\$182,000,000. A circular containing detail information of the disposal has been issued in August 2004 to all shareholders. The net proceeds of this disposal is expected to be approximately HK\$180,000,000 and will be used as general working capital for the aluminium business.

STAINLESS STEEL BUSINESS (continued)

Disposal (continued)

As a passive investment, the stainless steel business has provided the Group a good return, but it is more in line with the strategic development of Ocean Grand to divest when a reasonable exit opportunity is identified. The exit from the stainless steel business is a major step in our effort to focus on our core businesses, namely the aluminium and electroplating chemicals businesses. Apart from streamlining the business model of Ocean Grand, the disposal will also achieve better economic efficiency of management resources allocation by consolidating management time into the oversight of its core businesses, which are both demonstrating exciting growth potential.

Review

The hot-rolled stainless steel plant in Panzhihua City, Sichuan Province, had temporarily ceased operation and undergone substantial repair and maintenance in the first few months in 2004. As a result, the share of the result from an associate in the Reporting Period was only HK\$8,150,000 (*six months ended 30 June 2003: HK\$14,708,000*), recording a significant negative growth as compared with the corresponding period in 2003.

MISSION

My colleagues and I are firmly committed to build Ocean Grand as a world-class PRC-based supplier of high quality, high value-added aluminium products to the world. In the long run, we are confident that this strategy will bring a sustainable and remarkable appreciation in shareholders’ value.

YIP Kim Po

Chairman

23 September 2004

Management Discussion and Analysis – Report of the Directors

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

FINANCIAL REVIEW

Liquidity, financial resources and capital structure

As at 30 June 2004, the net current assets of the Group were HK\$671,561,000 (*31 December 2003: HK\$585,015,000*). Within the current assets, HK\$482,676,000 (*31 December 2003: HK\$471,548,000*) was in the form of free cash and cash equivalents.

Total bank borrowings and obligations under finance leases as at 30 June 2004 were HK\$741,268,000 (*31 December 2003: HK\$682,925,000*), of which approximately 41% (*31 December 2003: 33%*), HK\$302,719,000 (*31 December 2003: HK\$223,892,000*) will be due after one year. Net debt gearing (i.e. total borrowings less free cash/net tangible assets) of the Group as at 30 June 2004 was 23% (*31 December 2003: 20%*).

The Company issued 7,600,000 new shares during the Reporting Period due to the exercise of options pursuant to the share option scheme of the Company.

Foreign exchange risk and interest rate risk

The Group's cash and cash equivalents are held predominately in HK\$, RMB and US\$. The majority of the Group's borrowings are denominated in HK\$, RMB and US\$ at floating interest rates. Financing in RMB is used only by the Group's operations in the PRC, which usually receives revenue in RMB. Raw materials for export sales denominated in US\$ are predominately imported and therefore settled in US\$. The management is of the opinion that the Group's exposure to interest rate and foreign exchange rate risks is insignificant, and hedging for these risks by means of derivative instruments is considered unnecessary.

Since 2001, the Group has been adopting a strategy to obtain financing with a longer tenure to enhance its liquidity and minimise the maturity mismatch between assets and liabilities. As a result, more than 41% of the Group's bank borrowings and obligations under finance leases was due after one year as at 30 June 2004 (*31 December 2003: 33%*). This strategy will be maintained in the near future.

GENERAL DISCLOSURE OBLIGATION UNDER LISTING RULE 13.18

Certain financial institutions have granted bank facilities of US\$34,000,000 (approximately HK\$265,200,000) in aggregate to a wholly-owned subsidiary of the Company up to 11 July 2005. As of 30 June 2004, approximately HK\$238,680,000 of these facilities were utilised.

There is an undertaking set out in the loan agreement that Mr Yip Kim Po will at all times remain the Chairman and the single largest shareholder of the Company and that the Yip Family beneficially owns at least 30% of the total issued share capital of the Company. There was no breach of the said undertaking during the Reporting Period.

CONNECTED TRANSACTION – POST BALANCE SHEET EVENT

On 8 July 2004, OG Development Company Limited (“OGD”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Agreement”) with Hongli Nanfang Galvanized Sheet (Sanshui) Company Limited (“Nanfang-Sanshui”), a company established in the PRC. According to the Agreement, OGD purchased 1,390 metric tones of hot dipped galvanized steel sheet coil (the “Steel Sheet”) at a cash consideration of US\$869,600 (approximately HK\$6,800,000) from Nanfang-Sanshui. Nanfang-Sanshui is a connected party of the Company for the purposes of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), and the Agreement constituted a connected transaction for the purposes of Chapter 14A of the Listing Rules.

OGD sold the Steel Sheet to a customer, who is not connected with any of the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, immediately for a profit.

The price for the supply of the Steel Sheet by Nanfang-Sanshui to OGD under the Agreement is comparable to market prices of hot dipped galvanized steel sheet coil in the PRC, and the Agreement was concluded on normal commercial terms. Although the Agreement constituted a connected transaction for the purposes of Chapter 14A of the Listing Rules, each of the relevant percentages ratios is less than 2.5% for the purposes of rule 14A.32 of the Listing Rules. The Agreement was exempted from the independent shareholders’ approval requirement of the Listing Rules. An announcement dated 14 July 2004 of the Company was published to comply with the requirements of Chapter 14A of the Listing Rules. Disclosure will also be made in the annual report of the Company for the financial year ending 31 December 2004 to comply with the requirements of Chapter 14A of the Listing Rules.

DISCLOSEABLE TRANSACTION – POST BALANCE SHEET EVENT

Jinbocho Holdings Limited (“Jinbocho”), a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement dated 30 July 2004 (the “Agreement”) with Evergreen Suppliers Sdn. Bhd. (a company incorporated under the laws of Bermuda (“Evergreen”). Evergreen is an independent third party not connected with the Directors, chief executives and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates. According to the Agreement, Jinbocho will sell 2,306 shares in Asia Pacific Holdings (China) Limited (a company incorporated under the laws of the Commonwealth of The Bahamas) (“Asia Pacific”), representing 49% of its entire issued share capital and representing all the interest of the Group in Asia Pacific, to Evergreen. The principal asset of Asia Pacific is the holding of 100% registered capital of 亞太控股(攀枝花)鋼鐵有限公司 (Asia Pacific Holdings (Panzhihua) Iron & Steel Co. Ltd.), a company established under the laws of the PRC, which is principally engaged in the manufacturing and selling of hot-rolled stainless steel coils and owns a factory in Panzhihua City, Sichuan Province, the PRC.

The disposal is expected to complete on 10 December 2004 or such other date as agreed by Jinbocho and Evergreen. The total consideration for the disposal is HK\$182,000,000 and payable by Evergreen in the following manner:

- (i) a sum of HK\$36,400,000, being 20% of the consideration and as deposit and in part payment of the consideration, shall be paid within 14 days from the date on which the conditions precedent are satisfied;
- (ii) a total sum of HK\$109,200,000 on or before completion of the disposal; and
- (iii) a sum of HK\$36,400,000, being 20% of the consideration and as retention money, shall be paid on or before 30 June 2005, subject however that the net asset value of Asia Pacific as shown in the consolidated audited accounts of Asia Pacific for the year ending 31 December 2004 shall not be less than HK\$253,000,000. In the event that the net asset value of Asia Pacific as shown in the said consolidated audited accounts of Asia Pacific is less than a sum of HK\$253,000,000, Evergreen is entitled to deduct a sum equivalent to the shortfall on a dollar-to-dollar basis from the amount of consideration retained provided that during the period commencing from the date of the Agreement and ending on the date of completion of the disposal, the principal business of Asia Pacific and its subsidiary has remained unchanged and Asia Pacific has not declared any dividend or undertaken any activity to reduce its paid-up share capital.

Based on the unaudited management accounts of Asia Pacific and the best estimates of the management, the Directors consider the probability that the audited consolidated net asset value of Asia Pacific as of 31 December 2004 is less than HK\$253,000,000 is low.

DISCLOSEABLE TRANSACTION – POST BALANCE SHEET EVENT (continued)

The net proceeds of the disposal is expected to be amounting to approximately HK\$180,000,000. All of the net proceeds is expected to be used for general working capital purpose.

The disposal constitutes a discloseable transaction of the Company under the Listing Rules. A circular dated 18 August 2004 containing details about the Agreement and other relevant information has been despatched to shareholders.

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK3.5 cents per share (*2003: HK3.5 cents*) for the six months ended 30 June 2004 totalling HK\$14,834,000 (*six months ended 30 June 2003: HK\$13,949,000*) to the shareholders registered in the Company's Register of Members as at the close of business on 21 October 2004. The interim dividend will be paid on 9 November 2004 to the shareholders whose names appear on the Register of Members of the Company on 21 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 October 2004 to 21 October 2004, both days inclusive in order to determine those shareholders entitled to the proposed interim dividend, during which period no transfer of shares shall be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch registrar of the Company, Tengis Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on 18 October 2004.

INFORMATION ON SHARE OPTIONS

At the Annual General Meeting (the "AGM") of the Company held on 7 June 2002, an ordinary resolution was passed approving the adoption of a new share option scheme (the "Share Option Scheme – 2002") which complied with Chapter 17 of the Listing Rules on the Stock Exchange, and the termination of the share option scheme adopted by the Company on 4 September 1997 (the "Share Option Scheme – 1997"). All options granted prior to the termination of the Share Option Scheme – 1997 continue to be valid and exercisable.

At the AGM of the Company held on 6 June 2003, an ordinary resolution was passed approving the amendment to the Share Option Scheme – 2002 by expanding the definition of participants and refreshing the scheme's mandate limit. At the AGM of the Company held on 3 June 2004, an ordinary resolution was passed approving the refreshment of the scheme mandate limit. Pursuant to the Share Option Scheme – 2002 (Amended), participants (including Directors of the Group, employees, consultants and business associates) are entitled to be granted options to subscribe for shares in the Company.

INFORMATION ON SHARE OPTIONS (continued)

Participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares					Outstanding at 30 June 2004	Subscription price per share	Exercise period*
			Outstanding at 1 January 2004	Granted	Exercised	Cancelled	Lapsed			
Employees:										
Employee	Share Option Scheme – 1997	2 May 2000	900,000	-	-	-	-	900,000	HK\$1.128	2 May 2000 to 3 September 2007
Employees	Share Option Scheme – 2002	16 January 2003	11,400,000	-	3,800,000 (Note a)	-	-	7,600,000	HK\$1.056	16 January 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	24 September 2003	9,750,000	-	-	-	-	9,750,000	HK\$1.66	24 September 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	7 October 2003	10,500,000	-	-	-	-	10,500,000	HK\$1.999	7 October 2003 to 6 June 2012
							Total:	<u>28,750,000</u>		
Others:										
Consultant	Share Option Scheme – 2002	16 January 2003	3,800,000	-	3,800,000 (Note b)	-	-	0	HK\$1.056	16 January 2003 to 6 June 2012
Business Associates	Share Option Scheme – 2002 (Amended)	24 September 2003	19,500,000	-	-	3,900,000	-	15,600,000	HK\$1.66	24 September 2003 to 6 June 2012
							Total:	<u>15,600,000</u>		

Notes:

* Share options are vested from date of issue.

a. Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.

b. Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.

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

As at 30 June 2004, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions – in the Company

Name	Type of Interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the Company's issued share capital
Mr Yip Kim Po	Controlled corporation – Holylake Resources Limited (<i>Note a</i>)	Deemed interest	73,000,000	–	73,000,000	17.22
	Controlled corporation – Grecian Resources Limited (<i>Note b</i>)	Deemed interest	29,000,000	–	29,000,000	6.84
	Beneficial owner	100%	28,000,000	–	28,000,000	6.61
		Total:	<u>130,000,000</u>	<u>–</u>	<u>130,000,000</u>	<u>30.67</u>
Mr Hui Ho Ming, Herbert	Beneficial owner	100%	<u>7,050,000</u>	<u>–</u>	<u>7,050,000</u>	<u>1.66</u>
Mr Choy Tak Ho	Beneficial owner	100%	<u>240,000</u>	<u>–</u>	<u>240,000</u>	<u>0.06</u>
Mr Chau Po Fan	Beneficial owner	100%	<u>20,000</u>	<u>–</u>	<u>20,000</u>	<u>0.005</u>
Mr Kwan Yan	Beneficial owner	100%	<u>800,000</u>	<u>–</u>	<u>800,000</u>	<u>0.19</u>
Ms Yip Wan Fung	Beneficial owner	100%	<u>13,730,000</u>	<u>–</u>	<u>13,730,000</u>	<u>3.24</u>

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long position – in Ocean Grand Chemicals Holdings Limited (an associated corporation)

Name	Type of Interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the associated corporation’s issued share capital
Mr Kwan Yan	Beneficially owner	100%	148,000	–	148,000	0.03

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2004 were recorded in the register required to be kept under Section 352 of the SFO and the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 30 June 2004.

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Notes:

- a. *The issued shares of Holylake Resources Limited were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi respectively.*
- b. *The issued shares of Grecian Resources Limited were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi respectively.*

DIRECTORS’ RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2004, the interests or short positions of the substantial shareholders and other persons (other than those Directors or chief executives of the Company disclosed above) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position – Substantial Shareholder

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Holylake Resources Limited	Directly	73,000,000	17.22%

Long positions – Other Persons

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Allianz Aktiengesellschaft	Indirectly	25,600,000	6.04%
Mr Cheah Cheng Hye	Indirectly through Value Partners Limited	41,992,800	9.91%
Dresdner RCM Little Dragons Fund Limited	Directly	21,200,000	5.00%
Grecian Resources Limited	Directly	29,000,000	6.84%
Value Partners Limited	Investment manager	41,992,800	9.91%

Save as disclosed above, as at 30 June 2004, there was no person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

STAFF POLICY

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

The Group believes that human resources are the most valuable assets of all, and is committed to providing a friendly and stimulating working environment for performing staff members. Remuneration of employees is determined on a merit basis with no regard to sex, age or disability of employees. On-the-job training is provided to staff members where necessary. As at 30 June 2004, the Group employed, excluding Directors, a total of approximately 720 (31 December 2003: approximately 700) full time employees. About 90% of them are located in the PRC.

CHARGES ON GROUP ASSETS

Charges on the Group's assets are disclosed in note 17 to this interim report.

COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities are disclosed in notes 15 and 16 to this interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2004 (2003: Nil).

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee (the "Committee") of the Company were prepared and adopted with reference to "A Guide for The Formulation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants (former name "Hong Kong Society of Accountants").

The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness both of the external and internal audit, internal controls and risk evaluation. As at 30 June 2004, the Committee comprised Mr Choy Tak Ho (the chairman), Mr Chau Po Fan and Mr Lee Kwan Ho, Vincent Marshall.

The Committee has reviewed the relevant interim report and the financial statements of the Group for the six months ended 30 June 2004 and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Committee found no unusual items that were omitted from the financial statements for the six months period ended 30 June 2004 and was satisfied with the disclosures of data and explanations shown in the financial statements.

CODE OF BEST PRACTICE

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

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

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the Directors of the Company, all the Directors have confirmed that they had complied with the required standard set out in the Model Code during the accounting period covered by this interim report.

On behalf of the Board

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YIP Kim Po

Chairman

Hong Kong, 23 September 2004

Condensed Consolidated Financial Statements – Condensed Consolidated Income Statement

The Directors of the Company are pleased to announce the unaudited consolidated results of the Group for the Reporting Period together with the comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Income Statement – unaudited

	Note	For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	1,446,249	1,081,603
Cost of sales		(1,273,340)	(918,065)
Gross profit		172,909	163,538
Other revenue	2	3,005	5,234
Other net income	3	965	10,517
Distribution and selling expenses		(2,415)	(4,659)
General and administrative expenses		(43,373)	(42,828)
Other operating expenses		(7,807)	(27,115)
Profit from operations		123,284	104,687
Finance costs		(12,620)	(13,991)
Share of results of associates		8,150	14,708
Profit from ordinary activities before taxation	4	118,814	105,404
Taxation	5	(14,585)	(17,241)
Profit from ordinary activities after taxation		104,229	88,163
Minority interests		(16,003)	(8,642)
Net profit attributable to shareholders		88,226	79,521
Dividends attributable to the period	6	14,834	13,949
Earnings per share			
– Basic	7	HK21.1 cents	HK20.0 cents

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

Condensed Consolidated Statement of Changes in Equity – unaudited

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Opening balance – Total equity	1,122,760	942,499
Dividend approved in respect of previous year	(27,224)	(27,897)
Issue of shares upon exercise of share options	7,600	–
Premium arising from issue of shares upon exercise of share options	426	–
Exchange difference on translation of foreign subsidiaries	(14)	4,120
Profit for the period	88,226	79,521
Closing balance – Total equity	<u>1,191,774</u>	<u>998,243</u>

Condensed Consolidated Financial Statements – Condensed Consolidated Balance Sheet

Condensed Consolidated Balance Sheet

	Note	At 30 June 2004 (Unaudited) HK\$'000	At 31 December 2003 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	8	423,086	422,506
Intangible asset		6,181	7,132
Negative goodwill		(1,827)	(2,030)
Prepayments and deposits		125,618	49,571
Interests in associates	9	305,481	311,761
Investments in securities		3,019	3,019
Deferred tax assets		9,800	8,800
		871,358	800,759
Current assets			
Inventories		66,669	69,647
Trade and other receivables	10	697,940	591,614
Investments in securities		10,340	–
Pledged deposits		5,316	5,316
Cash and cash equivalents		482,676	471,548
		1,262,941	1,138,125
Current liabilities			
Short-term bank borrowings		353,788	359,272
Trade and other payables	11	145,965	79,585
Current portion of long-term bank borrowings		75,835	91,232
Current portion of obligations under finance leases		8,926	8,529
Current tax liabilities		6,866	14,492
		591,380	553,110
Net current assets		671,561	585,015
Total assets less current liabilities		1,542,919	1,385,774
Non-current liabilities			
Long-term bank borrowings		299,614	216,440
Obligations under finance leases		3,105	7,452
		302,719	223,892
Minority interests		48,426	39,122
NET ASSETS		1,191,774	1,122,760
CAPITAL AND RESERVES			
Issued capital	12	423,835	416,235
Reserves	14	767,939	706,525
		1,191,774	1,122,760

Condensed Consolidated Financial Statements – Condensed Consolidated Cash Flow Statement

Condensed Consolidated Cash Flow Statement – unaudited

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Net cash generated from operating activities	41,712	74,632
Net cash (used in) generated from investing activities	(96,952)	25,644
Net cash generated from (used in) financing activities	72,823	(3,607)
Net increase in cash and cash equivalents	17,583	96,669
Cash and cash equivalents at beginning of period	461,063	406,177
Cash and cash equivalents at end of the period	<u>478,646</u>	<u>502,846</u>
Analysis of cash and cash equivalents		
Bank balances and cash	482,676	509,026
Bank overdrafts	(4,030)	(6,180)
	<u>478,646</u>	<u>502,846</u>

Notes to Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements have been prepared in accordance with Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Statement of Standard Accounting Practice No. 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

The same accounting policies adopted in preparing the Company's annual financial statements for the year ended 31 December 2003 have been applied to the condensed consolidated interim financial statements.

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Turnover and revenue recognised by category are analysed as follows:

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods	1,380,736	1,044,682
Subcontracting fees	65,513	36,921
	1,446,249	1,081,603
Other revenue		
Interest income	1,712	1,628
Service fees	1,293	3,606
	3,005	5,234
Revenue	1,449,254	1,086,837

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

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

(a) By business segments

The Group comprises the following main business segments:

Aluminium: The manufacture and sale of aluminium extrusion products, aluminium alloy ingots and aluminium ingots.

Chemicals: The manufacture and sale of precious metal electroplating materials.

	Aluminium HK\$'000	Chemicals HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2004				
External sales	828,097	610,702	7,450	1,446,249
Other revenue	–	–	1,293	1,293
	<u>828,097</u>	<u>610,702</u>	<u>8,743</u>	<u>1,447,542</u>
Segment result	<u>76,667</u>	<u>56,323</u>	<u>375</u>	<u>133,365</u>
Unallocated operating income and expenses				(10,081)
Profit from operations				<u>123,284</u>
	Aluminium HK\$'000	Chemicals HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2003				
External sales	675,674	348,836	57,093	1,081,603
Other revenue	–	–	3,606	3,606
	<u>675,674</u>	<u>348,836</u>	<u>60,699</u>	<u>1,085,209</u>
Segment result	<u>70,921</u>	<u>54,346</u>	<u>8,595</u>	<u>133,862</u>
Unallocated operating income and expenses				(29,175)
Profit from operations				<u>104,687</u>

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)**(b) By geographical segments**

	For the six months ended 30 June 2004	
	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	800,381	32,449
Overseas	37,335	8,536
PRC	608,533	82,299
	1,446,249	123,284
	For the six months ended 30 June 2003	
	Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong	558,649	4,640
Overseas	35,088	7,572
PRC	487,866	92,475
	1,081,603	104,687

3. OTHER NET INCOME

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Gain on disposal of partial interest in a subsidiary	827	–
Gain on deemed disposal of subsidiaries	–	9,791
Sundry income	138	726
	965	10,517

The gain on deemed disposal of subsidiaries in 2003 was the gain recognised on the spin-off of the precious metal electroplating chemicals business on 30 June 2003.

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging (crediting) the following:

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Cost of inventories and services provided	1,273,340	918,065
Depreciation		
Owned assets	20,324	15,461
Assets held under finance leases	1,358	1,235
Staff costs	20,542	14,398
Provision for long outstanding trade receivables	7,800	–
Amortisation of positive goodwill included in share of results of associates	1,373	1,505
Amortisation of intangible asset (included in general and administrative expenses)	951	913
Amortisation of negative goodwill (included in general and administrative expenses)	(203)	–
Unrealised holding loss of other investments	–	25,052
Loss on disposal of other investments	–	2,063
	1,345,088	1,000,722

5. TAXATION

	For the six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Current taxation:		
– Hong Kong profits tax	1,101	2,091
– Overseas taxation	14,147	15,150
– Over-provision in prior year	(969)	–
Deferred taxation relating to the origination and reversal of temporary differences	(1,000)	–
	13,279	17,241
Share of taxation attributable to associates	1,306	–
	14,585	17,241

5. TAXATION (continued)

The Company is exempted from taxation in Bermuda until March 2016.

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

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, Hongli Aluminium (Foshan) Company Limited and Kenlap Fine Chemical (Zhuhai) Technology Company Limited are exempted from PRC state income tax and local income tax for two years starting from their first profit-making year of operation after offsetting prior year losses, followed by a 50% relief for the following three years.

6. INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK3.5 cents per share for the six months ended 30 June 2004 (2003: HK3.5 cents).

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six months ended 30 June 2004 was based on the consolidated profit attributable to shareholders of approximately HK\$88,226,000 (30 June 2003: HK\$79,521,000). The basic earnings per share is based on the weighted average number of 417,339,000 shares in issue (30 June 2003: 398,535,315 shares) during the period. The diluted earnings per share are not shown as they are not materially different from the basic earnings per share.

8. FIXED ASSETS

	HK\$'000
Cost or valuation	
At 1 January 2004	571,629
Additions	22,269
Disposals	(123)
At 30 June 2004	593,775
Accumulated depreciation	
At 1 January 2004	149,123
Charge for the period	21,682
Eliminated on disposal	(116)
At 30 June 2004	170,689
Net book value	
At 30 June 2004	423,086
At 1 January 2004	422,506

9. INTERESTS IN ASSOCIATES

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Share of net assets	121,351	155,800
Goodwill	46,665	48,038
	168,016	203,838
Advances to an associate	137,465	107,923
	305,481	311,761

The interests in associates represents the investment in Asia Pacific Holdings (China) Limited ("APH"), a group which is principally engaging in the hot-rolled stainless steel coil business. The advances to an associate are unsecured and have no fixed repayment terms. Except for an amount of HK\$29,792,000 (31 December 2003: HK\$29,792,000) which bears interest at market rate, the advances are non-interest bearing. During the period, a dividend of RMB45,227,000 (2003: RMB37,000,000) was received or receivable from APH.

On 30 July 2004, the Group entered into a sale and purchase agreement to dispose of its interest in the associate at a consideration of HK\$182 million. Details of the disposal are set out in the Management Discussion and Analysis – Report of the Directors in this Interim Report.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Trade receivables	664,984	548,120
Other receivables		
Deposits, prepayment and other debtors	32,956	43,494
	697,940	591,614

Most of the Group's turnover is on open account terms, while the remaining are on cash on delivery and letter of credit terms. The ageing analysis of trade receivables is as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Current (within 2 months)	348,579	342,964
2 to 3 months	142,196	77,662
More than 3 months but less than 12 months	173,916	127,076
More than 12 months but less than 24 months	293	418
	664,984	548,120

11. TRADE AND OTHER PAYABLES

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Trade payables	110,131	37,170
Other payables		
Accrued charges and other creditors	34,745	35,871
Due to minority shareholders	1,089	6,544
	<u>145,965</u>	<u>79,585</u>

The ageing analysis of trade payables is as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Current (within 1 month)	55,907	36,875
1 month to 3 months	38,657	–
More than 3 months but less than 12 months	15,548	295
More than 12 months but less than 24 months	19	–
	<u>110,131</u>	<u>37,170</u>

12. ISSUED CAPITAL

	At 30 June 2004		At 31 December 2003	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$1.00 each	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of period/year	416,235	416,235	398,535	398,535
Shares issued upon the exercise of share options	7,600	7,600	17,700	17,700
At balance sheet date	<u>423,835</u>	<u>423,835</u>	<u>416,235</u>	<u>416,235</u>

13. SHARE OPTIONS

Movement of share options during the six months ended 30 June 2004 was as follows:

Participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares					Outstanding at 30 June 2004	Subscription price per share	Exercise period ^a
			Outstanding at 1 January 2004	Granted	Exercised	Cancelled	Lapsed			
Employees:										
Employee	Share Option Scheme - 1997	2 May 2000	900,000	-	-	-	-	900,000	HK\$1.128	2 May 2000 to 3 September 2007
Employees	Share Option Scheme - 2002	16 January 2003	11,400,000	-	3,800,000 (Note a)	-	-	7,600,000	HK\$1.056	16 January 2003 to 6 June 2012
Employees	Share Option Scheme - 2002 (Amended)	24 September 2003	9,750,000	-	-	-	-	9,750,000	HK\$1.66	24 September 2003 to 6 June 2012
Employees	Share Option Scheme - 2002 (Amended)	7 October 2003	10,500,000	-	-	-	-	10,500,000	HK\$1.999	7 October 2003 to 6 June 2012
							Total:	28,750,000		
Others:										
Consultant	Share Option Scheme - 2002	16 January 2003	3,800,000	-	3,800,000 (Note b)	-	-	-	HK\$1.056	16 January 2003 to 6 June 2012
Business Associates	Share Option Scheme - 2002 (Amended)	24 September 2003	19,500,000	-	-	3,900,000	-	15,600,000	HK\$1.66	24 September 2003 to 6 June 2012
							Total:	15,600,000		

Notes:

* Share options are vested from date of issue.

a. Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.

b. Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.

14. RESERVES

Group	Share premium HK\$'000	Statutory reserves HK\$'000	Capital reserves HK\$'000	Capital redemption reserves HK\$'000	Property revaluation reserves HK\$'000	Exchange reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2003	112,963	23,519	41,903	581	37,369	(377)	349,976	565,934
Dividend approved in respect of previous year	-	-	-	-	-	-	(27,897)	(27,897)
Interim dividend approved	-	-	-	-	-	-	(14,302)	(14,302)
Premium arising from issue of shares upon exercise of share options	951	-	-	-	-	-	-	951
Goodwill previously eliminated against accumulated profits now released upon deemed disposal of subsidiaries	-	-	-	-	-	-	6,038	6,038
Reserve arising from issue of shares of a subsidiary to minority shareholders	-	-	36,016	-	-	-	-	36,016
Surplus on revaluation (net of deferred taxation and minority interests)	-	-	-	-	354	-	-	354
Exchange difference on translation of foreign subsidiaries	-	-	-	-	-	2,211	-	2,211
Share of reserves of associates	-	-	-	-	3,129	(758)	-	2,371
Reclassification to negative goodwill	-	-	(14,697)	-	-	-	-	(14,697)
Profits for the year	-	-	-	-	-	-	149,546	149,546
At 31 December 2003	113,914	23,519	63,222	581	40,852	1,076	463,361	706,525
Dividend approved in respect of previous year	-	-	-	-	-	-	(27,224)	(27,224)
Premium arising from issue of shares upon exercise of share options	426	-	-	-	-	-	-	426
Exchange difference on translation of foreign subsidiaries	-	-	-	-	-	(14)	-	(14)
Profit for the period	-	-	-	-	-	-	88,226	88,226
At 30 June 2004	<u>114,340</u>	<u>23,519</u>	<u>63,222</u>	<u>581</u>	<u>40,852</u>	<u>1,062</u>	<u>524,363</u>	<u>767,939</u>

15. COMMITMENTS**(a) Capital expenditure commitments**

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Contracted but not provided for, net of deposit paid	<u>119,446</u>	<u>17,909</u>

Subsequent to the balance sheet date, the Group entered into contracts for capital expenditure amounting to approximately HK\$10,000,000.

(b) Investment commitments

As at 30 June 2004, the Group had an outstanding commitment of HK\$70,000,000 (31 December 2003: HK\$96,000,000) in respect of the capital contribution to subsidiaries in the PRC.

16. CONTINGENT LIABILITIES**(a) Corporate guarantee**

During the Reporting Period, the Company provided corporate guarantees to banks, other financial institutions and a supplier in respect of banking facilities and other finance lease credits granted to and supply of goods to certain subsidiaries. At the balance sheet date, the banking facilities, other finance lease and supply credits granted to and utilised by the subsidiaries amounted to HK\$958,970,000 (31 December 2003: HK\$727,673,000) and HK\$609,924,000 (31 December 2003: HK\$570,500,000) respectively.

(b) Value-added tax ("VAT")

The Group has been paying Mainland China VAT at a concessionary basis of calculation as agreed with the local State Tax Bureau. The Group is contingently liable to pay VAT at the standard basis of calculation. Had the standard basis of calculation as stipulated by Mainland China tax law been strictly enforced, the VAT liability of the Group would be significantly increased. However, in the opinion of the Directors, such liability is unlikely to crystallise and it is not practicable to estimate such possible amount.

17. PLEDGE OF ASSETS

The banking facilities of the Group were secured by corporate guarantees provided by the Company, a floating charge on the bank balances of a subsidiary amounted to HK\$5,316,000 (31 December 2003: HK\$5,316,000), and pledge of properties with net book value of approximately HK\$7,338,000 (31 December 2003: HK\$7,700,000). The floating charge on the bank balances was released subsequent to the balance sheet date.

18. RELATED PARTY TRANSACTION

A subsidiary entered into an agreement with a related party to purchase goods amounting to approximately US\$869,600 (approximately HK\$6,800,000) in July 2004 for resale to a third party customer.

19. COMPARATIVE FIGURES

Certain comparative figures for the period ended 30 June 2003 have been reclassified to conform with the current period's presentation.