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# Corporate Information

## BOARD OF DIRECTORS

Mr YIP Kim Po (Chairman), *FHKIoD*  
 Mr HUI Ho Ming, Herbert (Deputy Chairman),  
*JP, FHKIoD*  
 The Honourable CHEUNG Yu-yan,  
 Tommy, *JP \**  
*(appointed w.e.f. 8 September 2004)*  
 Mr LAU Ping  
 Mr LIN Jianping  
 Dr LO Wing Yan, William, *JP \**  
 Mr WAN Ngar Yin, David \*  
*(appointed w.e.f. 8 September 2004)*  
 Mr YE H V-nee #

- \* Independent Non-Executive Director,  
Member of the Audit Committee.
- # Formerly, an Independent Non-Executive Director.  
Re-designated as a Non-Executive Director w.e.f.  
8 September 2004. Member of the Audit Committee.

## COMPANY SECRETARY

Ms CHAN Chik Ching, Olivia

## SOLICITORS

Deacons  
 Lily Fenn & Partners

## AUDITORS

Moore Rowland Mazars

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
 Corporation Limited  
 Hang Seng Bank Limited  
 HSH Nordbank AG  
 Bangkok Bank Public Company Limited,  
 Hong Kong Branch  
 Nanyang Commercial Bank, Ltd.  
 Wing Lung Bank, Ltd.

## PRINCIPAL OFFICE

Workshop Unit No. 4  
 5/F, Harbour Centre Tower 1  
 No. 1 Hok Cheung Street  
 Hung Hom, Kowloon, Hong Kong

## FACTORY IN CHINA

No. 1 Ping Xi 4th Road  
 Nanping Technology Zone  
 Zhuhai, Guangdong  
 The People's Republic of China

## REGISTERED OFFICE

Clarendon House  
 2 Church Street  
 Hamilton HM11  
 Bermuda

## PRINCIPAL REGISTRAR

The Bank of Bermuda Limited  
 6 Front Street  
 Hamilton HM11  
 Bermuda

## HONG KONG BRANCH REGISTRAR

Tengis Limited  
 G/F, BEA Harbour View Centre  
 56 Gloucester Road, Wanchai, Hong Kong

## STOCK CODE

2882

## HOMEPAGE

<http://www.ogchemicals.com>

## INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited

# Management Discussion and Analysis

## - Chairman's Letter to Shareholders

Dear shareholders

On behalf of the Board of Directors (the "Board") of Ocean Grand Chemicals Holdings Limited ("Ocean Grand Chemicals" or the "Company") and its subsidiaries (the "Group"), I am delighted to report the results of the Group for the six months ended 30 September 2004 (the "Reporting Period").

### RESULTS OF THE REPORTING PERIOD

Turnover of the Group in the Reporting Period reached HK\$530,016,000 (*six months ended 30 September 2003: HK\$256,717,000*), representing an increase of 106% as compared with the corresponding period in 2003. Gross profit for the Reporting Period was increased by 45% to HK\$68,484,000 (*six months ended 30 September 2003: HK\$47,322,000*) while net profit has posted an increase of 31% to HK\$39,099,000 (*six months ended 30 September 2003: HK\$29,765,000*).

### BUSINESS REVIEW

During the Reporting Period, the Group has according to the laid down strategy and development plan, increased production output, enhanced marketing and distribution network and expanded promotional activities. Business review on various areas is as follows:

#### Production and Subcontracting

Turnover of production and subcontracting in total amounted to HK\$174,321,000 during the Reporting Period, representing growth of 6% over that of last year. In line with the increase in production capacity utilisation of the plant in Zhuhai, the subcontracting business is now completely undertaken by the Zhuhai plant whereas in the past an independent subcontractor was engaged. Bringing the subcontracting business in house has significantly improved the margin of this line of business.



Products



Control Panel



Workshop

# Management Discussion and Analysis

## - Chairman's Letter to Shareholders

### BUSINESS REVIEW (continued)

#### Trading

In view of the successful marketing efforts coupled with the tremendous growth in demand of precious metal electroplating chemicals in China, the Group's trading business during the Reporting Period has shown an increase of more than 2.8 times to reach a record of HK\$355,695,000. Profit margins for the various products traded by the Group in the Reporting Period has remained stable as compared with previous years.

#### Others

The Group has started expanding into the South East Asia market during the Reporting Period by supplying silver salt to factories of leading multinational electronics companies in Malaysia. If everything is carried out according to schedule, the business can be expanded to other products.

The Group's research and development team has during the Reporting Period continued to develop new products with market potentials including, for example, sodium gold sulphite and silver cyanide.

During the Reporting Period, the Group has also invited professors and specialists in Chemical Engineering and Environmental Protection Faculty of leading universities in China to our Zhuhai factory for site visits and discussion of joint work.

The setting up of the silver nitrate production line and the electroplating fluid recovery line are in process, and the management of the Group expects that they will be operative by middle of 2005.

The Group is in the final stage of negotiation with the Department of Chemistry of the University of Hong Kong regarding the joint application for the Innovation and Technology Fund provided by the Hong Kong SAR Government on the research of the technology improvement of precious metal recovery from industrial effluents.

### BUSINESS PROSPECT

The Group remains optimistic about its order book, business outlook and prospect. With China continuing on its path to become the biggest production base of light industries of the world (including clocks and watches, jewellery, circuit board and other electronic products), the growth in demand for precious metal electroplating chemicals in China is expected to continue.

Looking into the future, the Group's plant in Zhuhai will continue to seize the advantages of being the largest precious metal electroplating chemical producer in China, broaden the varieties of products, enhance their quality, and continue to improve its production efficiency.

The Group will continue to capitalise on its first-mover advantage and broaden the types and improve the quality of its products and services as well as extend its market coverage, so that it will become the premier supplier of precious metal chemical products in the region.

**Yip Kim Po**

*Chairman*

Hong Kong, 13 December 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 September 2004, the net current assets of the Group were HK\$274,301,000 (*31 March 2004: HK\$276,297,000*). Within the current assets, HK\$117,348,000 (*31 March 2004: HK\$83,014,000*) was in the form of free cash and cash equivalents, all in HK\$ and RMB.

Net cash generated from operating activities has reached HK\$27,604,000 (*six months ended 30 September 2003: net cash used in operating activities HK\$111,571,000*) due to better trade receivables and payables management.

During the Reporting Period, the Group generally financed its operations with internally generated resources and banking facilities. As at 30 September 2004, shareholders' fund of the Group was HK\$272,213,000 (*31 March 2004: HK\$252,114,000*), while aggregate composite banking facilities was approximately HK\$424,364,000 (*31 March 2004: HK\$357,058,000*), of which approximately HK\$231,964,000 (*31 March 2004: HK\$216,030,000*) had been utilised. This gave rise to a gross debt gearing (i.e. total bank borrowings/net assets) of 85.2% (*31 March 2004: 85.7%*). Approximately 50.2% of the debt financing of the Group outstanding as at 30 September 2004 was due within 12 months.

The Company has not issued any shares during the Reporting Period and up to the date of this 2004 interim report.

#### Foreign exchange risk and interest rate risk

The majority of the transactions of the Group is denominated in either HK\$, RMB and US\$. Owing to the pegs of RMB and HK\$ to US\$, in the opinion of the management, the Group's exposure to foreign exchange risk is insignificant. Accordingly, no derivative product is used to hedge the foreign exchange risk.

All bank borrowings of the Group are in HK\$ and RMB and are on a floating rate basis. Given that the gross debt gearing of the Group as at 30 September 2004 was only 85.2%, the management is of the view that the Group is not subject to any significant interest rate risk.

#### Segmental information

Details of segmental information are set out in note 2 to this 2004 interim report. The subcontracting segment, in which precious metals are provided by customers for processing, remains the most lucrative segment in our business. Margins in all segments remain quite stable during the Reporting Period.

# Management Discussion and Analysis

## - Report of the Directors

### **CAPITAL EXPENDITURE PLAN**

The Group is seeking approval from the local authority to construct a new building adjacent to its main building in Zhuhai to house the silver nitrate production line as well as other new production lines. Total capital expenditure budget is around HK\$80,000,000 and the funding has already been secured.

### **INTERIM DIVIDEND**

The Directors recommend the payment of an interim dividend of HK3 cents per share (*2003: HK2 cents per share*) representing a dividend payout ratio of 36%, for the six months ended 30 September 2004, totalling approximately HK\$14,250,000 to the shareholders registered in the Company's Register of Members as at the close of business on 7 January 2005. The interim dividend will be paid on 16 February 2005 to the shareholders whose names appear on the Register of Members of the Company on 7 January 2005.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 5 January 2005 to 7 January 2005, 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 4 January 2005.

# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTIONS

At the Annual General Meeting (the “AGM”) of the Company held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme (the “Share Option Scheme”) which complied with Chapter 17 of the Rules Governing the Listing of Securities (the “Listing Rules”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). At the AGM of the Company held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme mandate limit.

Movement of share options during the six months ended 30 September 2004:

Eligible Participant	Date of grant	Number of share options to subscribe for shares					Outstanding at 30 September 2004	Subscription price per share	Exercise period*
		Outstanding at 1 April 2004	Granted	Exercised	Cancelled	Lapsed			
Employees	9 February 2004	37,600,000 (Note a)	-	-	(28,200,000)	(4,700,000)	4,700,000	HK\$1.38	9 February 2004 – 3 September 2013
Employees	21 July 2004	-	9,400,000 (Note b)	-	(4,700,000)	-	4,700,000	HK\$0.97	21 July 2004 – 3 September 2013
Total:							9,400,000		
Business Associates	9 February 2004	9,400,000 (Note a)	-	-	-	(9,400,000)	0	HK\$1.38	9 February 2004 – 3 September 2013
Business Associate	21 July 2004	-	4,700,000 (Note b)	-	-	-	4,700,000	HK\$0.97	21 July 2004 – 3 September 2013
Total:							4,700,000		

Notes:

\* Share options are vested from date of issue.

a. The closing price per share of the Company immediately before 9 February 2004 on which the options were granted was HK\$1.40.

b. The closing price per share of the Company immediately before 21 July 2004 on which the options were granted was HK\$0.96.



# Management Discussion and Analysis

## - Report of the Directors

### INFORMATION ON SHARE OPTIONS (continued)

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the Reporting Period because the Directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

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

As at 30 September 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 'Securities Dealing Code' adopted by the Company were as follows:

#### Long position –

Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total interests
Mr Yip Kim Po	–	–	–	Note	Note
Mr Hui Ho Ming, Herbert	–	–	–	Note	Note
The Honourable Cheung Yu-yan, Tommy	–	–	–	–	–
Mr Lau Ping	–	–	–	–	–
Mr Lin Jianping	–	–	–	–	–
Dr Lo Wing Yan, William	–	–	–	–	–
Mr Wan Ngar Yin, David	–	–	–	–	–
Mr Yeh V-nee	–	–	–	–	–

Note:

*Successful Gold Profits Limited is a holder of 355,196,000 shares in the Company. Successful Gold Profits Limited is a wholly-owned subsidiary of Ocean Grand Holdings Limited. Ocean Grand Holdings Limited, by virtue of the SFO, is deemed to be interested in all the shares in which Successful Gold Profits Limited is interested.*

*The securities of Ocean Grand Holdings Limited are listed on the Main Board of the Stock Exchange. As at 30 September 2004, Mr Yip Kim Po and Mr Hui Ho Ming, Herbert directly and indirectly held 130,000,000 shares and 7,050,000 shares respectively (approximately 30.67% and 1.66% respectively) of the issued share capital of Ocean Grand Holdings Limited.*

Save as disclosed above, the Company had no notice of any interests and short positions in the shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).



# Management Discussion and Analysis

## - Report of the Directors

### 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", 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 September 2004, the interests or short positions of the substantial shareholders and other person (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 Shareholders

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Ocean Grand Holdings Limited	Indirectly through Successful Gold Profits Limited	355,196,000	74.78%
Successful Gold Profits Limited	Directly	355,196,000	74.78%

#### Long position – Other Person

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Martin Currie Inc.	Investment Adviser	40,160,000	8.45%

Save as disclosed above, as at 30 September 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.

# Management Discussion and Analysis

## - Report of the Directors

### STAFF POLICY

Staff costs are disclosed in note 3 to this 2004 interim report.

The management firmly believes that an organisation's most precious asset is its staff. The Group offers competitive remuneration packages at market level to staff members who render satisfactory performance. Top performers might receive further incentives at the absolute discretion of the management. Adequate and in-depth on-the-job training is provided to all employees to facilitate the performance of their duties. As at 30 September 2004, the Group had approximately 100 (*31 March 2004: approximately 100*) full-time employees.

### PLEDGE OF ASSETS

Details of pledge of assets are disclosed in note 13 to this 2004 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 September 2004 (*2003: Nil*).

### AUDIT COMMITTEE

The terms of reference based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants (former name "Hong Kong Society of Accountants") in February 2002 was adopted by the Board to deal clearly with the authority and duties of the Audit Committee (the "Committee").

The Committee's principal duties is to review and supervise of the Group's financial reporting process and internal controls. As at 30 September 2004, the Committee comprised Mr Wan Ngar Yin, David (the chairman), the Honourable Cheung Yu-yan, Tommy, Dr Lo Wing Yan, William and Mr Yeh V-nee.

The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2004.

# Management Discussion and Analysis

## - Report of the Directors

### 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 2004 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 'Securities Dealing Code' regarding Directors' securities transactions on terms no less exacting than the required standard set out in 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 'Securities Dealing Code' during the accounting period covered by this 2004 interim report.

On behalf of the Board

**Yip Kim Po**

*Chairman*

Hong Kong, 13 December 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

		Six months ended 30 September	
	Note	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>	2	<b>530,016</b>	256,717
Cost of sales		(461,532)	(209,395)
Gross profit		<b>68,484</b>	47,322
Other income		<b>81</b>	262
General and administrative expenses		(16,149)	(9,780)
Other operating expenses		(4,243)	(6,628)
Provision for long outstanding trade receivables		(3,607)	–
<b>Profit from operations</b>		<b>44,566</b>	31,176
Finance costs		(4,667)	(1,411)
<b>Profit from ordinary activities before taxation</b>	3	<b>39,899</b>	29,765
Taxation	4	(800)	–
<b>Net profit attributable to shareholders</b>		<b>39,099</b>	29,765
<b>Dividends attributable to the period</b>	5	<b>14,250</b>	9,500
<b>Earnings per share – Basic</b>	6	<b>HK8.23 cents</b>	HK6.80 cents

# Condensed Consolidated Financial Statements

## - Condensed Consolidated Statement of Changes in Equity

### Condensed Consolidated Statement of Changes in Equity – unaudited

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Opening balance – Total equity	252,114	154,828
Dividend approved in respect of previous year	(19,000)	(19,000)
Shares issue under the Initial Public Offering (the “IPO”) on the Company’s shares	–	7,850
Premium on issuance of shares from the IPO	–	61,230
Expenditure on issuance of shares from the IPO	–	(13,208)
Exchange difference on translation of the financial statements of a foreign subsidiary	–	98
Profit for the period	39,099	29,765
	20,099	66,735
Closing balance – Total equity	272,213	221,563

# Condensed Consolidated Financial Statements

## - Condensed Consolidated Balance Sheet

### Condensed Consolidated Balance Sheet

	Note	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		4,800	4,800
Property, plant and equipment	7	96,700	92,911
Intangible asset		5,953	7,132
Prepayment and deposits		5,916	974
		<b>113,369</b>	<b>105,817</b>
<b>Current assets</b>			
Inventories		26,997	11,658
Trade and other receivables	8	385,498	335,169
Tax recoverable		27	27
Bank balances and cash		117,348	83,014
		<b>529,870</b>	<b>429,868</b>
<b>Current liabilities</b>			
Trade and other payables	9	138,152	66,960
Short-term bank borrowings		98,779	80,397
Current portion of long-term bank borrowings		17,728	5,633
Current tax liabilities		910	581
		<b>255,569</b>	<b>153,571</b>
<b>Net current assets</b>		<b>274,301</b>	<b>276,297</b>
<b>Total assets less current liabilities</b>		<b>387,670</b>	<b>382,114</b>
<b>Non-current liabilities</b>			
Long-term bank borrowings		115,457	130,000
<b>NET ASSETS</b>		<b>272,213</b>	<b>252,114</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	10	47,500	47,500
Reserves	11	224,713	204,614
		<b>272,213</b>	<b>252,114</b>

# Condensed Consolidated Financial Statements

## - Condensed Consolidated Cash Flow Statement

### Condensed Consolidated Cash Flow Statement – unaudited

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Cash generated from (used in) operations	31,501	(91,315)
Dividend paid	–	(19,000)
Interest received	225	164
Interest paid	(3,651)	(1,411)
Hong Kong profits tax paid	(471)	(9)
<b>Net cash generated from (used in) operating activities</b>	<b>27,604</b>	<b>(111,571)</b>
<b>INVESTING ACTIVITIES</b>		
Deposits paid for purchase of plant and equipment	(5,267)	(98)
Purchase of plant and equipment	(8,145)	(2,744)
Repayment from fellow subsidiaries	4,316	–
<b>Net cash used in investing activities</b>	<b>(9,096)</b>	<b>(2,842)</b>
<b>FINANCING ACTIVITIES</b>		
Net receipt of short-term bank borrowings	18,382	16,168
New long-term bank borrowings	431	4,993
Repayment of long-term bank borrowings	(2,879)	(980)
Net proceeds from issue of shares	–	69,080
Expenditures on issue of shares	–	(8,157)
Net advances from a fellow subsidiary	–	5,495
Net repayment to the immediate holding company	(108)	(1,295)
<b>Net cash generated from financing activities</b>	<b>15,826</b>	<b>85,304</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>34,334</b>	<b>(29,109)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>83,014</b>	<b>36,635</b>
<b>Cash and cash equivalents at balance sheet date</b>	<b>117,348</b>	<b>7,526</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	117,348	7,526



# 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 on the Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (former name "Hong Kong Society of Accountants").

The same accounting policies adopted in preparing the Company's annual financial statements for the year ended 31 March 2004 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:

		Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>			
Sale of goods		487,739	216,698
Subcontracting fees		42,277	40,019
<b>Revenue</b>		<b>530,016</b>	<b>256,717</b>

# Notes to Condensed Consolidated Financial Statements

## 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'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	Subcontracting HK\$'000	Consolidated HK\$'000
<b>Six months ended 30 September 2004</b>				
External sales	132,044	355,695	42,277	530,016
Segment result	4,420	16,356	40,278	61,054
Unallocated operating income and expenses				(16,488)
Profit from operations				44,566
<b>Six months ended 30 September 2003</b>				
External sales	123,809	92,889	40,019	256,717
Segment result	5,792	6,104	35,426	47,322
Unallocated operating income and expenses				(16,146)
Profit from operations				31,176

## Notes to Condensed Consolidated Financial Statements

### 2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

#### (b) By geographical segments

		Six months ended 30 September 2004	
		Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong		254,561	2,109
PRC		274,565	42,395
South East Asia (excluding Hong Kong and the PRC)		890	62
		<b>530,016</b>	<b>44,566</b>

  

		Six months ended 30 September 2003	
		Revenue from external customers HK\$'000	Contributions to profit from operation HK\$'000
Hong Kong		152,726	(5,583)
PRC		103,991	36,759
		<b>256,717</b>	<b>31,176</b>

# Notes to Condensed Consolidated Financial Statements

## 3. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Cost of inventories and services provided	461,532	209,395
Depreciation	4,356	3,118
Staff costs	7,467	5,862
Amortisation of intangible assets	1,179	1,093
Donation	244	1,500

## 4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the six months period ended 30 September 2004. No Hong Kong profits tax had been provided for the six months ended 30 September 2003 as the Group did not have any assessable profit during the period.

Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai"), a wholly foreign-owned enterprise established in Zhuhai, is exempted from the PRC income taxes for two years starting from the first year of profitable operations, followed by a 50% reduction for the following three years. Kenlap Zhuhai commenced operation in January 2003.

## 5. INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK3 cents per share for the six months ended 30 September 2004 (2003: HK2 cents).

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2004 was based on the consolidated profit attributable to shareholders of approximately HK\$39,099,000 (30 September 2003: HK\$29,765,000) and on the weighted average number of 475,000,000 ordinary shares of the Company in issue during the period (2003: 437,680,328 shares).

The diluted earnings per share for the six months ended 30 September 2004 has not been presented as it is not materially different from the basic earnings per share.

The diluted earnings per share for the six months ended 30 September 2003 has not been presented as the Company did not have any dilutive potential shares in issue during the period.

# Notes to Condensed Consolidated Financial Statements

## 7. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
<b>Cost</b>	
As at 1 April 2004	100,563
Additions	8,145
As at 30 September 2004	108,708
<b>Accumulated depreciation</b>	
As at 1 April 2004	7,652
Charge for the period	4,356
As at 30 September 2004	12,008
<b>Net book value</b>	
As at 30 September 2004	96,700
As at 1 April 2004	92,911

## 8. TRADE AND OTHER RECEIVABLES

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
<b>Trade receivables (note 8a)</b>	374,767	318,001
<b>Other receivables</b>		
Deposits, prepayment and other debtors	10,497	12,726
Due from immediate holding company (note 8b)	234	126
Due from a fellow subsidiary (note 8b)	–	4,316
	10,731	17,168
	385,498	335,169

# Notes to Condensed Consolidated Financial Statements

## 8. 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:

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
Current (within 1 month)	91,185	118,988
1 month to 2 months	65,649	84,264
2 months to 3 months	59,926	52,593
3 months to 4 months	63,024	19,772
4 months to 6 months	71,023	27,606
6 months to 12 months	28,623	23,230
More than 12 months but less than 24 months	8,600	1,204
	<b>388,030</b>	<b>327,657</b>
Less: Provision for long outstanding trade receivables	<b>(13,263)</b>	<b>(9,656)</b>
	<b>374,767</b>	<b>318,001</b>

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

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

## 9. TRADE AND OTHER PAYABLES

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
<b>Trade payables</b>	<b>109,698</b>	<b>61,577</b>
<b>Other payables</b>		
Accrued charges and other creditors	9,021	4,950
Due to the immediate holding company	433	433
Dividend payable	19,000	–
	<b>28,454</b>	<b>5,383</b>
	<b>138,152</b>	<b>66,960</b>

## Notes to Condensed Consolidated Financial Statements

### 9. TRADE AND OTHER PAYABLES (continued)

The ageing analysis of trade payables is as follows:

	At 30 September 2004 HK\$'000	At 31 March 2004 HK\$'000
Current (within 1 month)	50,704	42,746
1 month to 2 months	34,061	18,828
2 months to 3 months	24,933	3
	<b>109,698</b>	<b>61,577</b>

### 10. ISSUED CAPITAL

At 30 September 2004 &  
31 March 2004

**Authorised:**

Ordinary shares of HK\$0.10 each

**Issued and fully paid:**

Shares issued and allotted fully paid

Number of shares	Amount HK\$'000
1,000,000,000	100,000
<b>475,000,000</b>	<b>47,500</b>



# Notes to Condensed Consolidated Financial Statements

## 11. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2003	–	667	33,706	120,232	154,605
Final dividend for previous year	–	–	–	(19,000)	(19,000)
Premium on issuance of shares from the IPO	61,230	–	–	–	61,230
Expenditure on issuance of shares from the IPO	(13,208)	–	–	–	(13,208)
Capitalisation issue	(39,427)	–	–	–	(39,427)
Exchange difference on translation of the financial statements of a foreign subsidiary	–	98	–	–	98
Profit for the period	–	–	–	29,765	29,765
At 30 September 2003	8,595	765	33,706	130,997	174,063
At 1 April 2004	8,595	36	33,706	162,277	204,614
Final dividend for previous year	–	–	–	(19,000)	(19,000)
Profit for the period	–	–	–	39,099	39,099
At 30 September 2004	8,595	36	33,706	182,376	224,713

## 12. CONTINGENT LIABILITIES

- (a) During the Reporting Period, 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\$424,364,000 (31 March 2004: HK\$357,058,000) and HK\$231,964,000 (31 March 2004: HK\$216,030,000).
- (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 Condensed Consolidated Financial Statements

### 13. PLEDGE OF ASSETS

The banking facilities of the Group were secured by corporate guarantees provided by the Company and pledge of properties and machinery with net book value of approximately HK\$7,323,000 (*31 March 2004: HK\$7,352,000*).

### 14. CAPITAL EXPENDITURE COMMITMENT

As at 30 September 2004, the Group had capital expenditure commitment contracted but not provided for net of deposit paid amounting to HK\$17,903,000 (*31 March 2004: HK\$18,389,000*). The Group is planning to invest around HK\$80,000,000 in setting up two new production lines, being the silver nitrate production line and the electroplating fluid recovery line, in the coming year.