Corporate Information

BOARD OF DIRECTORS

Mr YIP Kim Po *(Chairman)*, FHKIoD
Mr HUI Ho Ming, Herbert, JP, FHKIoD
(Deputy and Vice Chairman)
Mr CHOY Tak Ho*
Mr CHAU Po Fan*
Mr KWAN Man Wai (appointed on 12 July 2005)
Mr KWAN Yan
Mr LEE Kwan Ho, Vincent Marshall*
Mr LI Lee Cheung
Ms YIP Wan Fung

* Independent Non-Executive Director

AUDIT COMMITTEE

Mr LEE Kwan Ho, Vincent Marshall *(Chairman)*
Mr CHOY Tak Ho
Mr CHAU Po Fan

REMUNERATION COMMITTEE

Mr CHOY Tak Ho *(Chairman)*
Mr CHAU Po Fan
Mr LEE Kwan Ho, Vincent Marshall

COMPANY SECRETARY

Mr LO Hang Fong

SOLICITORS

Charltons
P. C. Woo & Co.

AUDITORS

PricewaterhouseCoopers
(appointed on 14 February 2006)
Moores Rowland Mazars
(resigned on 17 January 2006)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
ABN-AMRO Bank N.V.
Bangkok Bank Public Company Limited
Bank of Communications Hong Kong Branch
WestLB AG
Banca di Roma Hong Kong Branch
The Bank of East Asia, Limited
Hang Seng Bank Limited
Nanyang Commercial Bank, Ltd

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

PRINCIPAL REGISTRAR

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

HONG KONG BRANCH REGISTRAR

Tengis Limited
26th Floor, Tesbury Centre
28 Queen’s Road East, Wanchai, Hong Kong

STOCK CODE

1220

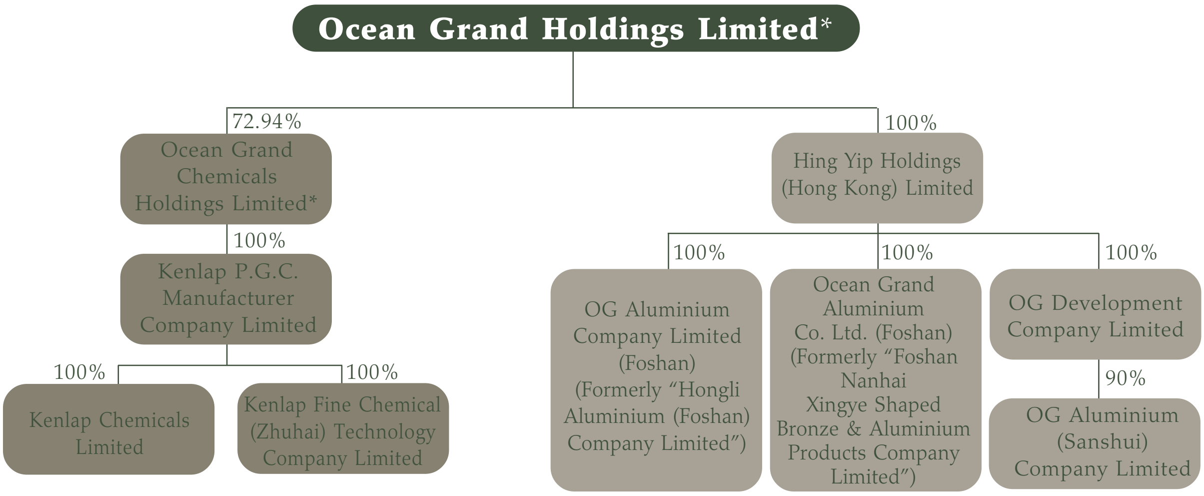
HOMEPAGE

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

– Precious metal electroplating chemicals business
– Aluminium business

Management Discussion and Analysis – Chairman's Letter to Shareholders

Dear Shareholders,

I have pleasure to report to you the results of Ocean Grand Holdings Limited (the "Company") and its subsidiaries (collectively the "Group" or "Ocean Grand") for the 12 months ended 31 December 2005 (the "Reporting Period"). This second interim report is prepared due to the change of financial year end date of the Company from 31 December to 31 March to align with that of other members of the Group so as to facilitate the preparation of consolidated accounts of the Group and to effectively use the Group's resources.

HIGHLIGHTS

2005 was a year of infrastructural development for the Group. Both the aluminium and electroplating chemicals businesses have undergone infrastructural developments to increase our existing capacities in order to meet the growing demands from our customers in those sectors. Substantial resources have been devoted to the construction of the aluminium extrusion plant in Sanshui and capacity augmentation to our existing electroplating chemicals plant in Zhuhai.

2005 was also a year when we strengthened our capital base substantially through the successful issue of an international offering of 5-year US$125 million notes with the assistance of ABN-AMRO Bank N.V., which was very well received by the market both during the launch and in the secondary trading market. The notes issue enables us to maintain a strong cash position of over HK$1.2 billion as at 31 December 2005 to adequately support our future capital expenditure, working capital requirement and business development needs while retiring some of our short-term borrowings thereby improving our liquidity, our debt maturity profile and the match between the tenor and cash flow of our investment and financing. The management is of the view that the exercise paves the way for future avenue of obtaining financing from the international bond market which will be invaluable to the long-term development of Ocean Grand. This point is better illustrated by the fact that Ocean Grand was able to tap the bond market for another US$35 million three months after the first issue at a yield 87.5 basic points lower than the yield of the first issue.

The infrastructural projects, the international notes issues and the disposal of the stainless steel business in late December 2004 are essential strategic developments for the Group. The infrastructural projects are progressing on schedule. As at the date of this report, the 50,000 metric tonnes per annum aluminium alloy ingot production line and the 65,000 metric tonnes (with room to increase the maximum capacity to 100,000 metric tonnes) per annum aluminium billet production line of our Sanshui factory are already in operation. The first batch of aluminium extrusion equipment is scheduled to be delivered to the site in April 2006 and hopefully will be in operation in the third quarter this year. Our new vertical powder-coating, vertical electrostatic-coating and anodising lines are expected to be up and running also in the third quarter. Regarding our Zhuhai factory, by equipment replacement and modification, the annual capacities of our silver salt and palladium salt production lines have been increased by 75% and 100% respectively with effect from January 2006.

HIGHLIGHTS (continued)

However, these strategic developments were not achieved without costs. While creating significant value in focusing the Group on its core businesses and streamlining its management structure, the disposal of the stainless steel business means that the Group will no longer enjoy its contribution to net profits in the Reporting Period, which in 2004 amounted to approximately HK$26.6 million. Furthermore, utilisation of the production lines in the Zhuhai factory has to be reduced to approximately 60% in order to facilitate the infrastructural work of the expansion, thereby affecting our production cycle, business volume and gross profit. In addition, certain non-recurring costs, including approximately HK$8 million relating to the early repayment of syndicated bank loans which is absorbed into the finance costs, have been incurred during the Reporting Period for undertaking the notes issue.

Generally speaking, there were a temporary increase in costs and diversion of management time and resources which affected our net profits in the Reporting Period. However, the effect is within our expectation and we are confident that through these developments we have built a solid foundation for Ocean Grand to reap the benefits in the next financial year.

To complement the Group's increasing business focus in the international markets and to cater to the needs of our international stakeholders which include our clients, investors and bankers, the Board of Directors has recommended appointing one of the major international accounting firms, PricewaterhouseCoopers, as the auditors of the Group during the Reporting Period. The appointment was duly approved by the shareholders on 14 February 2006 and the management would like to take this opportunity to thank Moores Rowland Mazars, our previous auditors, for their professional services in the past few years.

RESULTS OF THE REPORTING PERIOD

Riding on the momentum of a robust demand for our products and a significant appreciation of aluminium and precious metal prices close to the end of the Reporting Period which is mostly transferred to our customers through a corresponding increase in the sales price of our products, turnover of the Group in the Reporting Period has reached a record high of HK$3,044,505,000 *(2004: HK$2,832,638,000)*.

As mentioned earlier, while we are becoming increasingly confident about the prospect of the Group as the investment in the past 18 months is beginning to bear fruit, it is inevitable that the costs of executing our strategic growth plan have an adverse effect on our short-term results, especially when compared with the results of previous periods. The three tactical developments as set out in the first interim report for the results of the Group for the 6 months ended 30 June 2005 are still relevant in this Reporting Period. First, in 2004 our stainless steel business had contributed HK$22,125,000 to the Group's profit and its disposal had generated HK$4,482,000 in gain on disposal of an associate. There was no corresponding contribution to the Group's profit in 2005. Second, the finance costs in 2004 were very low due to an environment of extremely low interest rate. The rise in interest rate in 2005, together with an increase in borrowings to finance our long-term investment, have resulted in our finance costs increasing from HK$31,484,000 in 2004 to HK$73,970,000 in the Reporting Period. Third, production capacity utilisation of the Zhuhai factory during the Reporting Period had dropped to make way for the construction work, which was completed by the end of December 2005, resulting in a decrease in gross profit in the Reporting Period.

RESULTS OF THE REPORTING PERIOD (continued)

In response to the short-term challenges presented by these tactical developments, Ocean Grand has implemented cost control measures to manage its cost base. One thing which is worth noting is that the notes issue has changed a substantial portion of the Group's borrowings into fixed interest rate exposure, therefore the Group is effectively shielded from the adverse effect of future interest rate hike. In addition, we have also implemented tighter controls over our bad debt risks and compressed our trade receivables with an age of over four months from 11.3% of total trade receivables as at 31 December 2004 to 4.5% as at 31 December 2005. Our general and administrative expenses decreased by 22% from HK$102,347,000 (restated) in 2004 to HK$79,849,000 in the Reporting Period, and we will continue to keep a tight grip on our cost base and our risks.

Despite the combined effect of the factors mentioned above, Ocean Grand has managed to achieve a gross profit of HK$321,988,000 *(2004: HK$345,336,000)* and a profit from operations of HK$239,819,000 *(2004 (restated): HK$245,978,000)*. Profit attributable to equity holders, which takes into account the full effect of the increase in finance costs of HK$42,486,000 and the reduction in income of HK$26,607,000 arising from the disposal of the stainless steel business in 2004, was HK$116,979,000 *(2004 (restated): HK$174,760,000)*.

Aluminium Business

During the Reporting Period, the utilisation rate of our Nanhai factory has exceeded 80% on average, and growth in our aluminium business was more constrained by capacity rather than demand. In terms of tonnage, the output of aluminium extrusion products from our Nanhai factory in the Reporting Period is more or less the same as that in 2004. Turnover and contributions to operating profits of the aluminium business segment in the Reporting Period were HK$1,957,059,000 *(2004: HK$1,743,942,000)* and HK$133,076,000 *(2004 (restated): HK$136,677,000)* respectively.

The construction of our Sanshui factory is undoubtedly the most important project of Ocean Grand in the past few years, and we have made tremendous progress in the past 12 months. We are confident that the Sanshui factory, with its annual capacity of 100,000 – 150,000 metric tonnes in entirety, will be completed by the end of 2007 as planned. Apart from much-needed additional extrusion capacity, the Sanshui factory will also provide us with the necessary value-addition capabilities which is the centre piece to our strategy of becoming a one-stop supplier of high quality aluminium products to the world. The phasing-in of capacity in the next financial year will undoubtedly add much impetus to the growth of our aluminium business.

Production Line at Sanshui Factory

RESULTS OF THE REPORTING PERIOD (continued)

Aluminium Business (continued)

While we were pushing ahead full steam with our construction of the Sanshui factory, we have also continued to enhance the production capacity in our Nanhai factory by means of equipment acquisition, replacement and modification, including the commissioning of a new powder coating line and a thermal barrier system in order to cater to the needs of our customers.

Precious Metal Electroplating Chemicals Business

The precious metal electroplating chemicals business of the Group is undertaken by Ocean Grand Chemicals Holdings Limited ("Ocean Grand Chemicals"), which is approximately 73% owned by the Company and is also listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Turnover and contributions to operating profit of the electroplating chemicals segment in the Reporting Period were HK$1,087,446,000 *(2004: HK$1,080,721,000)* and HK$95,429,000 *(2004: HK$92,646,000)* respectively. Utilisation of production capacity in the Reporting Period is approximately 60%. The infrastructural work in Zhuhai factory, which affected the utilisation of production capacity in the Reporting Period, is finished. The new capacity resulting from equipment replacement and modification will be gradually put into utilisation.

Apart from expanding our production capacity of existing products, much effort has also been put in developing new products and services. Ocean Grand Chemicals have received an Innovation and Technology Fund grant from the Innovation and Technology Commission of The Government of the Hong Kong Special Administrative Region for a joint project with the Department of Chemistry of The University of Hong Kong on the research of advanced technology regarding efficient extraction of trace precious metals in industrial effluents. The project has started in late 2005 and is expected to complete within 18 months. We are hopeful that this project will generate significant business opportunity to Ocean Grand Chemicals. In addition, Ocean Grand Chemicals is also going to gradually bring in new products to the market to complement its existing product range.

Electroplating Chemicals Production Line

INTERNATIONAL NOTES ISSUE

Celebration on international notes issue with ABN-AMRO Bank N.V.

Another milestone which Ocean Grand has managed to reach in 2005 is that the Group has become one of the very few mid-cap companies in the region to raise long-term funding from the international bond market. On 7 December 2005, the Group issued 5-year notes with a total principal amount of US$125 million and a coupon rate of 9.25% p.a. (the "Existing Notes") to a distinguished group of investors. The Existing Notes have received a rating of "BB-" from Standard and Poor's Rating Services.

The market response to our notes offering in December 2005 was very encouraging and the Existing Notes have been consistently trading above their par value. Taking advantage of the good reception and an improved market sentiment, Ocean Grand issued another US$35 million of notes on 6 March 2006 (the "Further Notes"). The book was closed within hours after the launch of the issue with over 2 times oversubscription, and the total principal amount of the issue was increased from the US$30 million as originally planned to US$35 million to cater for excess demand. The issue price (excluding accrued interest) represents 102.859% of the principal amount which gives the Further Notes an effective yield of 8.50%, 87.5 basis points lower than the yield of the Existing Notes at the time of their issue.

Subsequent to the issue of the Existing Notes and the Further Notes (collectively the "Notes"), Ocean Grand had entered into 5-year USD/CNY non-delivery SWAPs with a notional principal amount of US$145 million. The SWAPs have the effect of turning the Notes into Renminbi ("RMB") borrowings and to reduce the interest rate payable on the borrowings from 9.25% per annum to below 6.50% per annum, thereby substantially alleviating the interest burden on Ocean Grand from the Notes.

The proceeds from the notes issue are mainly used to repay our short-term indebtednesses, and as a result Ocean Grand's current ratio has improved from 2.3 as at 31 December 2004 to 3.5 as at 31 December 2005. Tapping into the international bond market at this particular juncture is a significant strategic move for Ocean Grand. Apart from a marked and significant improvement in our debt maturity profile resulting from a better match between the tenor of our funding and the nature of our investment projects, with this notes issue we believe that Ocean Grand's profile in the international investment community will be enhanced remarkably. We are confident that our strengthened capital base, consisting of a balanced mix of equity, short-term debt and long-term debt, will provide us with a solid and stable foundation to grow our business further.

VISION AND MISSION

I and my colleagues 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. We believe that the solid foundation that we are laying in the Reporting Period for the Group will lift Ocean Grand to another level and, during this process, we are most grateful for our shareholders' unwavering support and patience. We are glad that the process is gradually bearing fruit and we are confident that our present course will create sustainable and remarkable shareholder value in the long run.

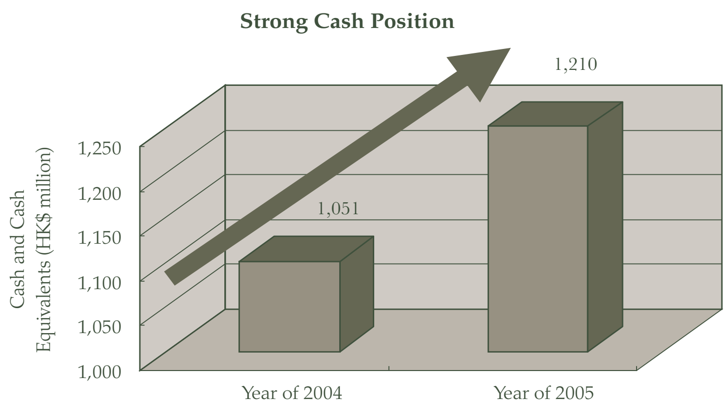
Yip Kim Po
Chairman
22 March 2006

Management Discussion and Analysis – Report of the Directors

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

FINANCIAL REVIEW

Liquidity, financial resources and capital structure

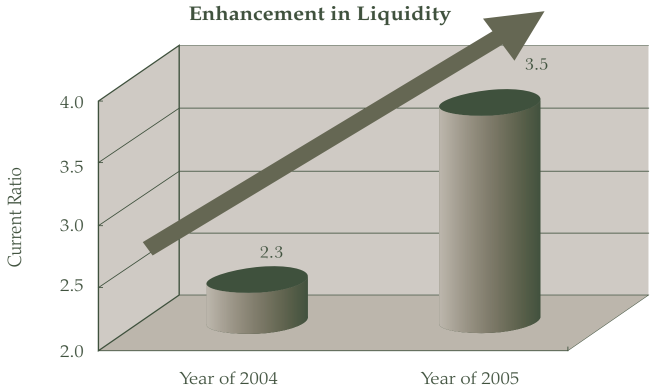


As at 31 December 2005, the net current assets of the Group were HK$1,609,515,000 *(31 December 2004 (restated): HK$1,131,348,000)*. Within the current assets, HK$1,209,890,000 *(31 December 2004: HK$1,050,694,000)* was in the form of cash and cash equivalents.

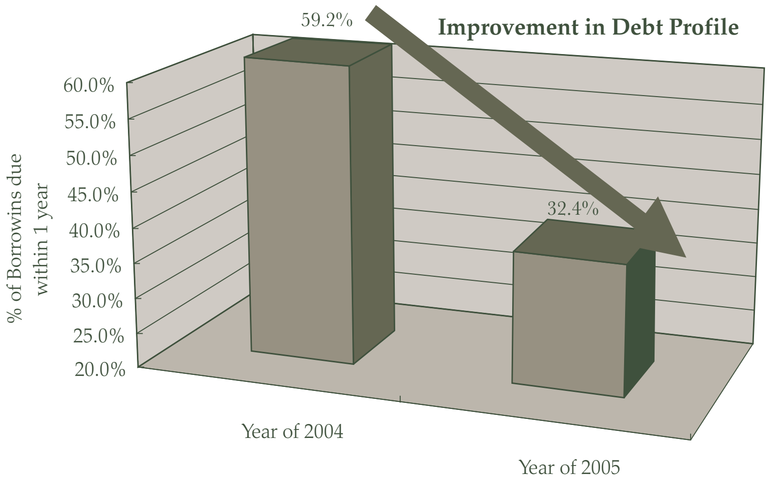
Although the Group is effectively shielded from the aluminium price risk by adopting the "cost-plus" approach in price determination of its products, the significant increase in aluminium price in the last quarter of the Reporting Period does have the effect of increasing our turnover and trade receivables balances and therefore our working capital requirement. The management is confident that with its strong cash position, high liquidity and the depth of the undrawn facilities available from its commercial bankers, Ocean Grand has sufficient and adequate financial resources to support its business growth and capital expenditure in the coming financial year.

FINANCIAL REVIEW (continued)

Liquidity, financial resources and capital structure (continued)



Total bank and other borrowings and obligations under finance leases as at 31 December 2005 were HK$1,538,544,000 *(31 December 2004: HK$1,136,300,000)*, of which approximately 32.4% *(31 December 2004: 59.2%)*, HK$498,947,000 *(31 December 2004: HK$672,136,000)* will be due within one year. As a result, the Group's current ratio has improved from 2.3 as at 31 December 2004 to 3.5 as at 31 December 2005. Net debt gearing (i.e. total borrowings less free cash/net tangible assets) of the Group as at 31 December 2005 was 25.1% *(31 December 2004 (restated): 7.1%)*. In addition, as at 31 December 2005, approximately HK$940,636,000 of the borrowings bears fixed interest rate while the remainings bear floating interest rate.



Since 2001, the Group has been adopting a strategy to obtain financing with a longer tenor to enhance its liquidity and minimise the maturity mismatch between assets and liabilities. As a result, only approximately 32.4% of the Group's bank and other borrowings and obligations under finance leases was due within one year as at 31 December 2005 *(31 December 2004: 59.2%)*. This strategy will be maintained in the near future.

The Company has not issued any shares during the Reporting Period and up to the date of the second interim report of the Company for the 12 months from 1 January 2005 to 31 December 2005.

FINANCIAL REVIEW (continued)

Foreign exchange risk and interest rate risk

The Group's capital investments are mostly denominated in RMB and its borrowings in US$. In order to minimise the foreign exchange rate risk arising from this mismatch, the Group has entered into a number of 5-year USD/CNY non-delivery SWAPs which effectively change a substantial portion of the Group's US$ borrowings into RMB borrowings. Please refer to note 19 to the second interim financial statements for the 12 months from 1 January 2005 to 31 December 2005 for details of the SWAPs.

Subsequent to the issue of the Notes as described, over 60% of the Group's borrowings bears fixed interest rate and is therefore not exposed to material interest rate risk.

The management is of the opinion that the Group's exposure to interest rate and foreign exchange rate risks is insignificant.

ISSUANCE OF US$125 MILLION 9.25% GUARANTEED NOTES DUE 2010 AND DISCLOSURE IN PURSUANCE OF RULE 13.18

The Company entered into a subscription agreement dated 30 November 2005 in connection with the issue of US$125 million aggregate principal amount of 9.25% guaranteed notes due 2010 (the "Existing Notes"). The Existing Notes are secured by (i) guarantees provided by certain of the Group's subsidiaries (except, inter alia, Ocean Grand Chemicals, its subsidiaries as well as subsidiaries of the Group incorporated in the PRC); (ii) charges of shares held by the Company in Toowomba Holdings Limited and Successful Gold Profits Limited (both wholly-owned subsidiaries of the Company); and (iii) an assignment of intercompany loan entered into between the Company as lender and Kenlap P.G.C. Manufacturer Company Limited (a wholly-owned subsidiary of Ocean Grand Chemicals) as borrower.

Under the Existing Notes, Mr Yip Kim Po (the Chairman), the controlling shareholder holding approximately 31.14% of the issued share capital of the Company, is required to beneficially own together with Ms Yip Wan Fung (an Executive Director and the sister of Mr Yip Kim Po) not less than 30% of the total voting power of the Company until maturity of the Existing Notes. A decrease in the aggregate shareholding of Mr Yip Kim Po and Ms Yip Wan Fung (including their affiliates and any company controlled as to 80% by either of them) below 30% will constitute a change of control triggering event. In such circumstances, each holder of the Existing Notes shall have the right to require the Company to repurchase the Existing Notes at a purchase price at cash equal to 101% of the principal amount plus accrued and unpaid interest.

The Company has disclosed the above information on the Existing Notes and pursuant to rule 13.18 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the announcements dated 16 November 2005 and 30 November 2005.

SUBSEQUENT EVENT – ISSUANCE OF US$35 MILLION 9.25% GUARANTEED NOTES DUE 2010 AND DISCLOSURE IN PURSUANCE OF RULE 13.18

Subsequent to 31 December 2005, the Company entered into a subscription agreement dated 28 February 2006 in connection with the issue of US$35 million aggregate principal amount of 9.25% guaranteed notes due 2010 (the "Further Notes"), which rank pari passu with, and be consolidated to form a single series with the Existing Notes. The Existing Notes and the Further Notes (collectively the "Notes") are secured by (i) guarantees provided by certain of the Group's subsidiaries (except, inter alia, Ocean Grand Chemicals, its subsidiaries as well as subsidiaries of the Group incorporated in the PRC); (ii) charges of shares held by the Company in Toowomba Holdings Limited and Successful Gold Profits Limited (both wholly-owned subsidiaries of the Company); and (iii) an assignment of intercompany loan entered into between the Company as lender and Kenlap P.G.C. Manufacturer Company Limited (a wholly-owned subsidiary of Ocean Grand Chemicals) as borrower.

Under the Notes, Mr Yip Kim Po (the Chairman), the controlling shareholder holding approximately 31.14% of the issued share capital of the Company, is required to beneficially own together with Ms Yip Wan Fung (an Executive Director and the sister of Mr Yip Kim Po) not less than 30% of the total voting power of the Company until maturity of the Notes. A decrease in the aggregate shareholding of Mr Yip Kim Po and Ms Yip Wan Fung (including their affiliates and any company controlled as to 80% by either of them) below 30% will constitute a change of control triggering event. In such circumstances, each holder of the Notes shall have the right to require the Company to repurchase the Notes at a purchase price at cash equal to 101% of the principal amount plus accrued and unpaid interest.

The Company has disclosed the above information on the Further Notes and pursuant to rule 13.18 of the Listing Rules in the announcements dated 27 February 2006 and 28 February 2006.

DISCLOSEABLE TRANSACTION

On 1 November 2005, OG Development Company Limited (a wholly-owned subsidiary of the Company) entered into a contract with Greatson Corporation Limited for the acquisition of certain aluminium extrusion press, and powder and electrostatic coating line for approximately HK$153 million for the purpose of equipping the operation of the Sanshui plant. The said acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Company has disclosed the above information in the announcement dated 3 November 2005 and the circular dated 21 November 2005.

CHANGE OF FINANCIAL YEAR END DATE

On 26 July 2005, the Directors resolved to change the financial year end date of the Company from 31 December to 31 March to align with those of other member companies of the Group. As a result, the current financial year covers the period from 1 January 2005 to 31 March 2006. Accordingly, the Company has prepared the first interim results for the 6 months period from 1 January 2005 to 30 June 2005, and the second interim results for the 12 months period from 1 January 2005 to 31 December 2005, and will prepare the audited annual results for the 15 months period from 1 January 2005 to 31 March 2006. In this respect, further particulars can be found in the Company's announcement dated 27 July 2005.

RESULTS AND APPROPRIATIONS

Details of the Group's results are set out on page 23 of the second interim report for the 12 months period ended 31 December 2005.

As this second interim report is made because of the change in financial year end, the Directors do not recommend the payment of any second interim dividend for the 12 months period ended 31 December 2005.

INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY

The Company

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, 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, employees, consultants and business associates of the Group) are entitled to be granted options to subscribe for shares in the Company.

INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY (continued)

The Company (continued)

Movement of share options of the Company during the Reporting Period:

Eligible participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares: Outstanding as at 1 January 2005	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2005	Subscription price per share	Exercise period*
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	7,600,000	–	–	–	–	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$1.660	24 September 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	7 October 2003	10,500,000	–	–	–	(3,900,000)	6,600,000 *(Note a)*	HK$1.999	7 October 2003 to 6 June 2012
							Total:	24,850,000		
Others:										
Business Associates	Share Option Scheme – 2002 (Amended)	24 September 2003	15,600,000	–	–	–	–	15,600,000	HK$1.660	24 September 2003 to 6 June 2012
							Total:	15,600,000		

Notes:

* *Share options are vested from date of grant.*

a. *Including an option granted to Mr Kwan Man Wai on 7 October 2003 to subscribe for 3,300,000 shares in the Company at a subscription price of HK$1.999 per share. On 12 July 2005, Mr Kwan Man Wai was appointed as an Executive Director of the Company.*

Except as stated above, no option was cancelled/lapsed from 1 January 2005 and up to the date of the second interim report for the 12 months period from 1 January 2005 to 31 December 2005.

INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY (continued)

Subsidiary – Ocean Grand Chemicals

At the AGM of Ocean Grand Chemicals held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme which complies with Chapter 17 of the Listing Rules. At the AGM of Ocean Grand Chemicals held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme mandate limit.

Movement of share options of Ocean Grand Chemicals during the Reporting Period:

		Number of share options to subscribe for shares							
Eligible Participant	Date of grant	Outstanding at 1 January 2005	Granted	Exercised	Cancelled	Lapsed	Outstanding at 31 December 2005	Subscription price per share	Exercise period*
Employees:									
Employee	9 February 2004	4,700,000	–	–	–	–	4,700,000	HK$1.38	9 February 2004 – 3 September 2013
Employees	17 February 2005	–	9,400,000 *(Note a)*	(7,300,000)	–	–	2,100,000	HK$1.10	17 February 2005 – 3 September 2013
Employee	1 August 2005	–	4,700,000 *(Note b)*	–	–	–	4,700,000	HK$1.09	1 August 2005 – 3 September 2013
						Total:	11,500,000		
Others:									
Business Associate	21 July 2004	4,700,000	–	–	–	(4,700,000) *(Note c)*	–	HK$0.97	21 July 2004 – 3 September 2013
						Total:	–		

Notes:

* *Share options are vested from date of grant.*

a. *The closing price per share of Ocean Grand Chemicals immediately before 17 February 2005 on which the options were granted was HK$1.11.*

b. *The closing price per share of Ocean Grand Chemicals immediately before 1 August 2005 on which the options were granted was HK$1.08.*

c. *The option granted to a business associate was lapsed on 1 August 2005 .*

Options were granted for a consideration of HK$1.00 per grant during the Reporting Period.

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

As at 31 December 2005, 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 *(Note a)*	Deemed interest	73,000,000	–	73,000,000	17.22
	Controlled corporation – Grecian Resources Limited *(Note b)*	Deemed interest	29,000,000	–	29,000,000	6.84
	Beneficial owner	100%	30,000,000	–	30,000,000	7.08
		Total:	132,000,000	–	132,000,000	31.14
Mr Hui Ho Ming, Herbert	Beneficial owner	100%	8,480,000	–	8,480,000	2.00
Mr Choy Tak Ho	Beneficial owner	100%	240,000	–	240,000	0.06
Mr Chau Po Fan	Beneficial owner	100%	20,000	–	20,000	0.005
Mr Kwan Man Wai	Beneficial owner	100%	–	3,300,000	3,300,000	0.78
Ms Yip Wan Fung	Beneficial owner	100%	19,030,000	–	19,030,000	4.49

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

Long positions – in Ocean Grand Chemicals (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 Hui Ho Ming, Herbert	Beneficial owner	100%	9,500,000	–	9,500,000	1.95
Mr Kwan Yan	Beneficial 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 31 December 2005 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 31 December 2005.

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 heading "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 31 December 2005, 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
Mr Cheah Cheng Hye	Indirectly through Value Partners Limited	41,338,800 *(Note)*	9.75%
Grecian Resources Limited	Directly	29,000,000	6.84%
Peter Cundill & Associates (Bermuda) Ltd.	Directly	35,000,000	8.26%
Value Partners Limited ("VPL")	Investment manager	41,338,800 *(Note)*	9.75%

Notes:

(1) Mr Cheah Cheng Hye is deemed to be interested in the shares through his 32.77% interest in VPL. This figure refers to the same interest of VPL in 41,338,800 shares.

(2) On 10 February 2006, both Mr Cheah Cheng Hye and VPL reported to the Company that each of them has an interest for 38,135,600 shares (approximately 8.99% of the issued share capital) of the Company.

Mr Cheah Cheng Hye is deemed to be interested in the shares through his 32.77% interest in VPL. This figure refers to the same interest of VPL in 38,135,600 shares.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Save as disclosed above, as at 31 December 2005, 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 5 to the second interim financial statements for the 12 months period from 1 January 2005 to 31 December 2005.

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 31 December 2005, the Group employed, excluding Directors, a total of approximately 730 *(31 December 2004: approximately 720)* full time employees. About 90% of them are located in the PRC.

DONATIONS

Donations made by the Group during the Reporting Period amounted to HK$2,459,000.

COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities are disclosed in notes 15 and 16 to the second interim financial statements for the 12 months period from 1 January 2005 to 31 December 2005 respectively.

CHARGES ON GROUP'S ASSETS

Charges on the Group's assets are disclosed in note 17 to the second interim financial statements for the 12 months period from 1 January 2005 to 31 December 2005.

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 12 months period ended 31 December 2005 *(12 months period ended 31 December 2004: Nil)*.

AUDIT COMMITTEE AND ITS REVIEW

The written terms of reference which describe the authority and duties of the Audit 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 and Appendix 14 of the Listing Rules.

The Audit 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 of the external audit, internal controls and risk evaluation. The Audit Committee comprised Mr Lee Kwan Ho, Vincent Marshall (the Chairman), Mr Choy Tak Ho and Mr Chau Po Fan, all being Independent Non-Executive Directors.

The Audit Committee has reviewed the second interim report and the second interim financial statements of the Group for the 12 months period ended 31 December 2005 and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Audit Committee found no unusual items that were omitted from the second interim financial statements for the 12 months period ended 31 December 2005 and was satisfied with the disclosures of data and explanations shown in the second interim financial statements.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising Independent Non-Executive Directors, Mr Choy Tak Ho (Chairman), Mr Chau Po Fan and Mr Lee Kwan Ho, Vincent Marshall.

The principal responsibilities of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

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 the second interim report for the 12 months period from 1 January 2005 to 31 December 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Directors have reviewed the Company's corporate governance practices and is satisfied that the Company has been in full compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the Reporting Period.

ATTENDANCE AT FULL BOARD/COMMITTEE MEETINGS FOR THE PERIOD FROM 1 JANUARY 2005 TO 31 DECEMBER 2005

	Board	Audit Committee	Remuneration Committee
	(Attendance/number of meetings)		
Number of meetings	4	2	1
Executive Directors:			
Mr Yip Kim Po	4/4	–	–
Mr Hui Ho Ming, Herbert	4/4	–	–
Mr Kwan Man Wai	3/3	–	–
Mr Kwan Yan	3/4	–	–
Mr Li Lee Cheung	3/4	–	–
Ms Yip Wan Fung	4/4	–	–
Independent Non-Executive Directors:			
Mr Choy Tak Ho	4/4	2/2	1/1
Mr Chau Po Fan	4/4	2/2	1/1
Mr Lee Kwan Ho, Vincent Marshall	4/4	2/2	1/1

On behalf of the Board

Yip Kim Po
Chairman

Hong Kong, 22 March 2006

Condensed Consolidated Financial Statements – Condensed Consolidated Income Statement

The Directors of Ocean Grand Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the 12 months ended 31 December 2005 together with the comparative figures for the corresponding period in 2004 as follows:

Condensed Consolidated Income Statement – unaudited

		For the twelve months ended 31 December	
		2005	2004 (Restated)
	Note	**HK$'000**	HK$'000
Turnover	3	**3,044,505**	2,832,638
Cost of sales		**(2,722,517)**	(2,487,302)
Gross profit		**321,988**	345,336
Other revenues	3	**9,111**	11,098
Other net income	4	**2,898**	10,423
Distribution and selling expenses		**(11,605)**	(5,837)
General and administrative expenses		**(79,849)**	(102,347)
Other operating expenses		**(2,724)**	(12,695)
Profit from operations		**239,819**	245,978
Finance costs		**(73,970)**	(31,484)
Share of results of associates		–	22,125
Profit from ordinary activities before taxation	5	**165,849**	236,619
Taxation	6	**(27,273)**	(41,300)
Profit for the period		**138,576**	195,319
Attributable to:			
Equity holders of the Company		**116,979**	174,760
Minority interests		**21,597**	20,559
		138,576	195,319
Dividends attributable to the period	7	**12,715**	42,383
Earnings per share	8		
– Basic		**HK27.6 cents**	HK41.5 cents
– Diluted		**HK27.1 cents**	HK40.4 cents

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

Condensed Consolidated Statement of Changes in Equity – unaudited

	Share capital HK$'000	Share premium HK$'000	Share option expenses HK$'000	Statutory reserves HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Fair value reserve HK$'000	Exchange reserve HK$'000	Accumulated profits HK$'000	Total equity attributable to shareholders of the Company HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004													
– as previously reported	416,235	113,914	–	23,519	63,222	581	40,852	–	1,076	463,361	1,122,760	39,122	1,161,882
– prior year adjustment in respect of land	–	–	–	–	–	–	(11,218)	–	(503)	14,167	2,446	(518)	1,928
– as restated	416,235	113,914	–	23,519	63,222	581	29,634	–	573	477,528	1,125,206	38,604	1,163,810
Dividends approved in respect of previous year	–	–	–	–	–	–	–	–	–	(27,224)	(27,224)	–	(27,224)
Interim dividends approved	–	–	–	–	–	–	–	–	–	(14,834)	(14,834)	–	(14,834)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(14,068)	(14,068)
Equity movements arising from issue of shares upon exercise of share options	7,600	426	–	–	–	–	–	–	–	–	8,026	–	8,026
Adjustment on deemed and partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	345	345	–	345
Reserve movements arising from issue of shares of a subsidiary to minority interests	–	–	–	–	(36,016)	–	–	–	–	–	(36,016)	37,114	1,098
Capital injection by minority interests	–	–	–	–	–	–	–	–	–	–	–	5,000	5,000
Acquisition of remaining interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(11,230)	(11,230)
Surplus on revaluation	–	–	–	–	–	–	1,465	–	–	–	1,465	335	1,800
Share of reserves of associates	–	–	–	–	–	–	2,579	–	–	–	2,579	–	2,579
Released on disposal of associates	–	–	–	–	–	–	(5,708)	–	311	–	(5,397)	–	(5,397)
Profits for the period	–	–	–	–	–	–	–	–	–	174,760	174,760	20,559	195,319
At 31 December 2004 (restated)	423,835	114,340	–	23,519	27,206	581	27,970	–	884	610,575	1,228,910	76,314	1,305,224
At 1 January 2005													
– as previously reported	423,835	114,340	–	23,519	27,206	581	39,880	–	1,387	595,736	1,226,484	76,818	1,303,302
– prior year adjustment in respect of land	–	–	–	–	–	–	(11,910)	–	(503)	14,839	2,426	(504)	1,922
– as restated	423,835	114,340	–	23,519	27,206	581	27,970	–	884	610,575	1,228,910	76,314	1,305,224
Write off of negative goodwill	–	–	–	–	–	–	–	–	–	1,928	1,928	–	1,928
Dividends approved in respect of previous year	–	–	–	–	–	–	–	–	–	(27,549)	(27,549)	–	(27,549)
Interim dividends approved	–	–	–	–	–	–	–	–	–	(12,715)	(12,715)	–	(12,715)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(7,249)	(7,249)
Issue of shares on exercise of share options in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	8,030	8,030
Capital injection by minority interests	–	–	–	–	–	–	–	–	–	–	–	35,144	35,144
Goodwill previously eliminated against accumulated profits now released upon deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	454	454	–	454
Equity movements arising from deemed disposal of a subsidiary	–	–	–	–	62	–	(61)	–	(1)	–	–	(2,357)	(2,357)
Surplus on revaluation of financial instruments	–	–	–	–	–	–	–	301	–	–	301	–	301
Release on disposal of financial instruments	–	–	–	–	–	–	–	(301)	–	–	(301)	–	(301)
Shares based payments	–	–	428	–	–	–	–	–	–	–	428	159	587
Profits for the period	–	–	–	–	–	–	–	–	–	116,979	116,979	21,597	138,576
Exchange realignments	–	–	–	–	–	–	–	–	25,825	–	25,825	1,093	26,918
At 31 December 2005	423,835	114,340	428	23,519	27,268	581	27,909	–	26,708	689,672	1,334,260	132,731	1,466,991

Condensed Consolidated Balance Sheet – unaudited

	Note	**At 31 December 2005 HK$'000**	At 31 December 2004 (Restated) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	*9*	**515,661**	476,838
Lease premium on land		**176,140**	45,208
Intangible assets		**8,862**	4,773
Goodwill		**14,086**	14,086
Negative goodwill		**–**	(1,928)
Prepayments and deposits		**168,442**	84,144
Available-for-sale investments		**–**	3,019
Deferred tax assets		**15,309**	13,300
		898,500	639,440
Current assets			
Current portion of lease premium on land		**3,819**	1,067
Inventories		**80,931**	87,143
Trade and other receivables	*10*	**936,370**	817,126
Other financial assets		**10,128**	13,691
Cash and cash equivalents		**1,209,890**	1,050,694
		2,241,138	1,969,721
Current liabilities			
Trade and other payables	*11*	**115,473**	151,593
Short-term borrowings		**455,509**	496,910
Current portion of long-term bank borrowings		**43,333**	168,513
Current portion of obligations under finance leases		**105**	6,713
Current tax liabilities		**17,203**	14,644
		631,623	838,373
Net current assets		**1,609,515**	1,131,348
Total assets less current liabilities		**2,508,015**	1,770,788
Non-current liabilities			
Long-term borrowings		**98,833**	463,266
Obligations under finance leases		**128**	898
Long-term notes	*12*	**940,636**	–
Deferred tax liabilities		**1,427**	1,400
		1,041,024	465,564
		1,466,991	1,305,224
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*13*	**423,835**	423,835
Reserves		**910,425**	805,075
		1,334,260	1,228,910
Minority interests		**132,731**	76,314
		1,466,991	1,305,224

Condensed Consolidated Cash Flow Statement – unaudited

	For the twelve months ended 31 December	
	2005	2004
		(Restated)
	HK$'000	HK$'000
Operating activities		
Cash generated from operations	**60,027**	198,427
Interest received	**9,111**	7,048
Interest paid	**(73,970)**	(31,484)
Hong Kong Profits Tax paid	**(189)**	(3,882)
PRC enterprise income tax paid	**(26,763)**	(34,457)
Net cash (used in)/generated from operating activities	**(31,784)**	135,652
Net cash used in investing activities	**(218,426)**	(19,323)
Net cash generated from financing activities	**400,577**	470,304
Net increase in cash and cash equivalents	**150,367**	586,633
Cash and cash equivalents at beginning of period	**1,047,696**	461,063
Exchange realignment, net	**11,501**	–
Cash and cash equivalents at end of period	**1,209,564**	1,047,696
Analysis of cash and cash equivalents		
Bank balances and cash	**1,209,890**	1,050,694
Bank overdrafts	**(326)**	(2,998)
Cash and cash equivalents	**1,209,564**	1,047,696

1. ACCOUNTING POLICIES

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those set out in the 2004 Annual Report, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are relevant to its operations and effective for accounting periods commencing on or after 1 January 2005. The adopted new/revised HKFRSs and HKASs that are of significant differences from the accounting policies set out in the 2004 Annual Report are discussed below, with comparative figures of the corresponding period in 2004 amended in accordance with the relevant requirements:

(a) HKAS 1 "Presentation of Financial Statements"

With the adoption of HKAS 1, minority interests are now treated as part of investment in equity in the balance sheet rather than as a deduction from or addition to net assets. In the income statement, minority interests are now disclosed as an allocation of the profit or loss for the period rather than a deduction or addition of profit. This change has been applied retrospectively and 2004 comparatives have been restated accordingly.

(b) HKAS 17 "Leases"

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to leasehold land and buildings held for own use. In prior years, the leasehold land and buildings held for own use were accounted for as fixed assets and carried at revalued amounts less any subsequent accumulated depreciation and impairment losses. Revaluation surplus or deficit was dealt with in the property revaluation reserve. HKAS 17, however, prescribes leasehold land to be accounted for as an operating lease if title is not expected to pass to the lessee at the end of the lease term. Pursuant to the requirements, such leasehold land will no longer be revalued and the lease premiums for acquiring the land leases are amortised on a straight-line basis over the lease term. If the lease payments cannot be allocated reliably between the land and buildings elements, the leasehold interests in land continue to be accounted for as property, plant and equipment.

The new accounting policies have been adopted retrospectively, with the opening balances of retained earnings and the property revaluation reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in the condensed consolidated statement of changes in equity in the second interim financial statements for the 12 months from 1 January 2005 to 31 December 2005. Consequently, the fixed assets in 2004 was reduced by HK$49,353,000, including an amount of HK$46,275,000 is reclassified as lease premium on land in 2004. The impact on the Group's current or prior period's operating results are immaterial.

1. ACCOUNTING POLICIES (continued)

(c) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

In the current period, the Group has applied HKAS 32 and HKAS 39.

In previous periods, the Group had classified its investment in equity and debt securities as "other investments" and measured at fair value, with unrealised gains or losses included in the income statement. From 1 January 2005 onwards, the Group classifies and measures its investment in equity and debt securities in accordance with HKAS 39. As a result, investments in securities classified under non-current assets with carrying amount of HK$3,019,000 are reclassified as available-for-sale investments and carried at fair value. Besides, investments in debt securities previously classified under current assets with carrying amount of HK$13,691,000 are reclassified as other financial assets and stated at fair value. Subsequent changes in fair value are recognised in equity.

The adoption of these new policies does not have other material impact on the Group's current or prior period's financial statements.

(d) HKAS 36 "Impairment of Assets", HKAS 38 "Intangible Assets" and HKFRS 3 "Business Combinations"

The adoption of HKAS 36, HKAS 38 and HKFRS 3 has resulted in a change in the accounting policy for goodwill. Prior to the adoption, goodwill arising on acquisitions was capitalised and amortised on a straight-line basis over its estimated useful life and such goodwill was assessed for impairment at each balance sheet date. Following the adoption, the Group ceased amortisation of goodwill from 1 January 2005 and the accumulated amortisation of goodwill arising on acquisitions as at 1 January 2005 has been eliminated with the respective cost of goodwill at that date. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result, no amortisation of goodwill has been charged in the current period.

In accordance with HKFRS 3, negative goodwill is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions, the Group has derecognised all negative goodwill at 1 January 2005, with a corresponding increase to opening retained earnings.

The Group estimates that the adoption of HKAS 36, HKAS 38 and HKFRS 3 in the accounting periods beginning on 1 January 2005 in relation to the goodwill amortisation would result in an increase in the profit for the 12 months ended 31 December 2005 of HK$1,260,000.

Additionally, the Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment is considered necessary as a result of the assessment.

1. ACCOUNTING POLICIES (continued)

(e) HKAS 40 "Investment Property"

The adoption of HKAS 40 has resulted in a change in the accounting policy for investment property. Prior to this, changes in the value 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, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. After the adoption of HKAS 40, any changes in value of investment property are dealt with in the income statement and there will be no revaluation reserve available for offsetting against revaluation deficits. The adoption of HKAS 40 does not have any material impact on the Group's current or prior period's financial statements.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses certain derivative financial instruments to hedge certain risk exposures.

Risk management is carried out and monitored by the executive management via various committees. These committees identify, evaluate and hedges financial risks in close co-operation with the Group's operating units. Terms and written principles as well as written policies covering specific areas, such as aluminium price risk and credit risk, have been set up by these steering committees and approved by the Board of Directors.

(a) Financial risk factor

(i) Foreign exchange risk

The Group's business are principally conducted in HK$, RMB and US$, except that certain immaterial receipts of sales proceeds are in other foreign currencies, while its debt financing is mainly denominated in US$ and HK$. The management is of the opinion that the Group's exposure to foreign exchange rate risks through daily operations is insignificant.

On the other hand, the Group's capital investments are mostly denominated in RMB and its borrowings in US$. In order to minimise the foreign exchange risk arising from this mismatch, the Group has entered into a number of 5-year USD/CNY non-delivery SWAPs, which effectively change a substantial portion of the Group's US$ borrowings into RMB borrowings. Please refer to note 19 to these interim financial statements for details of the SWAPs.

(ii) Interest rate risk

The Group's income is substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings as certain portion of the bank and other borrowings bears floating interest rate. The majority of long-term borrowings of the Group bears fixed interest rate.

(iii) Price risk

The Group is exposed to certain metal price risk including that of aluminium, gold, silver, palladium and rhodium as a significant portion of the cost of the Group's products is these metal costs. The Group has implemented certain measures to minimise its exposure to these metal price risk including (i) the adoption of the cost plus basis formula in setting the selling prices of the Group's products; (ii) the minimisation of inventory level on hand; and (iii) the use of the futures markets for hedging.

2. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factor (continued)

(iv) Credit risk

The Group has implemented certain measures to minimise its exposure to credit risk of its customers including the setting up of written terms and references on credit policy for its customers and purchase of insurance on certain export sales.

(v) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments.

(b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Turnover and revenue recognised by category are analysed as follows:

	For the twelve months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sale of goods	**3,001,717**	2,693,440
Subcontracting fees	**42,788**	139,198
	3,044,505	2,832,638
Other revenues		
Interest income	**9,111**	7,990
Service fees	**–**	3,108
	9,111	11,098
Total revenues	**3,053,616**	2,843,736

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

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

(a) By business segment

The Group comprises the following main business segments:

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

Chemicals: The manufacture/sale of precious metal electroplating chemicals.

	Aluminium HK$'000	**Chemicals HK$'000**	**Others HK$'000**	**Consolidated HK$'000**
12 months ended 31 December 2005				
External sales	**1,957,059**	**1,087,446**	**–**	**3,044,505**
Other revenue	**–**	**–**	**–**	**–**
	1,957,059	**1,087,446**	**–**	**3,044,505**
Segment result	**133,076**	**95,429**	**–**	**228,505**
Unallocated operating income and expenses				**11,314**
Profit from operations				**239,819**

	Aluminium HK$'000	Chemicals HK$'000	Others HK$'000	Consolidated HK$'000
12 months ended 31 December 2004 (Restated)				
External sales	1,743,942	1,080,721	7,975	2,832,638
Other revenue	–	–	3,108	3,108
	1,743,942	1,080,721	11,083	2,835,746
Segment result	136,677	92,646	391	229,714
Unallocated operating income and expenses				16,264
Profit from operations				245,978

3. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

(b) By geographical segment

	For the twelve months ended 31 December 2005 Revenue from external customers HK$'000	Contributions to profit from operations HK$'000
Hong Kong	**1,903,456**	**68,091**
Overseas	**112,639**	**21,389**
PRC	**1,028,410**	**150,339**
	3,044,505	**239,819**

	For the twelve months ended 31 December 2004 Revenue from external customers HK$'000	Contributions to profit from operations (Restated) HK$'000
Hong Kong	1,785,096	93,112
Overseas	79,825	13,081
PRC	967,717	139,785
	2,832,638	245,978

4. OTHER NET INCOME

	For the twelve months ended 31 December 2005 HK$'000	2004 HK$'000
Gain on deemed and partial disposal of subsidiaries	**1,903**	4,334
Gain on disposal of associates	**–**	4,482
Realised gains on financial instruments, net	**455**	–
Amortisation of negative goodwill	**–**	102
Sundry income	**540**	1,505
	2,898	10,423

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting) the following:

	For the twelve months ended 31 December	
	2005	2004 (Restated)
	HK$'000	HK$'000
Depreciation		
Owned assets	**37,973**	39,364
Assets held under finance leases	**1,793**	2,671
Amortisation of lease premium on land use rights	**3,783**	1,066
Staff costs	**53,367**	41,439
(Over) provision for long outstanding trade receivables	**(11,229)**	11,105
Loss on disposal of fixed assets	**812**	604
Amortisation of goodwill included in share of results of associates	**–**	2,288
Amortisation of goodwill	**–**	549
Amortisation of intangible assets	**1,803**	2,359
Amortisation of negative goodwill	–	(102)

6. TAXATION

	For the twelve months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Current taxation:		
– Hong Kong Profits Tax	**169**	10,420
– PRC enterprise income tax	**34,797**	29,130
– Over-provision in prior year	**(6,039)**	(1,059)
Deferred taxation relating to the origination and reversal of temporary differences	**(1,654)**	(400)
Share of taxation attributable to associates	**–**	3,209
Taxation charge	**27,273**	41,300

Hong Kong Profits Tax has been provided at the rate of 17.5% *(2004: 17.5%)* on the estimated assessable profits for the period.

The PRC enterprise income tax has been provided on the estimated assessable profits for the period at the rates of taxation prevailing in the PRC. However, OG Aluminium Co., Limited (Foshan) (formerly known as "Hongli Aluminium (Foshan) Company Limited") and Kenlap Fine Chemical (Zhuhai) Technology Company Limited are exempted from the PRC state income tax and local income tax for two years starting from their first profit-making year of operations after offsetting prior year losses, followed by a 50% relief for the following three years.

7. INTERIM DIVIDEND

The Directors have recommended the first interim dividend of HK3.0 cents *(6 months ended 30 June 2004: HK3.5 cents)* per share for the 6 months ended 30 June 2005. As the second interim report is made because of the change in financial year end, the Directors do not recommend the payment of any second interim dividend for the 12 months ended 31 December 2005.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the 12 months ended 31 December 2005 are based on the profit attributable to equity holders of the Company of approximately HK$116,979,000 *(12 months ended 31 December 2004 (restated): HK$174,760,000)*. The basic earnings per share is based on 423,835,000 shares in issue *(12 months ended 31 December 2004: weighted average number of 420,605,000 shares)* during the period. The diluted earnings per share is calculated based on the weighted average number of 431,030,000 *(12 months ended 31 December 2004: 432,446,000)* shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes as detailed in note 14 to these interim financial statements.

9. FIXED ASSETS

During the period, the Group's additions to property, plant and equipment amounted to HK$205,570,000 *(12 months ended 31 December 2004: HK$148,823,000).*

10. TRADE AND OTHER RECEIVABLES

	At 31 December 2005 HK$'000	At 31 December 2004 HK$'000
Trade receivables	**893,866**	700,261
Other receivables		
Deposits, prepayments and other debtors	**42,504**	116,865
	936,370	817,126

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

	At 31 December 2005 HK$'000	At 31 December 2004 HK$'000
Within 2 months	**533,253**	468,139
More than 2 months but less than 3 months	**209,168**	117,770
More than 3 months but less than 4 months	**111,003**	35,024
More than 4 months but less than 6 months	**32,355**	53,288
More than 6 months but less than 12 months	**8,065**	25,808
More than 12 months but less than 24 months	**22**	232
	893,866	700,261

11. TRADE AND OTHER PAYABLES

	At 31 December 2005 HK$'000	At 31 December 2004 HK$'000
Trade payables	**52,219**	116,086
Other payables		
Accrued charges and other creditors	**59,959**	29,657
Due to minority shareholders	**3,295**	5,850
	115,473	151,593

The ageing analysis of trade payables is as follows:

	At 31 December 2005 HK$'000	At 31 December 2004 HK$'000
Within 1 month	**34,459**	83,881
More than 1 month but less than 3 months	**16,255**	32,113
More than 3 months but less than 12 months	**1,505**	92
	52,219	116,086

12. LONG-TERM NOTES

On 7 December 2005, the Company issued US$125,000,000 9.25% guaranteed notes due 2010 (the "Existing Notes") to certain institutional investors. The Existing Notes bear interest from 7 December 2005 at the interest rate of 9.25% per annum. Interest on the Existing Notes will be payable semi-annually in arrear on 7 June and 7 December in each year commencing on 7 June 2006. The Existing Notes are unconditionally and irrecoverably guaranteed on a joint and several basis by certain subsidiaries of the Company and are secured by (a) a first priority share charge over the shares of Toowomba Holdings Limited, a wholly-owned subsidiary of the Company; (b) a security assignment of the Company's rights and benefits in respect of the inter-company loan in the aggregate principal amount of US$15,000,000 made to Kenlap P.G.C. Manufacturer Company Limited, a subsidiary of the Company; and (c) a first priority share charge over the shares of Successful Gold Profits Limited, a wholly-owned subsidiary of the Company. The whole amount of principal of the Existing Notes will be repayable in full on 7 December 2010.

13. ISSUED CAPITAL

	At 31 December 2005 Number of shares '000	Amount HK$'000	At 31 December 2004 Number of shares '000	Amount HK$'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	**423,835**	**423,835**	416,235	416,235
Share issued upon the exercise of share options	**–**	**–**	7,600	7,600
At balance sheet date	**423,835**	**423,835**	423,835	423,835

14. SHARE OPTIONS

			Number of share options to subscribe for shares							
Eligible participant	Type of share option scheme	Date of grant	Outstanding at 1 January 2005	Granted	Exercised	Cancelled	Lapsed	Outstanding at 31 December 2005	Subscription price per share	Exercise period *
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	7,600,000	–	–	–	–	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$1.660	24 September 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	7 October 2003	10,500,000	–	–	–	(3,900,000)	6,600,000 *(Note a)*	HK$1.999	7 October 2003 to 6 June 2012
							Total:	24,850,000		
Others:										
Business associates	Share Option Scheme – 2002 (Amended)	24 September 2003	15,600,000	–	–	–	–	15,600,000	HK$1.660	24 September 2003 to 6 June 2012
							Total:	15,600,000		

Notes:

* *Share options are vested from date of grant.*

a. *Including an option granted to Mr Kwan Man Wai on 7 October 2003 to subscribe for 3,300,000 shares in the Company at a subscription price of HK$1.999 per share. On 12 July 2005, Mr Kwan Man Wai was appointed as an Executive Director of the Company.*

15. COMMITMENTS

(a) Capital expenditure commitments

	At 31 December 2005 HK$'000	At 31 December 2004 HK$'000
Contracted but not provided for, net of deposits paid	**175,623**	67,813

(b) Investment commitments

As at 31 December 2005, the Group had an outstanding commitment of HK$300,000,000 *(2004: HK$11,000,000)* in respect of the capital contribution to a subsidiary in the PRC.

16. CONTINGENT LIABILITIES

(a) Corporate guarantee

During the period, the Company provided corporate guarantees to banks and other financial institutions in respect of banking facilities and other finance lease credits given to certain subsidiaries. At the balance sheet date, the banking facilities and other finance lease granted to and utilised by the subsidiaries amounted to HK$939,317,000 *(2004: HK$1,267,273,000)* and HK$360,207,000 *(2004: HK$886,565,000)* respectively.

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

Before 30 June 2003, a subsidiary of the Company had paid PRC 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 PRC 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

Certain banking facilities of the Group were secured by corporate guarantees provided by the Company. In prior period, properties with carrying value of HK$7,400,000 were pledged to banks to secure banking facilities granted to the Group. These properties were released during the period under review.

During the period under review, (i) all the shares in the capital of Toowomba Holdings Limited and Successful Gold Profits Limited, wholly-owned subsidiaries of the Company, and (ii) an assignment of intercompany loan entered into between the Company as lender and Kenlap P.G.C. Manufacturer Company Limited (a wholly-owned subsidiary of Ocean Grand Chemicals Holdings Limited) as borrower, were pledged to secure the Company's obligations under the Existing Notes *(2004: Nil)*.

18. RELATED PARTY TRANSACTIONS

In addition to the information disclosed in the report of the directors, the Group had the following transactions with related parties:

(a) During the period, the Group paid consultancy fee of HK$960,000 *(12 months ended 31 December 2004: HK$960,000)* to a company which is beneficially owned by a director of the Company.

(b) On 1 January 2004, a subsidiary of the Company entered into lease agreements with a company which is beneficially owned by a director of the Company for leasing of two motor vehicles. During the period, the Group paid rental expenses of HK$960,000 *(12 months ended 31 December 2004: HK$960,000)* to the leasor.

(c) Key management compensation

	For the twelve months ended 31 December	
	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**15,542**	12,434

19. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group has entered into the following significant transactions:

(i) On 6 March 2006, the Group has further issued US$35,000,000 9.25% guaranteed notes due 2010 (the "Further Notes") to certain institutional investors. The terms and conditions of these Further Notes are the same as the outstanding US$125,000,000 Existing Notes and they rank *pari passu*, and are consolidated to form a single series, with the outstanding US$125,000,000 Existing Notes. The effective yield of the Further Notes is 8.50% per annum, which is 0.875% lower than the effective yield of the outstanding US$125,000,000 Existing Notes at the time of their issuance.

(ii) The Group has entered into a number of 5-year USD/CNY non-delivery SWAPs with notional principal amount of US$145 million to hedge against the US$145 million 9.25% guaranteed notes due 2010 and its net investments in and RMB revenue of subsidiaries incorporated in the PRC. The SWAPs have a combined effect of changing the Group's borrowings of US$145 million paying interest at 9.25% per annum into RMB borrowings paying interest at below 6.50% per annum.

20. COMPARATIVE FIGURES

Certain comparative figures for the 12 months ended 31 December 2004 and as at 31 December 2004 have been reclassified to conform with the current period's presentation.