



OCEAN GRAND CHEMICALS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

海域化工集團有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(Stock code: 2882)

INTERIM REPORT 2007

* *for identification purpose only*

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MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of Ocean Grand Chemicals Holdings Limited (Provisional Liquidators Appointed) (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2007.

BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of subsidiaries were engaged in the subcontracting, manufacturing and trading of precious metal electroplating chemicals in the PRC and Hong Kong.

RESTRUCTURING

On 22 February 2008, the Company announced that a conditional agreement for the proposed restructuring of the Group, involving capital reorganisation, debt restructuring, subscription of new shares and subscription of preference shares, was entered into on 8 October 2007 among the Company, Perfect Ace Investments Limited (the “Investor”), the Provisional Liquidators and an escrow agent, and an addendum thereto was executed by the relevant parties on 14 December 2007 (the said agreement together with the said addendum collectively the “Restructuring Agreement”).

On 2 October 2007, Brand New Management Limited (“Brand New”), a new wholly-owned subsidiary of the Company, was incorporated in the British Virgin Islands. Brand New is an investment holding company which beneficially owns 100% interest in Trump Power Limited (“TPL”). TPL was incorporated in Hong Kong on 10 October 2007. Since November 2007, the Company has reactivated its trading of the electroplating chemicals through TPL.

The Investor would become the controlling shareholder of the Company upon completion of the proposed restructuring of the Group as contemplated under the Restructuring Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

It is anticipated that the financial position of the Group will be substantially improved upon completion of the proposed restructuring of the Group as contemplated under the Restructuring Agreement (“Completion”) as all liabilities arising from the creditors of the Company and creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through the Hong Kong scheme and Bermuda scheme, which were approved by the creditors of the Company and the respective Courts on 19 February 2008 and 8 August 2008 (Bermuda time).

Upon Completion, the Company’s shares will resume trading on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) subject to the approvals of the shareholders of the Company and the Listing Division of the Stock Exchange.

It is the Investor’s intention to revive the Group’s existing trading of precious metal electroplating chemicals currently conducted through Trump Power Limited (“TPL”). It is expected that immediately upon Completion, TPL will be the only major operating subsidiary of the Group.

The Company is confident that, with the Investor’s strong support in the business and financial aspects, the Group will be able to gain a strong foothold in the precious metal electroplating chemicals business and achieve a substantial level of operations within a reasonable period of time after the resumption of trading in shares of the Stock Exchange.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

REVIEW BY THE AUDIT COMMITTEE

Due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, up to the date of this report no independent non-executive directors were appointed as required by Rule 3.19 and Rule 3.21 of the Listing Rules following their resignations in July 2006. And as a result, the unaudited interim accounts of the Group for the six months ended 30 September 2007 have not been reviewed by the Audit Committee.

DELAY IN DISPATCH OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Due to suspension of trading in its shares on the Stock Exchange and most of the responsible officers had left the Group as explained below, the Company has not been able to dispatch the Interim Reports for the six months ended 30 September 2007 to its members within the due date as required by the Rules Governing the Listing of Securities (the “Listing Rules”).

The delay in the dispatch of the Annual Report constitutes breaches of the Rules 13.46(2) of the Listing Rules by the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 September 2007.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

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

At 30 September 2007, the interests and short positions of the directors and the chief executives and their associates 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 (“SFO”)), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Dr. Yip Kim Po	Others	<i>Notes (1) (a) & (b) and (2)</i>	<i>Notes (1) and (2)</i>
Dr. Hui Ho Ming, Herbert	Beneficial owner	9,500,000	1.91%
	Others	<i>Notes (1) (a) & (c) and (2)</i>	<i>Notes (1) and (2)</i>
Mr. Kwan Yan	Beneficial owner	148,000	0.03%

Notes:

- (1) (a) Successful Gold Profits Limited (“Successful Gold”) is a holder of 355,196,000 shares in the Company. Successful Gold is a wholly-owned subsidiary of Ocean Grand Holdings Limited (“OGHL”). OGHL, by virtue of the SFO, is deemed to be interested in all the shares in which Successful Gold is interested (i.e. the Company). The securities of OGHL are listed on the Main Board of the Stock Exchange and have been suspended for trading on the Stock Exchange since 17 July 2006.
- (b) As at 30 September 2007, Dr. Yip Kim Po directly and indirectly held 132,000,000 shares (approximately 31.14%) of the issued share capital of OGHL.
- (c) As at 30 September 2007, Dr. Hui Ho Ming, Herbert directly held 8,480,000 shares (approximately 2.00%) of the issued share capital of OGHL.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

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

Note: (continued)

- (2) The entire equity interest in Successful Gold held by OGHL was charged under a share charge agreement to The Bank of New York, as a trustee, for and on behalf of the holders of, in the aggregate, the US\$160 million 9.25% guaranteed notes issued by OGHL in December 2005 and March 2006. Upon the presentation of the winding up petition against OGHL and the appointment of its provisional liquidators on 24 July 2006, which constituted an event of default under, amongst others, the aforesaid share charge agreement. Pursuant to the share charge agreement, The Bank of New York, in its capacity as trustee of the Note holders, is entitled, following the occurrence of an event of default, to exercise the voting rights of Successful Gold. As such, The Bank of New York applied to, and received from, the Executive a waiver of the obligation to make a mandatory general offer for the Shares pursuant to Note 2 on dispensations from Rule 26 of the Takeovers Code.

Following the occurrence of an event of default, The Bank of New York is entitled to transfer legal title in the shares of Successful Gold into its name. However, The Bank of New York has, as yet, not done so and, therefore, OGHL remains the registered shareholder of Successful Gold.

However, Successful Gold is not a subsidiary of OGHL based on the definition of Rule 1.01 of the Listing Rules given that (i) the auditors of OGHL have confirmed that Successful Gold and its subsidiaries are no longer required to be consolidated into the financial statements of OGHL pursuant to Hong Kong Accounting Standard 27; and (ii) Successful Gold and its subsidiaries are also not subsidiaries of OGHL under Schedule 23 to the Hong Kong Companies Ordinance.

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2007 were recorded in the register required to be kept under Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 30 September 2007.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's code on corporate governance practices was adopted by reference to the provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). However, due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, the directors are unable to comment as to whether the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Trading in the shares of the Company has been suspended since 17 July 2006 and directors are of the opinion that since the date of shares trading suspension, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules is not applicable.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Up to the date of this annual report, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

INDEPENDENT INTERIM REVIEW REPORT

**To the Board of Directors of
OCEAN GRAND CHEMICALS HOLDINGS LIMITED
(Provisional Liquidators Appointed)**
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 9 to 28, which comprise the condensed consolidated balance sheet of OCEAN GRAND CHEMICALS HOLDINGS LIMITED (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 September 2007 and the related condensed consolidated income statement and condensed consolidated statement of changes in equity for the six months then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors are responsible for the preparation and presentation of this interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

INDEPENDENT INTERIM REVIEW REPORT

BASIS FOR DISCLAIMER CONCLUSION

In forming our conclusion, we have considered the adequacy of the disclosures in note 3(i) to the condensed consolidated financial statements concerning the adoption of the going concern basis on which the condensed consolidated interim financial statements have been prepared. The Company has entered into a conditional agreement with, among others, an investor for the purpose of restructuring of the Company's indebtedness and revitalising the Group's business. The condensed consolidated interim financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures to be implemented and the restructuring progress made by the Group on its financial position and business. The condensed consolidated interim financial statements do not include any adjustments that would result from the failure of these measures. We consider that the appropriate disclosures have been made but, because of the significant uncertainties relating to the outcome of the restructuring proposal are so extreme, we are unable to determine whether the going concern basis used in preparing these condensed consolidated financial statements are appropriate. Accordingly, we have qualified our conclusion.

DISCLAIMER OF CONCLUSION

Based on our review, with the exception of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 September 2007, and of its condensed financial performance for the six months then ended in accordance with HKAS 34.

RAY W.H. CHAN & CO.

Certified Public Accountants

12/F., Bel Trade Commercial Building,
1-3 Burrows Street,
Wanchai, Hong Kong

Hong Kong, 19 August 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

		For the six months ended 30 September	
	<i>Note</i>	2007	2006
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	5	683	127,548
Cost of sales		(638)	(186,041)
Gross profit/(loss)		45	(58,493)
Other income		2,253	4,267
General and administrative expenses		(1,540)	(11,000)
Gain on deconsolidation of a subsidiary	6	4,911	–
Impairment loss on amount due from a deconsolidated subsidiary	6	(8,093)	–
Other operating expenses		(2,392)	(110,185)
Loss from operations		(4,816)	(175,411)
Finance costs	7	(414)	(1,764)
Loss before taxation	7	(5,230)	(177,175)
Income Tax	8	–	–
Loss attributable to equity holders of the Company		(5,230)	(177,175)
Dividends	9	–	–
Loss per share	10		
– Basic		(HK1.05 cents)	(HK35.69 cents)
– Diluted		(HK1.05 cents)	(HK35.65 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2007

		30 September	31 March
	<i>Note</i>	2007	2007
		(Unaudited)	(Audited)
		HK\$ '000	HK\$ '000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		6,580	6,580
Property, plant and equipment		4,487	5,338
Lease premium on land		1,322	1,328
		<u>12,389</u>	<u>13,246</u>
Current assets			
Current portion of lease premium on land		11	12
Inventories		–	2,181
Trade and other receivables	11	118	123
Tax recoverable		949	788
Bank balances and cash		77,681	77,044
		<u>78,759</u>	<u>80,148</u>
Current liabilities			
Trade and other payables	12	30,323	30,491
Short-term bank borrowings		294,865	294,451
Amount due to a deconsolidated subsidiary		3,748	238
Short-term notes		119,772	120,544
		<u>448,708</u>	<u>445,724</u>
Net current liabilities		<u>(369,949)</u>	<u>(365,576)</u>
Net liabilities		<u>(357,560)</u>	<u>(352,330)</u>
EQUITY			
Share capital	13	49,790	49,790
Reserves	15	(407,350)	(402,120)
Equity attributable to equity holders of the Company		<u>(357,560)</u>	<u>(352,330)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity as beginning of the period	(352,330)	(188,142)
Share issued upon exercise of share options	–	1,090
Premium arising from issue of shares upon exercise of share options	–	15,905
Recognition of share option payment	–	(3,689)
Loss for the period	(5,230)	(177,175)
	(5,230)	(163,869)
Total equity as at the end of the period	(357,560)	(352,011)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Ocean Grand Chemicals Holdings Limited (Provisional Liquidators Appointed) (the “Company”) was incorporated as an exempted company with limited liability in Bermuda and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Provisional liquidators of the Company were appointed on 24 July 2006. Its former ultimate holding company is Ocean Grand Holdings Limited, a company which is incorporated in Bermuda and listed on the Stock Exchange. The shares of the Company and its former ultimate holding company have been suspended for trading on the Stock Exchange since 17 July 2006. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Rooms A & B, 15/F., Hilltop Plaza, 49 Hollywood Road, Central, Hong Kong.

The Company is an investment holding company. At 30 September 2007, the Company’s subsidiaries (which together with the Company are collectively referred to as “the Group”) were principally engaged in the subcontracting, manufacturing and trading of precious metal electroplating chemicals in the PRC and Hong Kong. The operations of the Group have ceased since the appointment of provisional liquidators of the Company on 24 July 2006 and the Group has reactivated its trading of the electroplating chemicals through a newly incorporated subsidiary of the Company, Trump Power Limited (“TPL”), since November 2007.

The condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

2. WINDING-UP PETITION AND APPOINTMENT OF PROVISIONAL LIQUIDATORS

As explained in the Group's 2006 annual report, in view of the discovery by the directors of the Company that significant amount of funds in its subsidiary had been transferred out of the Group which resulted in difficulties for the Group to meet its short term debts, the directors voluntarily resolved to apply for suspension of trading in its shares on the Stock Exchange and to apply to the courts in Hong Kong and Bermuda respectively for the appointment of provisional liquidators in order to protect the assets of the Group and to safeguard the interests of both the creditors and the shareholders.

As a result of the applications, Messrs. Lai Kar Yan (also known as Lai Kar Yan, Derek) and Joseph Kin Ching Lo, both of Deloitte Touche Tohmatsu ("Deloitte"), have been appointed as the joint and several provisional liquidators of the Company ("Provisional Liquidators") by the order of the High Court of Hong Kong ("High Court") of 24 July 2006 and the order of the Supreme Court of Bermuda of 25 July 2006 ("Orders").

Pursuant to the terms of the Orders, the Provisional Liquidators may, among other things, exercise the powers to take into their custody and protect the assets of the Company and carry on and stabilise the operations of the Group, including facilitating a restructuring of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

3. BASIS OF PREPARATION

(i) *Going Concern*

The Group sustained a loss attributable to equity holders of the Company of approximately HK\$5 million for the six months ended 30 September 2007 (30 September 2006: 177 million). As at 30 September 2007, the Group had net current liabilities of approximately HK\$370 million (31 March 2007: 366 million) and net liabilities of approximately HK\$358 million (31 March 2007: 352 million). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Restructuring Agreement

On 22 February 2008, the Company announced that a conditional agreement for the proposed restructuring of the Group, involving capital reorganisation, debt restructuring, subscription of new shares and subscription of preference shares, was entered into on 8 October 2007 among the Company, Perfect Ace Investments Limited (the "Investor"), the Provisional Liquidators and an escrow agent, and an addendum thereto was executed by the relevant parties on 14 December 2007 (the said agreement together with the said addendum collectively the "Restructuring Agreement"). The principal elements of the restructuring proposal are as follows:

a) Capital Restructuring

The Company will undergo capital restructuring, involving share consolidation, capital reduction and authorised share capital change.

b) Subscription

Pursuant to the Restructuring Agreement, immediately after the implementation of the capital restructuring, the investor will subscribe for the following:-

- (i) 357,000,000 new shares of HK\$0.01 each at the subscription price of HK\$0.14 each; and
- (ii) 1,071,000,000 preference shares of par value of HK\$0.01 each carrying the right to convert into new shares at the ratio of one to one at the subscription price of HK\$0.14 each.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

3. BASIS OF PREPARATION (Continued)

(i) *Going Concern (Continued)*

Restructuring Agreement (Continued)

c) Debt Restructuring

Pursuant to the Restructuring Agreement, the debt restructuring will be effected through both the Hong Kong and the Bermuda schemes of arrangement between the Company and the creditors. All the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for (i) a cash payment of HK\$50 million, which is funded by the Company out of the proceeds of the subscription of shares by the Investor; and (ii) the issuance of a total of 45,000,000 new shares to the creditors at nil consideration, representing approximately 9.96% of the enlarged issued share capital of the Company upon completion of restructuring, with a put option to sell all or part of the new shares to be issued under the schemes to the Investor at the price of approximately HK\$0.2222 per new share (equivalent to HK\$9,999,000 assuming put options are fully exercised). The put options will be exercisable within six months from the date of the scheme administrators transferring the new shares to the creditors.

On 2 October 2007, Brand New Management Limited ("Brand New"), a new wholly-owned subsidiary of the Company, was incorporated in the British Virgin Islands. Brand New is an investment holding company which beneficially owns 100% interest in Trump Power Limited ("TPL"). TPL was incorporated in Hong Kong on 10 October 2007. Since November 2007, the Company has reactivated its trading of the electroplating chemicals through TPL.

Save for Brand New and TPL, the issued shares of all subsidiaries directly or indirectly held by the Company, will be transferred to the scheme administrators or their nominees for the benefit of the creditors at a nominal consideration of HK\$1 as a term of the Hong Kong scheme and the Bermuda scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

3. BASIS OF PREPARATION (Continued)

(i) *Going Concern (Continued)*

Restructuring Agreement (Continued)

The directors have prepared the condensed consolidated financial statements on the basis that the restructuring of the Company will be implemented in accordance with its terms and the Group will be able to improve its financial position and business upon completion of the proposed restructuring. As at the date of approval of the condensed consolidated financial statements, the Directors are not aware of any circumstances or reasons that would likely affect the implementation of the restructuring proposal. In light of the foregoing, the directors opined that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis. The condensed consolidated financial statements do not incorporate any adjustments for possible failure of the above mentioned restructuring proposal and the continuance of the Group as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in these condensed consolidated financial statements.

(ii) *Deconsolidation of Subsidiaries*

- (a) One of the subsidiaries, OGC Management Services Limited (“OGC Management”), has been put into liquidation pursuant to a court order issued on 7 February 2007. The directors considered that control over OGC Management has been lost and they were unable to have access to any books and records and unable to obtain any further financial information of OGC Management. Therefore the subsidiary was excluded from the consolidated financial statements as of 1 April 2007 resulting in a gain of approximately HK\$4,911,000 which was included in the condensed consolidated income statements for the six months ended 30 September 2007.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

3. BASIS OF PREPARATION (Continued)

(ii) Deconsolidation of Subsidiaries (Continued)

(b) The condensed consolidated financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the major assets and production facilities of Kenlap Fine Chemical (Zhuhai) Technology Company Limited (“Kenlap Zhuhai”), a major subsidiary of the Company, were subject to freezing order obtained by the creditors in the PRC and most of the accounting personnel of the Group have left, the directors have been unable to obtain sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group as at 30 September 2007, the directors have not been able to obtain access to the books and records of Kenlap Zhuhai and considered that control has been lost. The results, assets and liabilities of Kenlap Zhuhai were not included into the consolidated financial statements of the Group. Details of Kenlap Zhuhai are set out in note 16 to the condensed consolidated financial statements. In the opinion of the directors, the condensed consolidated financial statements for the six months ended 30 September 2007 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the Company no longer had control over Kenlap Zhuhai.

(iii) In addition to the limited financial information available and the assets of Kenlap Zhuhai being subject to freezing order by the PRC Court as detailed in note 16 to the condensed consolidated financial statements, the directors have used their best endeavours to relocate all the financial and business records of the Group. As most of the former accounting personnel of the Group have left. The directors were unable to obtain sufficient documentary information to satisfy themselves regarding the genuineness of books and records and the treatment of various balances as included in the condensed consolidated interim financial statements for the six months ended 30 September 2007.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

3. BASIS OF PREPARATION (Continued)

(iii) (Continued)

Due to limited books of account and records available to the directors, the following disclosures have not been made in the condensed consolidated financial statements:

- Details of the retirement benefit scheme and the employee benefits as required by HKAS 19 “Employee Benefits”;
- Segment information disclosures as required by HKAS 14 “Segment Reporting” and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”);
- Details of related party disclosures as required by HKAS 24 “Related Party Disclosures”;
- Details of the Group’s aging of debtors and creditors as required by the Listing Rules;
- Details of deferred taxation as required by HKAS 12 “Income Taxes”; and
- Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance.

(iv) Due to insufficient information available to the directors, the condensed consolidated financial statements do not contain a cash flow statement as required by HKAS 7 “Cash Flow Statements”.

Any adjustments arising from the matters described above would have a consequential significant effect on the loss of the Group for the six month ended 30 September 2007 and net liabilities of the Group as at 30 September 2007.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

4. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) except for the non-compliance as mentioned in note 3 to the condensed consolidated financial statements.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those set out in the 2007 annual financial statements.

In the current period, the Group has applied for the first time, a number of new standards; amendments and interpretations (hereafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 April 2007.

The application of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Preparation of Financial Statements ⁽¹⁾
HKAS 23 (Revised)	Borrowing Costs ⁽¹⁾
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽²⁾
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ⁽¹⁾
HKFRS 3 (Revised)	Business Combinations ⁽²⁾

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 8	Operating Segments ⁽¹⁾
HK(IFRIC)-Int 12	Service Concession Arrangements ⁽³⁾
HK(IFRIC)-Int 13	Customer Royalty Programmes ⁽⁴⁾
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁽³⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2009

⁽²⁾ Effective for annual periods beginning on or after 1 July 2009

⁽³⁾ Effective for annual periods beginning on or after 1 January 2008

⁽⁴⁾ Effective for annual periods beginning on or after 1 July 2008

5. TURNOVER

Turnover recognised by category is analysed as follows:

	For the six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Turnover		
Sale of goods	683	127,514
Subcontracting fees	—	34
	<hr/>	<hr/>
	683	127,548
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

6. GAIN ON DECONSOLIDATION OF A SUBSIDIARY AND IMPAIRMENT LOSS ON INVESTMENT COST AND AMOUNT DUE FROM A DECONSOLIDATED SUBSIDIARY

	2007 HK\$'000 (Unaudited)
Gain on deconsolidation of a subsidiary (<i>note a</i>)	(4,911)
Impairment loss of investment cost in a deconsolidated subsidiary	—
Impairment loss of amount due from a deconsolidated subsidiary	8,093
	<u>3,182</u>

a) Gain on deconsolidation of a subsidiary

The Group had equity interest of 100% in OGC Management, the principal activities of which were provision of management services. As disclosed in note 3(ii)(a) to the condensed consolidated financial statements for the six months ended 30 September 2007, the directors considered that the control over OGC Management has been lost as a winding-up order was made against OGC Management on 7 February 2007. Accordingly, the directors of the Company were unable to access to the books and records of the subsidiary. For the sake of appropriate presentation in order to allow the public to evaluate the performance of the Group, OGC Management was excluded from the consolidation as at 1 April 2007. The details of gain on deconsolidation of OGC Management were as follows:

	2007 HK\$'000 (Unaudited)
Amount due to the Group	(4,583)
Other payables	(168)
Current tax liabilities	(160)
Net liabilities deconsolidated	(4,911)
Investment cost	—
Gain on deconsolidation of a subsidiary	<u>(4,911)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

7. LOSS BEFORE TAXATION

This is stated after charging the following:

	For the six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	414	898
Finance charges on obligations under finance leases	—	5
Other borrowing costs	—	861
	<hr/>	<hr/>
	414	1,764
	<hr/>	<hr/>

	For the six months ended 30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
b) Other items		
Amortisation of lease premium on land	6	6
Depreciation	302	321
Impairment loss of amount due from former ultimate holding company	—	450
Impairment loss of amount due from a former fellow subsidiary	—	341
Impairment loss of trade receivables	—	1,452
Staff costs	598	5,111
Reversal of impairment loss of amount due from a deconsolidated subsidiary	—	(58)
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

8. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months ended 30 September 2007 as the Group has no estimated assessable profits for the period (2006: nil).

9. INTERIM DIVIDEND

The directors have resolved not to declare an interim dividend for the six months ended 30 September 2007 (2006: nil).

10. LOSS PER SHARE

The calculations of basic and diluted loss per share for the six months ended 30 September 2007 was based on the Group's loss attributable to equity holders of the Company of approximately HK\$5,230,000 (30 September 2006: loss of approximately HK\$177,175,000). The basic loss per share is based on the weighted average number of 497,900,000 shares in issue (30 September 2006: 496,498,000 shares) during the period. The diluted loss per share is calculated based on the weighted average number of 497,900,000 shares (30 September 2006: 496,990,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in note 14 to this condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

11. TRADE AND OTHER RECEIVABLES

	30 September 2007	31 March 2007
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(Unaudited)	(Audited)
Trade receivables	251,473	251,473
Less: Impairment loss of trade receivables	(251,473)	(251,473)
	<u> — </u>	<u> — </u>
Other receivables		
Deposits, prepayment and other debtors	15,580	15,585
Due from former ultimate holding company	450	450
Due from a former fellow subsidiary	341	341
	<u>16,371</u>	<u>16,376</u>
Less: Impairment loss of other receivables	(16,253)	(16,253)
	<u>118</u>	<u>123</u>
	<u><u>118</u></u>	<u><u>123</u></u>

12. TRADE AND OTHER PAYABLES

	30 September 2007	31 March 2007
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(Unaudited)	(Audited)
Trade payables	28,875	28,875
Other payables		
Accrued charges and other creditors	1,448	1,616
	<u>30,323</u>	<u>30,491</u>
	<u><u>30,323</u></u>	<u><u>30,491</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

13. SHARE CAPITAL

	30 September 2007		31 March 2007	
	Number of '000	Amount HK\$ '000	Number of '000	Amount HK\$ '000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Shares issued and allotted fully paid at beginning of the year	497,900	49,790	487,000	48,700
Share issued upon exercise of share options	<u>—</u>	<u>—</u>	<u>10,900</u>	<u>1,090</u>
At balance sheet date	<u><u>497,900</u></u>	<u><u>49,790</u></u>	<u><u>497,900</u></u>	<u><u>49,790</u></u>

14. SHARE OPTIONS

Date of grant	Exercise period *	Exercise price per share HK\$	Number of share options					Outstanding at 30 September 2007 '000
			Outstanding at 1 April 2007 '000	Granted '000	Exercised '000	Cancelled '000	Lapsed '000	
31 March 2006	31 March 2006 to 3 September 2013	1.32	3,200	—	—	—	—	3,200
							Total	<u><u>3,200</u></u>

* Share options are vested from date of grant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

15. RESERVES

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2006	19,984	10,177	33,706	(300,709)	(236,842)
Premium arising from issue of shares upon exercise of share options	15,905	–	–	–	15,905
Recognition of share option payment	–	(3,689)	–	–	(3,689)
Loss for the period	–	–	–	(177,175)	(177,175)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2006	<u>35,889</u>	<u>6,488</u>	<u>33,706</u>	<u>(477,884)</u>	<u>(401,801)</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2007	35,889	1,200	33,706	(472,915)	(402,120)
Loss for the period	–	–	–	(5,230)	(5,230)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2007	<u>35,889</u>	<u>1,200</u>	<u>33,706</u>	<u>(478,145)</u>	<u>(407,350)</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

16. DECONSOLIDATION OF SUBSIDIARIES

The condensed consolidated financial statements for the period do not include the following subsidiaries, which is either in liquidation or the major assets and production facilities are subject to freezing orders obtained by the creditors in the PRC. Accordingly, the directors of the Company were unable to access to the books and records of these subsidiaries.

Details of the deconsolidated subsidiaries where the directors considered that control has been lost are as follows:

Name of subsidiary	Place of incorporation	Place of operation	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai") (Note i)	PRC	PRC	–	100%	Inactive
OGC Management Services Limited (In Liquidation) ("OGC Management") (Note ii)	Hong Kong	Hong Kong	100%	–	Inactive

Note:

- (i) Kenlap Zhuhai is a wholly foreign-owned entity established in the PRC for a period of 30 years expiring in 2031. The operations of Kenlap Zhuhai have ceased since the appointment of the Provisional Liquidators.

The Company has given guarantees or indemnities to certain banks in respect of loans advanced to Kenlap Zhuhai. The Company's obligation under these guarantees or indemnities crystallised upon default payment on the part of this subsidiary.

- (ii) A winding-up order against OGC Management was made on 7 February 2007. Accordingly, the directors considered that the control over the company has been lost. Consequently, OGC Management was excluded from the consolidation financial statement as of 1 April 2007. The gain on deconsolidation of OGC Management was put out in note 6 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

17. COMMITMENTS

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

	30 September 2007 <i>HK\$'000</i> (Unaudited)	31 March 2007 <i>HK\$'000</i> (Audited)
Within one year	640	1,408
Between two to five year	—	—
	<u>640</u>	<u>1,408</u>

18. CONTINGENT LIABILITIES

The Company has executed corporate guarantees to banks and other financial institutions for facilities given to a deconsolidated subsidiary. At the balance sheet date, the banking facilities and other financial credits granted to and utilised by the deconsolidated subsidiary amounted to HK\$100,962,000 and HK\$95,580,000 respectively.

19. SUBSEQUENT EVENT

Details of significant subsequent events are summarised in notes 2 and 3 to the condensed consolidated financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. Yip Kim Po, *Chairman*

Dr. Hui Ho Ming, Herbert, JP, *Deputy Chairman*

Mr. Lin Jianping

Mr. Chin Chang Keng, Raymond (Appointed on 14 August 2008)

Ms. Ang Mei Lee, Mary (Appointed on 14 August 2008)

AUDITORS

RAY W.H. CHAN & CO.

Certified Public Accountants

12/F., Bel Trade Commercial Building,

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JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

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