



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)

Annual Report 2007

* *for identification purpose only*

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DIRECTORS' REPORT

The Directors of Ocean Grand Chemicals Holdings Limited (Provisional Liquidators Appointed) (the “Company”) is pleased to announce the annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2007.

FINANCIAL RESULTS

For the year ended 31 March 2007, the Group’s turnover was approximately HK\$131.9 million (2006: 1,006.7 million), representing a decrease of approximately 86.9% from the last financial year. The consolidated loss attributable to shareholders amounted to approximately HK\$177.5 million for the year.

Loss per share was approximately 35.7 cents as compared with loss per share 98.67 cents for the preceding year.

The directors do not recommend the payment of final dividend.

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 OF THE GROUP

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.

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.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Bank balances and cash as at 31 March 2007 was approximately HK\$77 million.

CONTINGENT LIABILITIES

Details of contingent liabilities as at 31 March 2007 included in note 30 to the consolidated financial statements.

DIRECTORS' REPORT

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 audited accounts of the Group for the year ended 31 March 2007 have not been reviewed by the Audit Committee.

DELAY IN DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 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 Annual Reports for the financial year ended 31 March 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.

PRINCIPAL ACTIVITIES

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. Particulars of the Company's principal subsidiaries are shown under Note 18 to the financial statements.

WINDING-UP PETITION

In July 2006, in view of the discovery by the then 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 then directors of the Company (including Dr. Herbert Hui Ho Ming ("Dr. Hui") who has remained and actively assisted in the restructuring) voluntarily resolved to apply for a 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.

WINDING-UP PETITION (continued)

As a result of the applications by the Company, supported by the affirmations by Dr. Hui who also funded the legal costs for the initial application, 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”) pursuant to the order of the High Court of Hong Kong (“High Court”) of 24 July 2006 and by the order of the Supreme Court of Bermuda of 25 July 2006 (“Orders”).

The hearing of the winding-up petition against the Company was originally scheduled on 20 September 2006 and the High Court adjourned the winding-up petition against the Company to 25 September 2006. The High Court then further adjourned the hearing of the winding-up petition to 18 December 2006, 16 April 2007, 20 August 2007, 24 December 2007, 23 June 2008 and 22 December 2008.

NON-COMPLIANCE OF APPENDIX 16 “DISCLOSURE OF FINANCIAL INFORMATION” OF THE LISTING RULES

Due to the failure to access the books and records of certain subsidiaries and the resignation of the major management personnel responsible for maintaining the books and records, the directors do not have sufficient data to compile the Annual Report so as to comply with the Appendix 16 “Disclosure of financial information” of the Listing Rules. The following information has been omitted from the Annual Report:

1. Segment information for the Group’s turnover and contribution to results by principal activities and geographical areas.
2. The information on the Group’s major suppliers and customers.
3. Connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules;
4. A separate Corporate Governance Report contained the information required under Appendix 23 of the Listing Rules;
5. Details of the number and remuneration of employees, remuneration policies, and the retirement benefits scheme;
6. Details of charges on group assets.

DIRECTORS' REPORT

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 and the state of affairs of the Group at that date are set out in the financial statements on page 24 to 67.

No interim dividend has been paid and declared by the Company during the year (2006: HK\$0.025 per shares). The directors has not recommended the payment of final dividend for the years ended 31 March 2007.

FIVE YEAR FINANCIAL SUMMARY

A summary of published result and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, set out on page 68. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in notes 14 and 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Movements in share capital of the Company and details of share option scheme of the Company are set out in notes 27 and 28 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 27.

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 year ended 31 March 2007.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

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)

Mr. Kwan Yan (appointed on 14 July 2005 and resigned on 25 July 2006)

Independent Non-Executive Directors:

Dr. Lo Wing Yan, William, JP (resigned on 18 July 2006)

The Honourable Cheung Yu-yan, Tommy, JP (resigned on 26 July 2006)

Mr. Wan Ngar Yin, David (resigned on 26 July 2006)

Non-Executive Director:

Mr. Yeh V-nee (resigned on 26 July 2006)

EMOLUMENTS OF DIRECTORS

Details of the emoluments of the directors are set out in note 10 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Dr. Yip Kim Po and Dr. Hui Ho Ming, Herbert have respectively entered into a service agreement with the Company for a term of two and three years from 9 June 2005.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

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

At 31 March 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 31 March 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 31 March 2007, Dr. Hui Ho Ming, Herbert directly held 8,480,000 shares (approximately 2.00%) of the issued share capital of OGHL.

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 31 March 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 31 March 2007.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the directors considered that they have no interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

DIRECTORS' REPORT

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 31 March 2007, the interests or short positions of the substantial shareholders and other person (other than those directors or chief executives of the Company disclosed above) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were follows:

Long Position – Substantial shareholders

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
OGHL	Indirectly through Successful Gold Profits Limited (note)	355,196,000	71.34%
Successful Gold Profits Limited	Directly	355,196,000	71.34%

Note:

As explained in notes 1 and 2 to Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures, Successful Gold is not a subsidiary of OGHL since 24 July 2006 based on the definition of Rule 1.01 of the Listing Rules.

Long Position – Other Person

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Martin Currie Inc	Directly	44,496,000	8.94%

Save as disclosed above, as at 31 March 2007, there was no person (other than 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.

DIRECTORS' REPORT

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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, and all the independent non-executive directors of the Company had resigned afterwards; up to the date of this report the Company is unable to appoint minimum number of persons to be its independent non-executive directors, hence in breach of Rule 3.19 of the Listing Rules ("the INED Requirement"). In addition, the audit committee has not been maintained as required by the Listing Rules and has not reviewed the annual results.

EMOLUMENT POLICY

No remuneration committee was set up to determine the emolument policy of the Group. However, the emolument policy of the employees of the Group is decided by the Board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible employees, details of the scheme is set out in Note 28 to the financial statements.

INFORMATION ON SHARE OPTION SCHEME

At the AGM of the Company held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme (the "Share Option Scheme") which complied with Chapter 17 of the Listing Rules of the Stock Exchange. At the AGM of the Company held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme's mandate limit.

Summary of the terms and particulars of outstanding options of the Share Option Scheme is set below pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

(a) Purpose

To enable the Group to grant options to selected eligible participants as incentives or rewards for their contribution to the Group.

(b) Eligible Participants

(i) any director, employee or any business associates including but not limited to the customer, distributor, suppliers, agent, consultant, business partner or advisor of or contractor to the Group or company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee or any business associates including but not limited to customer, distributor, supplier, agent, consultant, business partner, or advisor of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or any business associates including but not limited to the customer, distributor, supplier, agent, consultant, business partner or advisor of or contractor to the Group or an Affiliate.

(c) Total number of shares available for issuance

3,200,000 shares (approximately 0.64% of the issued share capital as at the date of this 2007 annual report).

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company and/or its subsidiary must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company or its subsidiary if this would result in the 30% limit being exceeded.

DIRECTORS' REPORT

INFORMATION ON SHARE OPTION SCHEME (continued)

(d) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the options granted to each eligible participant (including exercised, cancelled and outstanding options) within any twelve-month period under the Share Option Scheme and any other share option scheme(s) of the Company and/or any subsidiary must not exceed 1% of the number of shares in issue.

(e) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each eligible participant at the time of offer of the grant of the option, which must not be more than 10 years from the date of offer the grant of the option.

(f) Payment on acceptance of option

HK\$1.00 in cash is payable by the eligible participant of the option to the Company on acceptance of the offer.

(g) The basis of determining the exercise price

The subscription price for the shares in relation to the options to be granted under the Share Option Scheme will be a price determined by the Board and notified to each eligible participant at the time of offer of grant of the option and will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer to the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the grant of the option; and (iii) the nominal value of the shares.

(h) Remaining life of scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date (i.e. 4 September 2003).

DIRECTORS' REPORT

INFORMATION ON SHARE OPTION SCHEME (continued)

Movement of share options during the year ended 31 March 2007:

Eligible Participant	Date of grant	Number of share options to subscribe for shares				Outstanding at 31 March 2007	Subscription price per share	Exercised period*
		Outstanding at 1 April 2006	Granted	Exercised	Lapsed			
Employees:								
Employees	9.2.2004	4,700,000	–	–	(4,700,000) (Note a)	–	HK\$1.38	9.2.2004 to 3.9.2013
Employees	17.2.2005	2,100,000	–	–	(2,100,000) (Note b)	–	HK\$1.10	17.5.2005 to 3.9.2013
Employee	1.8.2005	4,700,000	–	(4,700,000) (Note c)	–	–	HK\$1.09	1.8.2005 to 3.9.2013
Employees	31.3.2006	23,500,000	–	(6,200,000) (Note d)	(14,100,000) (Note a)	3,200,000	HK\$1.32	31.3.2006 to 3.9.2013
Total:						3,200,000		

* Share options are vested from date of issue

- a. An options granted to employees on 9 February 2004 and 31 March 2006 were lapsed in July 2006.
- b. An options granted to employees on 17 February 2005 were lapsed on 28 September 2006.
- c. Weighted average closing price of shares immediately before the date of which the option was exercised was HK\$1.59.
- d. Weighted average closing price of shares immediately before the date of which the option was exercised was HK\$1.58.

DIRECTORS' REPORT

INFORMATION ON SHARE OPTION SCHEME (continued)

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year ended 31 March 2007 because the directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitation of the model itself.

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.

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 year ended 31 March 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 33 to the consolidated financial statements.

DIRECTORS' REPORT

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.

AUDITOR

Messrs Moores Rowland Mazars, the auditors of the Company for the year ended 31 March 2005, have resigned during the year 2006. Messrs PricewaterhouseCoopers was appointed as the auditors of the Company on 14 February 2006 and resigned on 5 December 2007. Subsequently, Ray W.H. Chan & Co. was appointed as auditors of the Company on 14 August 2008.

The accompanying financial statements have been audited by Ray W.H. Chan & Co. who will retire and a resolution for their appointment as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

HUI HO MING, HERBERT

DIRECTOR

19 August 2008

ANG MEI LEE, MARY

DIRECTOR

19 August 2008

CHIN CHANG KENG, RAYMOND

DIRECTOR

19 August 2008

INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF
OCEAN GRAND CHEMICALS HOLDINGS LIMITED
(Provisional Liquidators Appointed)**
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Ocean Grand Chemicals Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 24 to 67, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibilities towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Our report on the consolidated financial statements of the Group for the year ended 31 March 2006 was disclaimed in view of the pervasive nature of the limitation on the scope of our audit resulting from the inability of the directors to locate sufficient documentary information. It was explained by the directors that due to, among other things, major assets and production facilities of a major subsidiary were subject to freezing orders 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. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group as at 31 March 2006 were fairly stated. Any adjustments to the opening balances as at 1 April 2006 would affect the net liabilities of the Group as at 31 March 2007 and the results and of the Group for the year ended 31 March 2007. Also the comparative figures in respect of the net liabilities of the Group as at 31 March 2007 and results of the Group for the year ended 31 March 2006 may not be comparable with the figures for the current year.

INDEPENDENT AUDITOR'S REPORT

2. As explained by the directors in note 3(iii) to the consolidated financial statements, a winding-up order was made against OGC Management Services Limited ("OGC Management"), a subsidiary of the Company, on 7 February 2007 and the directors considered that the control of the company has been lost. As a result, the unaudited management accounts of OGC Management for the year ended 31 March 2007 are the only financial information made available to the management and therefore, the unaudited management accounts of OGC Management for the whole year from 1 April 2006 to 31 March 2007 were included in the consolidated financial statements for the year ended 31 March 2007. Accordingly, we have been unable to perform any satisfactory audit procedures necessary to obtain sufficient appropriate audit evidence to satisfy ourselves as to the reliability of the amounts and related balances of OGC Management as included in the consolidated financial statements for the year ended 31 March 2007 were fairly stated, and to determine as to whether all appropriate disclosures have been included in the consolidated financial statements in accordance with the disclosure requirements of the Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance. The unaudited management accounts of OGC Management were included in the consolidated financial statements for the year ended 31 March 2007 are summarised in note 3(iii) to the consolidated financial statements.
3. As explained by the directors in notes 3(ii) & (iv) to the consolidated financial statements that due to accounting irregularities uncovered by the Provisional Liquidators, the Commercial Crime Bureau of the Hong Kong Police Force (the "CCB") conducted a number of searches at the Group's premises, seized documents and records and interviewed staff of the Group, the major assets and production facilities of a subsidiary, Kenlap Fine Chemical (Zhuhai) Technology Company Limited ("Kenlap Zhuhai") were subject to freezing orders obtained by the creditors in the PRC, only limited financial information is available 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 genuineness of books and records and treatment of various balances of the Group as at 31 March 2007 and have formed the opinion as follows:
 - (a) As further explained by the directors in note 3(iv)(a) to the consolidated financial statements, the directors were unable to satisfy themselves as to whether the amount due to a deconsolidated subsidiary of approximately HK\$238,000 (2006: HK\$269,000) included in the consolidated balance sheet as at 31 March 2007 is fairly stated in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

- (b) As further explained by the directors in 3(iv)(b) to the consolidated financial statements, the consolidated financial statements have been prepared based on the available books and records maintained by the Group. However, in view of the lack of evidence, the directors were unable to represent that all transactions entered into by the Group for the year ended 31 March 2007 have been properly reflected in the books of account and in the consolidated financial statements. In this context, the directors are also unable to represent as to the completeness and correctness of the identification and disclosures of turnover in note 6, other income in note 7, loss on deconsolidation of a subsidiary, and impairment loss on investment cost and amount due from a deconsolidated subsidiary in note 8, finance costs in note 9(a), directors' and senior executives' remuneration in note 10, income tax in note 11, inventories in note 19, trade and other receivables in note 20, trade and other payables in note 22, bank borrowings in note 23, short-term notes in note 25, obligations under finance leases in note 26 and share options in note 28, commitments in note 29 and contingent liabilities in note 30 to the consolidated financial statements.
- (c) The directors have formed the opinion that the amount due from a deconsolidated subsidiary to the Group of approximately HK\$109,287,000 (2006: HK\$109,345,000) included in the consolidated balance sheet as at 31 March 2007 cannot be recovered. Accordingly, the directors have made provision for impairment loss for this amount. However, as explained in (b) above, in view of the lack of evidence, we were unable to obtain sufficient information and explanations regarding the basis upon which the directors have determined the amount of such provision. Accordingly, we were unable to satisfy ourselves as to whether the reversal of impairment loss and provision for this amount as included in the consolidated income statement in current or prior year respectively were appropriate and as to whether the amount due from this deconsolidated subsidiary, after impairment made, is fairly stated at the balance sheet date.
- (d) As further explained by the directors in note 3(iv)(c) to the consolidated financial statements, the directors were unable to obtain sufficient documentary evidence to support bank borrowings of approximately HK\$294,451,000 included in the consolidated balance sheet, including the liabilities under indemnities or guarantees given to deconsolidated subsidiary of approximately HK\$95,580,000. Accordingly, the directors were unable to satisfy themselves as to whether these amounts are fairly stated in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

4. We have not been able to obtain sufficient direct confirmations or other documentary evidence from the Group's certain bankers and loan providers, trade and other creditors and its PRC deconsolidated subsidiary, in respect of amounts due to them in the amounts of approximately HK\$414,995,000, HK\$30,491,000 and HK\$238,000 respectively, included in the consolidated balance sheet as at 31 March 2007. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the consolidated financial statements.
5. We were unable to attend the counting of the physical inventories at 31 March 2007 and insufficient documentary evidence made available to us, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of the inventories of approximately HK\$2,181,000 (2006: HK\$10,014,000) included in the consolidated financial statements. Accordingly, we were unable to satisfy ourselves as to whether the inventories are fairly stated in the consolidated financial statements.
6. We have not been able to obtain all necessary information for us to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in and/or disclosed as notes to the consolidated financial statements of the Group as at 31 March 2007.
7. As explained in note 3(iv)(d) to the consolidated financial statements, due to limited books and records available to the directors, the following disclosures have not been made in the consolidated financial statements:
 - (a) Details of the retirement benefit scheme and the employee benefits as required by HKAS 19 "Employee Benefits";
 - (b) 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");
 - (c) Details of related party disclosures as required by HKAS 24 "Related Party Disclosures";
 - (d) Details of the Group's financial risk management objectives and policies as required by HKAS 32 "Financial Instruments: Presentation";

INDEPENDENT AUDITOR'S REPORT

- (e) Details of the Group's aging of debtors and creditors as required by the Listing Rules;
 - (f) Details of deferred taxation as required by HKAS 12 "Income Taxes";
 - (g) Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and Hong Kong Financial Reporting Standards; and
 - (h) Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance.
8. As explained in note 3(iv)(e) to the consolidated financial statements, the consolidated financial statements do not contain a consolidated cash flow statement. This is not in accordance with the requirements of HKAS 7 "Cash Flow Statements". In our opinion, information about the Group's cash flows is necessary for a proper understanding of the Group's state of affairs and loss for the year ended 31 March 2007. It is not practicable to quantify the effects of the departure from this requirement.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures in note 3(i) to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated 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 consolidated 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 in process by the Group to improve the financial position and business of the Group. The consolidated 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 consolidated financial statements are appropriate. Accordingly, we have disclaimed our opinion.

INDEPENDENT AUDITOR'S REPORT

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the fundamental uncertainty relating to the going concern basis paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31 March 2007 and of the Group's loss for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitations on our work as set out in the basis of disclaimer of opinion section of this report:

- i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- ii) we were unable to determine whether proper books of account had been kept.

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Turnover	6	131,871	1,006,661
Cost of sales		(188,676)	(887,513)
Gross (loss)/profit		(56,805)	119,148
Other income	7	4,866	845
Increase in fair value of investment properties		1,310	470
General and administrative expenses		(14,184)	(35,830)
Loss on deconsolidation of a subsidiary	8	–	(31,727)
Impairment loss on investment cost in a deconsolidated subsidiary	8	–	(110,000)
Reversal of impairment loss/ (Impairment loss on amount due from a deconsolidated subsidiary)	8	58	(109,345)
Other operating expenses		(110,595)	(290,208)
Loss from operations		(175,350)	(456,647)
Finance costs	9	(2,144)	(21,432)
Loss before taxation	9	(177,494)	(478,079)
Income tax	11	–	(1,180)
Loss attributable to equity holders of the Company		(177,494)	(479,259)
Dividends	12	–	12,175
Loss per share	13		
– Basic		HK(35.70 cents)	HK(98.67 cents)
– Diluted		HK(35.70 cents)	HK(98.67 cents)

CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	Notes	2007 HK\$ '000	2006 HK\$ '000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	6,580	5,270
Property, plant and equipment	15	5,338	5,825
Lease premium on land	16	1,328	1,340
Intangible assets	17	—	—
		<hr/>	<hr/>
		13,246	12,435
		<hr/>	<hr/>
Current assets			
Current portion of lease premium on land	16	12	11
Inventories	19	2,181	10,014
Trade and other receivables	20	123	93,689
Tax recoverable		788	501
Bank balances and cash	21	77,044	47,079
		<hr/>	<hr/>
		80,148	151,294
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	22	30,491	51,599
Short-term bank borrowings	23	294,451	180,179
Amount due to a deconsolidated subsidiary	24	238	269
Short-term notes	25	120,544	119,618
Current portion of obligations under finance leases	26	—	110
		<hr/>	<hr/>
		445,724	351,775
		<hr/>	<hr/>
Net current liabilities		(365,576)	(200,481)
		<hr/>	<hr/>
Total assets less current liabilities		(352,330)	(188,046)
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	<i>Notes</i>	2007 <i>HK\$ '000</i>	2006 <i>HK\$ '000</i>
Non-current liabilities			
Obligations under finance leases	26	—	96
		—	96
Net liabilities		(352,330)	(188,142)
EQUITY			
Share capital	27	49,790	48,700
Reserves		(402,120)	(236,842)
Equity attributable to equity holders of the Company		(352,330)	(188,142)

Approved and authorised for issue by the Board of Directors on 19 August 2008.

HUI HO MING, HERBERT
DIRECTOR

ANG MEI LEE, MARY
DIRECTOR

CHIN CHANG KENG, RAYMOND
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Share Capital	Share premium	Exchange reserve	Share option reserve	Special reserve (Note a)	Accumulated profits/ (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	47,970	12,684	36	–	33,706	205,335	299,731
Dividend paid in respect of previous year	–	–	–	–	–	(14,610)	(14,610)
Interim dividend paid	–	–	–	–	–	(12,175)	(12,175)
Exercise of share options	730	7,300	–	–	–	–	8,030
Release of exchange reserve upon deconsolidation of a subsidiary	–	–	(36)	–	–	–	(36)
Equity settled share-based transactions	–	–	–	10,177	–	–	10,177
Loss for the year	–	–	–	–	–	(479,259)	(479,259)
At 31 March 2006	48,700	19,984	–	10,177	33,706	(300,709)	(188,142)
Exercise of share options	1,090	15,905	–	(3,689)	–	–	13,306
Lapse of share options	–	–	–	(5,288)	–	5,288	–
Loss for the year	–	–	–	–	–	(177,494)	(177,494)
At 31 March 2007	<u>49,790</u>	<u>35,889</u>	<u>–</u>	<u>1,200</u>	<u>33,706</u>	<u>(472,915)</u>	<u>(352,330)</u>

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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 OGHL, 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 31 March 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 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.

2. WINDING-UP PETITIONS AND APPOINTMENT OF PROVISIONAL LIQUIDATORS

In July 2006, 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 by 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.

The hearing of the winding-up petition was originally scheduled on 20 September 2006 and the High Court adjourned the winding-up petition against the Company to 25 September 2006. The High Court then further adjourned the hearing of the winding-up petition to 18 December 2006, 16 April 2007, 20 August 2007, 24 December 2007, 23 June 2008 and 22 December 2008.

The Company also filed a winding-up petition against Kenlap PGC, a major subsidiary of the Company, to the High Court on 3 August 2006. Pursuant to the order of the High Court, Messrs. Lai Kar Yan, Derek and Darach E. Haughey of Deloitte were appointed as the joint and several provisional liquidators of Kenlap PGC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. WINDING-UP PETITIONS AND APPOINTMENT OF PROVISIONAL LIQUIDATORS (continued)

A winding-up order was made against OGC Management Services Limited (“OGC Management”), a subsidiary of the Company, was filed on 7 February 2007.

The petitions against the Company will be withdrawn upon the successful implementation of the Restructuring Agreement as referred to note 3 below.

The Company shall, inter alia, transfer the entire issued share capital of Kenlap PGC and OGC Management to the scheme administrators or their nominees upon completion of the Restructuring Agreement as referred to note 3 below. Therefore, the winding up petition against Kenlap PGC and the winding up order against OGC Management will not affect the Group after completion of the Restructuring Agreement.

3. BASIS OF PREPARATION

(i) *Going Concern*

The Group sustained a loss attributable to equity holders of the Company of approximately HK\$177 million for the year ended 31 March 2007 (2006: HK\$479 million). As at 31 March 2007, the Group had net current liabilities of approximately HK\$366 million (2006: HK\$200 million) and net liabilities of approximately HK\$352 million (2006: HK\$188 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 ordinary shares at the ratio of one to one at the subscription price of HK\$0.14 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION (continued)

(i) *Going Concern (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.

The directors have prepared the 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 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 consolidated financial statements on a going concern basis. The 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 consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION (continued)

(ii) Deconsolidation of A Subsidiary

The 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 orders 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 31 March 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 as of 1 April 2005. Details of Kenlap Zhuhai are set out in note 18(b) to the consolidated financial statements. In the opinion of the directors, the consolidated financial statements for the year ended 31 March 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) A winding-up order against OGC Management was made on 7 February 2007, the directors considered that the control of the Company has been lost. As a result, the unaudited management accounts of the OGC Management for the year ended 31 March 2007 are the only financial information made available to the management, and therefore, the unaudited management accounts of OGC Management for the year ended 31 March 2007 were included in the consolidated financial statements for the year ended 31 March 2007. Accordingly, the directors are unable to satisfy themselves that the results, assets and liabilities of OGC Management have been properly included in the consolidated financial statements of the Group were fairly stated.

The following amounts are based on the unaudited management accounts of OGC Management, as included in the consolidated financial statements were summarised as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
General and administrative expenses	6,917	13,915
Other operating expenses	—	285
Income tax charge	—	329
Trade and other receivables	—	384
Bank balances and cash	—	768
Amount due to a deconsolidated subsidiary	238	269
Trade and other payables	168	847
Tax recoverable	(160)	(203)
	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION (continued)

- (iv) The Provisional Liquidators, the Commercial Crime Bureau of the Hong Kong Police Force (the “CCB”) conducted a number of searches at the Group’s premises, seized documents and records and interviewed staff of the Group in view of the accounting irregularities. Apparently there has been a falsification of accounting records and documents of the major operating subsidiaries of the Group. It is clear that there is a significant shortfall in the realisable value of the assets of the Group. Therefore the directors were unable to satisfy themselves as to the validity, completeness and genuineness of the financial information on the Group’s subsidiaries in the PRC provided to the Group’s Hong Kong management team.

Due to the limited financial information available and the freezing orders against the assets of Kenlap Zhuhai as detailed in note 18(b) to the consolidated financial statements, and 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 consolidated financial statements for the year ended 31 March 2007 and have formed the opinion as follows:

- (a) The directors were unable to satisfy themselves as to whether the amount due to a deconsolidated subsidiary of approximately HK\$238,000 (2006: HK\$269,000) included in the consolidated balance sheet as at 31 March 2007 is fairly stated in the consolidated financial statements.
- (b) The consolidated financial statements have been prepared based on the available books and records maintained by the Group. However, in view of the lack of evidence, the directors were unable to represent that all transactions entered into by the Group for the year ended 31 March 2007 have been properly reflected in the books of account and in the consolidated financial statements. In this context, the directors are also unable to represent as to the completeness and correctness of identification and the disclosures of turnover in note 6, other income in note 7, loss on deconsolidation of a subsidiary and impairment loss on investment cost and amount due from a deconsolidated subsidiary in note 8, finance costs in note 9(a), directors’ and senior executives’ remuneration in note 10, income tax in note 11, inventories in note 19, trade and other receivables in note 20, trade and other payables in note 22, bank borrowings in note 23, short-term notes in note 25, obligations under finance leases in note 26 and share options in note 28, commitments in note 29 and contingent liabilities in note 30 to the consolidated financial statements.
- (c) The directors were unable to obtain sufficient documentary evidence to support short term bank borrowings of approximately HK\$294,451,000 included in the consolidated balance sheet, including the liabilities under indemnities or guarantees given to deconsolidated subsidiary of HK\$95,580,000. Accordingly, the directors were unable to satisfy themselves as to whether these amounts are fairly stated in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION (continued)

(iv) (continued)

- (d) Due to limited books of account and records available to the directors, the following disclosures have not been made in the 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 financial risk management objectives and policies as required by HKAS 32 “Financial Instruments: Presentation”;
 - 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”;
 - Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and Hong Kong Financial Reporting Standards; and
 - Details of analysis of pledge of assets as required by the Hong Kong Companies Ordinance.
- (e) Due to insufficient information available to the directors, the consolidated financial statements do not contain a consolidated 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 year ended 31 March 2007 and net liabilities of the Group as at 31 March 2007.

Also, as a result of the matters described above, the comparative figures at 31 March 2006 shown in the consolidated balance sheet on page 25-26, and in the consolidated income statement for the year then ended on page 24 may not be comparable with the figures for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, the new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are relevant to its operations and effective for the Group’s financial year beginning on or after 1 January 2006. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior years, and does not result in any significant changes in the accounting policies of the Group. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised 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 (Amendment)	Capital Disclosures ⁽¹⁾
HKAS 1 (Revised)	Preparation of Financial Statements ⁽²⁾
HKAS 23 (Revised)	Borrowing Costs ⁽²⁾
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽³⁾
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ⁽²⁾
HKFRS 3 (Revised)	Business Combinations ⁽³⁾
HKFRS 7	Financial Instruments: Disclosures ⁽¹⁾
HKFRS 8	Operating Segments ⁽²⁾
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁽⁵⁾
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁽⁶⁾
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁽⁷⁾
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁽⁸⁾
HK(IFRIC)-Int 12	Service Concession Arrangements ⁽⁹⁾
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 ⁽⁹⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2007

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

⁽³⁾ Effective for annual periods beginning on or after 1 July 2009

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

⁽⁵⁾ Effective for annual periods beginning on or after 1 May 2006

⁽⁶⁾ Effective for annual periods beginning on or after 1 June 2006

⁽⁷⁾ Effective for annual periods beginning on or after 1 November 2006

⁽⁸⁾ Effective for annual periods beginning on or after 1 March 2007

⁽⁹⁾ Effective for annual periods beginning on or after 1 January 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance except for cash flow statement and matters disclosed in note 3 to the consolidated financial statements. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March 2007.

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

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

Subsidiaries

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investment properties

Investment properties, being properties owned or held for rentals yields or for capital appreciation or both.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is determined by professional valuation conducted as at the balance sheet. Change in fair value is recognized in the income statement.

Gain or loss arising from the retirement or disposal of an investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment (other than construction-in-progress) less accumulated impairment loss over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Buildings	2%
Plant and machinery	7% to 10%
Furniture, fixtures and equipment	10%
Motor vehicles	10%

Lease premium on land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land are classified as lease premium on land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment loss other than goodwill

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exist or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, except where the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue, if applicable, can be measured reliably and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered and title has passed.

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

Interest income is accrued on a time proportion basis on the principal outstanding and at the effective interest rate applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Interest in lease premium on land is amortised over the lease term on a straight-line basis.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period in which they arise, except for exchange differences arising on a monetary item forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are included in the exchange reserve as a separate component of equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate prevailing on the balance sheet date. Exchange differences arising are included in the exchange reserve.

Related party transactions

A party is related to the Group if:—

- (a) Directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) The party is an associate;
- (c) The party is a joint venture in which the entity is a venture;
- (d) The party is a member of the key management personnel of the Group or its parent;
- (e) The party is a close member of the family of any individual referred to in (a) or (d);
- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any impairment losses for bad and doubtful debts.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Financial liabilities

Financial liability issued by the Group is classified according to the substance of the contractual arrangement entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(iv) Bank borrowings and short term notes

Interest-bearing bank loans, overdrafts and short term notes are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

(v) Trade and other payables

Trade and other payables are initial measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Amount due to a deconsolidated subsidiary

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions and contingent liabilities

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PRINCIPAL ACCOUNTING POLICIES (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is included in profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Defined contribution plans

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. TURNOVER

Turnover recognised by category is analysed as follows:

	2007 HK\$ '000	2006 HK\$ '000
Turnover:		
Sale of goods	131,451	380,449
Subcontracting fees	420	-
	<u>131,871</u>	<u>380,449</u>
Suspicion turnover:		
Sale of goods	-	545,633
Subcontracting fees	-	80,579
	<u>-</u>	<u>626,212</u>
Total turnover	<u><u>131,871</u></u>	<u><u>1,006,661</u></u>

In the opinion of the directors, the suspicion turnover approximates HK\$626,212,000 for the year ended 31 March 2006.

7. OTHER INCOME

Other income consisted of:

	2007 HK\$ '000	2006 HK\$ '000
Interest income	2,511	577
Gain on exchange	-	211
Profit on disposal of property, plant and equipment	-	57
Sundry income	2,355	-
	<u>4,866</u>	<u>845</u>

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

	2006 HK\$ '000
Loss on deconsolidation of a subsidiary (note a)	31,727
Impairment loss on investment cost in a deconsolidated subsidiary	110,000
Impairment loss on amount due from a deconsolidated subsidiary	<u>109,345</u>
	<u><u>251,072</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS ON DECONSOLIDATION OF A SUBSIDIARY AND IMPAIRMENT LOSS ON INVESTMENT COST AND AMOUNT DUE FROM A DECONSOLIDATED SUBSIDIARY (Continued)

a) Loss on deconsolidation of a subsidiary

The Group had equity interest of 100% in Kenlap Zhuhai, the principal activities of which were engaged in subcontracting, manufacturing and trading of precious metal electroplating chemicals. As disclosed in note 3(ii) to the consolidated financial statements, the directors considered that the control over Kenlap Zhuhai has been lost as the major assets and production facilities of the Kenlap Zhuhai have been 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 the subsidiary. For the purpose of appropriate presentation and to allow the public to evaluate the performance of the Group, Kenlap Zhuhai was excluded from the consolidation as at 1 April 2005. The details of loss on deconsolidation of Kenlap Zhuhai were as follows:

	2006 <i>HK\$'000</i>
Property, plant and equipment	83,320
Intangible asset	4,773
Inventories	13,808
Trade and other receivables	12,879
Bank balances and cash	186,171
Amount due to the Group	(126,335)
Other payables	(879)
Short-term bank borrowings	(61,321)
Current tax liabilities	(653)
	<hr/>
Net assets deconsolidated	111,763
Release of exchange reserve	(36)
Investment cost	(80,000)
	<hr/>
Loss on deconsolidation of a subsidiary	<u>31,727</u>

9. LOSS BEFORE TAXATION

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
This is stated after charging:		
(a) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	1,278	11,451
Finance charges on obligations under finance leases	5	12
Other borrowing costs	861	9,969
	<hr/>	<hr/>
	<u>2,144</u>	<u>21,432</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. LOSS BEFORE TAXATION (Continued)

	2007 HK\$'000	2006 HK\$'000
(b) Other items		
Amortisation of lease premium on land	11	12
Amortisation of intangible assets	–	1,450
Auditors' remuneration		
– Current year	550	550
– Under provision in previous year	900	–
Bad debts written off	–	2
Cost of inventories and services provided	188,676	887,513
Depreciation	642	1,630
Loss on exchange	1,099	–
Loss on inventories	8,566	–
Operating lease charges on:		
– Premises	2,333	3,524
– Others	–	720
Other receivable written off	2,487	2,287
Impairment loss of amount due from former fellow subsidiaries	341	–
Impairment loss of amount due from former ultimate holding company	450	–
Impairment loss of trade receivables	1,452	241,253
Impairment loss of other receivables	–	15,462
Impairment loss of property, plant and equipment	–	1,852
Impairment loss of intangible assets	–	4,350
Income tax written off	26	–
Staff costs, including directors' emoluments:		
– Wages and salaries	5,878	12,363
– Equity settled share-based transactions	–	10,177
– Contributions to defined contribution plans	174	226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	150	600
Salaries, other emoluments and other benefits in kind	933	3,313
Discretionary bonus	—	138
Equity settled share-based transactions	—	1,363
Contributions to defined contribution plans	15	41
	<u>1,098</u>	<u>5,455</u>

Included in the directors' remuneration were fees of HK\$150,000 (2006: HK\$600,000) paid to the independent non-executive directors during the year.

The remuneration of directors were within the following bands:

	Number of Directors	
	2007	2006
Nil	—	—
\$1 to \$1,000,000	9	8
\$1,000,001 to \$1,500,000	—	—
\$1,500,001 to \$2,000,000	—	1
	<u>9</u>	<u>9</u>

Of the five individuals with the highest emoluments, one (2006: two) was director whose emolument is disclosed above. The aggregate of the emoluments in respect of the other four (2006: three) individuals were as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	1,417	765
Discretionary bonus	1,400	1,000
Equity settled share-based transactions	—	3,526
Contributions to defined contribution plans	22	4
	<u>2,839</u>	<u>5,295</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

	Number of Directors	
	2007	2006
HK\$		
Nil to \$1,000,000	3	—
\$1,000,001 to \$1,500,000	1	1
\$1,500,001 to \$2,000,000	—	2
\$2,000,001 to \$2,500,000	—	—
	<u>4</u>	<u>3</u>

11. INCOME TAX

	2007	2006
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax:		
– Current year	—	329
– Under provision in prior year	—	851
	<u>—</u>	<u>1,180</u>
Income tax charge	<u>—</u>	<u>1,180</u>

In the opinion of the directors, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements for the year ended 31 March 2007 as the Group did not have any estimated assessable profits for the year (2006: 17.5%).

12. DIVIDENDS

(a) Dividends attributable to the year

No interim dividend has been paid and declared by the Company during the year (2006: HK\$0.025 per shares).

The directors do not recommend the payment of a final dividend for the years ended 31 March 2006 and 2007.

(b) Dividends approved and paid during the year

	2007	2006
	HK\$'000	HK\$'000
Interim dividend in respect of 2007 of HK\$Nil (2006: HK\$0.025) per share	—	12,175
Final dividend in respect of 2006 of HK\$Nil (2005: HK\$0.03) per share	—	14,610
	<u>—</u>	<u>26,785</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 March 2007 is based on the loss attributable to equity holders of the Company of approximately HK\$177,494,000 (2006: HK\$479,259,000) and on the weighted average number of 497,197,000 (2006: 485,740,000) ordinary shares.

The calculation of diluted loss per share for the year ended 31 March 2007 is based on the loss attributable to equity holders of the Company of approximately HK\$177,494,000 (2006: HK\$479,259,000) and on the weighted average number of 497,221,000 (2006: 485,740,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in note 28 to the consolidated financial statements.

14. INVESTMENT PROPERTIES

Movement of investment properties were:

	2007 <i>HK\$ '000</i>	2006 <i>HK\$ '000</i>
Valuation		
At beginning of year	5,270	4,800
Increase in fair value of investment properties	1,310	470
	<hr/>	<hr/>
At balance sheet date	6,580	5,270

The investment properties are located in Hong Kong, held on medium-term leases and are currently vacant. They were valued at their open market value at 31 March 2007 by Centaline Surveyors Limited, independent Chartered Surveyors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:							
At 1 April 2005	1,456	25,848	1,453	67,561	10,033	1,507	107,858
Additions	–	–	–	–	5	–	5
Disposal	–	–	–	–	(2,124)	–	(2,124)
Deconsolidation of a subsidiary	–	(25,848)	(1,453)	(62,691)	(2,335)	(767)	(93,094)
At 31 March 2006	1,456	–	–	4,870	5,579	740	12,645
Additions	–	–	–	–	–	496	496
Disposals	–	–	–	–	(3,380)	(427)	(3,807)
At 31 March 2007	1,456	–	–	4,870	2,199	809	9,334
Accumulated depreciation and impairment:							
At 1 April 2005	204	1,164	–	9,052	3,270	303	13,993
Charge for the year	29	–	–	341	1,186	74	1,630
Disposals	–	–	–	–	(881)	–	(881)
Impairment loss	–	–	–	–	1,852	–	1,852
Eliminated on deconsolidation of a subsidiary	–	(1,164)	–	(7,926)	(566)	(118)	(9,774)
At 31 March 2006	233	–	–	1,467	4,861	259	6,820
Depreciation for the year	29	–	–	341	202	70	642
Disposals	–	–	–	–	(3,380)	(86)	(3,466)
At 31 March 2007	262	–	–	1,808	1,683	243	3,996
Net carrying value:							
At 31 March 2007	<u>1,194</u>	<u>–</u>	<u>–</u>	<u>3,062</u>	<u>516</u>	<u>566</u>	<u>5,338</u>
At 31 March 2006	<u>1,223</u>	<u>–</u>	<u>–</u>	<u>3,403</u>	<u>718</u>	<u>481</u>	<u>5,825</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Land and Buildings

The Group's properties are reclassified as buildings and lease premium on land were appraised on the basis of depreciated replacement cost with fair market value of approximately HK\$1,456,000 and HK\$1,444,000 respectively. The buildings were held under long-term leases in Hong Kong.

The Group's properties located in the PRC are held under medium-term leases with net carrying value of approximately HK\$24,684,000. During the year ended 31 March 2006, the properties are eliminated from the Group in the course of deconsolidation of a subsidiary.

(b) Finance Leases

At 31 March 2006, the net carrying value of the Group's property, plant and equipment includes an amount of HK\$206,000 in respect of assets held under finance leases.

(c) Furniture, Fixtures and Equipment

During the year ended 31 March 2007, the directors conducted a review of the Group's furniture, fixtures and equipment and determined that a number of certain assets were impaired. Accordingly, an impairment loss of approximately HK\$1,852,000 has been recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. LEASE PREMIUM ON LAND

The Group's lease premium on land comprises:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Land held under long-term lease in Hong Kong:		
Cost:		
At beginning of year	1,444	—
Effect of adopting HKAS 17	—	1,444
	<hr/>	<hr/>
At balance sheet date	<u>1,444</u>	<u>1,444</u>
Accumulated amortisation and impairment:		
At beginning of year	93	—
Effect of adopting HKAS 17	—	81
	<hr/>	<hr/>
	93	81
Amortisation for the year	11	12
	<hr/>	<hr/>
At balance sheet date	<u>104</u>	<u>93</u>
Net carrying value:		
At balance sheet date	1,340	1,351
Less: Current portion	(12)	(11)
	<hr/>	<hr/>
Non-Current portion	<u>1,328</u>	<u>1,340</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INTANGIBLE ASSETS

	2007 HK\$'000	2006 HK\$'000
Cost:		
At beginning of year	5,800	15,234
Deconsolidation of a subsidiary	—	(9,434)
	<hr/>	<hr/>
At balance sheet date	<u>5,800</u>	<u>5,800</u>
Accumulated amortisation and impairment:		
At beginning of year	5,800	4,661
Amortisation for the year	—	1,450
Impairment loss	—	4,350
Eliminated on deconsolidation of a subsidiary	—	(4,661)
	<hr/>	<hr/>
At balance sheet date	<u>5,800</u>	<u>5,800</u>
Net carrying value:		
At balance sheet date	<hr/>	<hr/>
	—	—
At beginning of year	<u>—</u>	<u>10,573</u>

Intangible assets represent the right to use of specialised technology for the manufacturing of electroplating chemicals. At 31 March 2006, the directors conducted a review and determined that the use to specialised technology for the manufacturing of electroplating chemicals were impaired. Accordingly, an impairment loss of approximately HK\$4,350,000 has been recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PARTICULARS OF PRINCIPAL SUBSIDIARIES

- a) Details of the principal subsidiaries at the balance sheet date which have been included in these consolidated financial statements are as follows:

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid up capital	Percentage of capital held by the Company		Principal activities
				Directly	Indirectly	
Dynamic Market Trading Limited	British Virgin Islands	–	US\$1	–	100%	Inactive
Kenlap Chemicals Limited	Hong Kong	Hong Kong	HK\$100	–	100%	Inactive
Kenlap P.G.C. Manufacturer Company Limited (Provisional Liquidators Appointed) (“Kenlap PGC”) (Note i)	Hong Kong	Hong Kong	HK\$2 ordinary, HK\$1,113,352 non-voting deferred	–	100%	Inactive
Ocean Grand Chemicals (BVI) Limited	British Virgin Islands	Hong Kong	US\$11,133.52	100%	–	Investment holding
OGC Management Services Limited (In liquidation) (“OGC Management”) (Note ii)	Hong Kong	Hong Kong	HK\$2	100%	–	Inactive
Successful Environmental Works and Investments Company Limited	Hong Kong	Hong Kong	HK\$100	–	100%	Not yet commenced business
Wintex Holdings Limited	Hong Kong	Hong Kong	HK\$100	–	100%	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

a) (continued)

Note:

- (i) The non-voting deferred shares of Kenlap PGC have no voting rights, are not entitled to dividends and are not entitled to any distribution upon winding up unless a sum of HK\$100,000,000,000,000,000 has been distributed by Kenlap PGC to the holders of ordinary shares.
- (ii) A winding-up order was made against OGC Management on 7 February 2007 and the directors considered that the control has been lost. As a result, the unaudited management accounts of OGC Management for the year ended 31 March 2007 are the only financial information made available to the management and therefore the unaudited management accounts of OGC Management were included in the consolidated financial statements for the year ended 31 March 2006 and 2007.

Assuming the schemes of arrangement between the Company and its creditors become effective, save and except Brand New Management Limited and Trump Power Limited, the issued shares of all the above subsidiaries directly or indirectly held by the Company will be transferred to the scheme administrators or their nominees for the benefits of its creditors at a normal consideration of HK\$1 as a term of the Hong Kong scheme and Bermuda scheme.

As explained in note 25, the noteholders of OGHL have a security assignment over the amount due by Kenlap PGC to OGHL, accordingly, the noteholders of OGHL are creditors of Kenlap PGC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

- (b) The consolidated financial statements for the year do not include the following subsidiary, the major assets and production facilities of which have been 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 the subsidiary.

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

Name of subsidiary	Percentage of Place of incorporation	Place of operation	capital held by the Company <i>Indirectly</i>	Principal activities
Kenlap Zhuhai	PRC	PRC	100%	Subcontracting, manufacturing and trading of precious metal electroplating chemicals

Kenlap Zhuhai is a wholly foreign-owned entity established in the PRC for a period of 30 years expiring in 2031. The operation of Kenlap Zhuhai has been ceased since the appointment of the Provisional Liquidators.

The directors have formed the opinion that the aggregate carrying value of the Group's investment in the deconsolidated subsidiary has been impaired and, such impairment losses have been recognised in the previous consolidated financial statements are summarised in note 8 to the consolidated financial statements.

The Company has given guarantees or indemnities to certain bankers 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 the deconsolidated subsidiary.

19. INVENTORIES

	2007 HK\$'000	2006 HK\$'000
At cost:		
Raw materials	884	1,197
Work-in-progress	169	854
Finished goods	1,128	7,963
	<u>2,181</u>	<u>10,014</u>

Due to limited books and records available to the directors as set out in note 3(iv)(b) to the consolidated financial statements, the carrying amounts of inventories carried at net realisable value at 31 March 2006 and 31 March 2007 were not obtainable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES

The Group allows a credit period normally ranging from 30 to 90 days to its trade customers.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade receivables	251,473	334,064
Less: Impairment loss of trade receivables (<i>Note 20a</i>)	(251,473)	(250,021)
	<u>—</u>	<u>84,043</u>
Other receivables:		
Deposits, prepayment and other debtors	15,585	25,108
Due from former ultimate holding company (<i>Note 20c</i>)	450	—
Due from a former fellow subsidiary (<i>Note 20c</i>)	341	—
	<u>16,376</u>	<u>25,108</u>
Less: Impairment loss of other receivables (<i>Note 20b</i>)	(16,253)	(15,462)
	<u>123</u>	<u>9,646</u>
	<u><u>123</u></u>	<u><u>93,689</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES (continued)

Note:

- a) Impairment loss of trade receivables:

Movement of the provision for impairment of trade receivables were as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Beginning of the year	250,021	8,768
Provision for impairment for trade receivables	1,452	241,253
	<u>251,473</u>	<u>250,021</u>

- b) Impairment loss of other receivables:

Movement of the provision for impairment of other receivables were as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Beginning of the year	15,462	–
Provision for impairment for other receivables	–	15,462
Provision for impairment for amount due from former ultimate holding company	450	–
Provision for impairment for amount due from a former fellow subsidiary	341	–
	<u>16,253</u>	<u>15,462</u>

- c) The amounts due from former ultimate holding company and a former fellow subsidiary are unsecured, interest-free and has no fixed repayment terms.

The directors have formed the opinion that the amounts due from former ultimate holding company and due from former fellow subsidiary to the Group of approximately HK\$450,000 and HK\$341,000 respectively included in the consolidated balance sheet cannot be recovered. Accordingly, the directors have made provisions for impairment losses against these amounts. The directors consider the carrying amounts of trade and other receivables approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits which carry at market interest rate. The carrying amounts of the cash and bank balances and the deposits approximate to their fair values.

At the balance sheet date, included in the bank balances and cash are mainly denominated in Hong Kong dollar and United States dollar as follows::

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Hong Kong Dollar	77,044	12,408
United States Dollar	—	34,671
	<u>77,044</u>	<u>47,079</u>

22. TRADE AND OTHER PAYABLES

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade payables	<u>28,875</u>	<u>47,425</u>
Other payables		
Accrued charges and other creditors	<u>1,616</u>	<u>4,174</u>
	<u>30,491</u>	<u>51,599</u>

23. BANK BORROWINGS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Short-term bank borrowings:		
Unsecured	<u>294,451</u>	<u>180,179</u>

The Group has variable-rate borrowings and are mainly denominated in Hong Kong dollar and United States dollar. The Group has defaulted on repayment of principal and interest on its bank borrowings totaling approximately HK\$294,451,000 (2006: HK\$180,179,000). The directors estimated that the fair value of the bank borrowings are not significantly different from the carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. AMOUNT DUE TO A DECONSOLIDATED SUBSIDIARY

The amount due to a deconsolidated subsidiary is unsecured, interest-free and has no fixed repayment terms. The directors considered that the carrying amount of amount due to a deconsolidated company approximates its fair value.

25. SHORT-TERM NOTES

	2007 HK\$'000	2006 HK\$'000
Short-term notes due 2010	120,544	119,618

On 7 December 2005 and 3 March 2006, OGHHL issued, in the aggregate, the US\$160 million 9.25% guaranteed notes due 2010 to the noteholders. Out of the proceeds of US\$160 million, OGHHL on 7 December 2005 lent US\$15 million to Kenlap PGC ("US\$15 million debt"). On 7 December 2005, OGHHL assigned the US\$15 million debt to the noteholders as a security, inter alia, for the obligations under the said notes.

The US\$15 million debt bears interest at a rate of 9.25% per annum, and shall be capitalised by addition to the outstanding principal amount of the loan in June and December each year. The US\$15 million debt will be repayable on the earliest to occur of 7 December 2010, or any date upon which the notes become redeemable and the occurrence of an event of default under the notes.

26. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Minimum lease payments		Present value minimum lease payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Not exceeding 1 year	—	117	—	110
More than 1 year but no exceeding 2 years	—	98	—	96
	—	215	—	206
Future finance charge	—	(9)	—	—
Present value of lease obligations	—	206	—	206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SHARE CAPITAL

	2007		2006	
	Number of shares '000	Amount HK\$ '000	Number of shares '000	Amount HK\$ '000
Authorised:				
Ordinary shares of HK\$0.10 each (2006:HK\$0.10 each)	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
Shares issued and allotted fully paid at beginning of the year	487,000	48,700	479,700	47,970
Share issued upon exercise of share options	10,900	1,090	7,300	730
At balance sheet date	497,900	49,790	487,000	48,700

At the balance sheet date, the issued share capital of the Company has been increased from HK\$48,700,000 to HK\$49,790,000 as a result of the issuance of 10,900,000 ordinary shares of HK\$0.10 each upon exercise of 4,700,000 and 6,200,000 shares options at subscription price of HK\$1.09 and HK\$1.32 each respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. SHARE OPTIONS

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

a) *The movements of outstanding share options during the year are as follows:*

Date of grant	Exercise Period *	Exercise price per share HK\$	Outstanding at 1.4.2006 '000	Granted '000	Exercised '000	Lapsed '000	Outstanding at 31.3.2007 '000
9.2.2004	9.2.2004 to 3.9.2013	1.38	4,700	–	–	(4,700)	–
17.2.2005	17.2.2005 to 3.9.2013	1.10	2,100	–	–	(2,100)	–
1.8.2005	1.8.2005 to 3.9.2013	1.09	4,700	–	(4,700)	–	–
31.3.2006	31.3.2006 to 3.9.2013	1.32	23,500	–	(6,200)	(14,100)	3,200
			<u>35,000</u>	<u>–</u>	<u>(10,900)</u>	<u>(20,900)</u>	<u>3,200</u>

* Share options are vested from date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. SHARE OPTIONS (Continued)

b) Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	35,000	1.2840	18,800	1.1375
Granted during the year	—	—	28,200	1.2817
Exercised during the year	(10,900)	1.2208	(7,300)	1.1000
Lapsed during the year	(20,900)	1.3114	(4,700)	0.9700
	<hr/>		<hr/>	
Outstanding and exercisable at the end of the year	<u>3,200</u>	1.3200	<u>35,000</u>	1.2840

c) Fair value of share options and assumptions

In assessing the value of the share options during the year ended 31 March 2006, the Black-Scholes Option Pricing Model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models by the Listing Rules.

In assessing the value of the share options granted during the year, the following variables have been applied to the Black-Scholes Model:

Measurement Date	1.8.2005	31.3.2006
Share price	HK\$1.09	HK\$1.32
Exercise price	HK\$1.09	HK\$1.32
Expected volatility	44.81%	37.28%
Expected life	4 years	3.7 years
Risk free rate	3.65%	4.41%
Expected dividend yield	5.05%	1.66%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. SHARE OPTIONS (Continued)

c) Fair value of share options and assumptions (Continued)

The expected volatilities are based on the historical stock prices of the Company as at the valuation dates. The expected lives are based on the Plain Vanilla Theory, in which the expected lives are the middle of the exercisable period

Using the Black-Scholes Model in assessing the value of share options granted during the year ended 31 March 2006, the fair value is estimated as below:

Date of grant	Per share option value HK\$	No. of share options '000	Fair value of share options HK\$'000
1 August 2005	0.2901	4,700	1,364
31 March 2006	0.3750	23,500	8,813
			<u>10,177</u>

29. COMMITMENTS

Operating leases 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:

	2007 HK\$ '000	2006 HK\$ '000
Within one year	1,408	2,307
Between two to five years	—	1,408
	<u>1,408</u>	<u>3,715</u>

30. 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. The Group has defaulted on repayment of the amount of approximately HK\$95,580,000. Accordingly, a provision for contingent liabilities has been made in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of receivables

The policy for provision of bad or doubtful trade receivables and other receivables of the Group are based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

(b) Impairment of property, plant and equipment and intangible assets

The Company and its subsidiaries test whether property, plant and equipment and intangible assets suffer any impairment whenever any impairment indication exists. In accordance with note 5, an impairment loss is recognised for the excess of the carrying amount over recoverable amount of the property, plant and equipment and intangible assets. It is possible that the reasonable estimates from such tests based on existing experience be different to the actual outcomes within the next financial period, and could cause a material adjustment to the carrying amount of property, plant and equipment and intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. BALANCE SHEET OF THE COMPANY

The Company's balance sheet at the balance sheet date are as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
ASSETS AND LIABILITIES		
Current assets		
Bank balances and cash	50	44
	<u>50</u>	<u>44</u>
Current liabilities		
Other payables	1,067	550
Amount due to a subsidiary	15,083	26,111
Short-term bank borrowings	295,277	180,179
	<u>311,427</u>	<u>206,840</u>
Net current liabilities	<u>(311,377)</u>	<u>(206,796)</u>
Net liabilities	<u><u>(311,377)</u></u>	<u><u>(206,796)</u></u>
EQUITY		
Share capital	49,790	48,700
Reserves (<i>Note</i>)	(361,167)	(255,496)
	<u></u>	<u></u>
Equity attributable to equity holders of the Company	<u><u>(311,377)</u></u>	<u><u>(206,796)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. BALANCE SHEET OF THE COMPANY (Continued)

Note:

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated profits/(losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2005	12,684	–	15,655	28,339
Dividend paid in respect of previous year	–	–	(14,610)	(14,610)
Interim dividend paid	–	–	(12,175)	(12,175)
Premium arising from issue of shares upon exercise of share options	7,300	–	–	7,300
Equity settled share-based transactions	–	10,177	–	10,177
Loss for the year	–	–	(274,527)	(274,527)
At 31 March 2006	19,984	10,177	(285,657)	(255,496)
Exercise of share options	15,905	(3,689)	–	12,216
Lapse of share options	–	(5,288)	5,288	–
Loss for the year	–	–	(117,887)	(117,887)
At 31 March 2007	35,889	1,200	(398,256)	(361,167)

33. SUBSEQUENT EVENT

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

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 August 2008.

FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the assets and liabilities of the Group for the respective years as hereunder stated.

RESULTS

	Year ended 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000
Turnover	<u>131,871</u>	<u>1,006,661</u>	<u>1,017,839</u>	<u>738,736</u>	<u>434,202</u>
(Loss)/Profit before taxation	(177,494)	(478,079)	75,845	72,045	65,906
Income tax (charge)/credit	<u>—</u>	<u>(1,180)</u>	<u>500</u>	<u>(1,500)</u>	<u>(2,217)</u>
(Loss)/Profit attributable to equity holders	<u>(177,494)</u>	<u>(479,259)</u>	<u>76,345</u>	<u>70,545</u>	<u>63,689</u>
Dividends	<u>—</u>	<u>12,175</u>	<u>29,001</u>	<u>28,500</u>	<u>19,000</u>

ASSETS AND LIABILITIES

	As at 31 March				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000
Total assets	93,394	163,729	646,980	535,685	303,933
Total liabilities	<u>(445,724)</u>	<u>(351,871)</u>	<u>(347,249)</u>	<u>(283,571)</u>	<u>(149,105)</u>
Equity attributable to equity holders of the Company	<u>(352,330)</u>	<u>(188,142)</u>	<u>299,731</u>	<u>252,114</u>	<u>154,828</u>

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

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Joseph Kin Ching Lo and Lai Kar Yan

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