

# Notes to the Financial Statements

Year ended 31 March 2005

## 1. GENERAL

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”). Its ultimate holding company is Ocean Grand Holdings Limited, a company which is incorporated in Bermuda and listed on the Stock Exchange.

## 2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group is in the process of making an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### **Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties 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 2005.

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.

# Notes to the Financial Statements

Year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Subsidiaries

A subsidiary is an enterprise, in which the Group or the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their estimated open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be released to the income statement.

No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years since the valuations take into account the state of each property at the date of valuation.

### 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 statements. Improvements are capitalised and depreciated over their expected useful lives.

Construction-in-progress represents factory buildings, and plant and machinery under construction/installation, and is stated at cost less any accumulated impairment loss. Cost comprises cost of land, construction/installation expenditure and other direct costs, including interest costs, attributable to the construction/installation. Costs on completed construction/installation works are transferred to the appropriate asset category. No depreciation is provided in respect of construction-in-progress until it is completed and put into effective use.

# Notes to the Financial Statements

Year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

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:

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

### 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.

### Impairment loss

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.

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.

# Notes to the Financial Statements

Year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### 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 and costs, 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.

### Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credit can be utilised.

# Notes to the Financial Statements

Year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Leasing

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 Company at the lower of the fair value of the leased asset and 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. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

### Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the exchange reserve.

### Cash equivalents

For the purpose of consolidated cash flow statements, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

# Notes to the Financial Statements

Year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### 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.

## 3. TURNOVER AND REVENUE

The Company is an investment holding company. Its subsidiaries are principally engaged in the subcontracting, manufacturing and trading of precious metal electroplating chemicals.

Turnover and revenue recognised by category are analysed as follows:

	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>		
Sale of goods	944,774	645,244
Subcontracting fees	73,065	93,492
<b>Revenue</b>	<b>1,017,839</b>	<b>738,736</b>

## 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
This is stated after charging:		
(a) <b>Finance costs</b>		
Interest on bank overdrafts and borrowings wholly repayable within five years	7,632	2,781
Finance charges on obligations under finance leases	82	–
Other borrowing costs	2,137	474
Total borrowing costs	<b>9,851</b>	<b>3,255</b>

# Notes to the Financial Statements

Year ended 31 March 2005

## 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (continued)

	2005 HK\$'000	2004 HK\$'000
<b>(b) Other items</b>		
Amortisation of intangible assets included in other operating expenses	2,359	1,902
Auditors' remuneration		
– Current year	1,200	500
– Underprovision in previous year	255	–
Cost of inventories and services provided	892,180	618,998
Depreciation	6,543	5,137
Operating lease charges on:		
– Premises	4,554	2,870
– Others	960	240
Provision for long outstanding trade receivables	229	8,766
Staff costs, including Directors' emoluments:		
– Wages and salaries	18,419	10,383
– Contributions to defined contribution plans	294	261
	<b>294</b>	<b>261</b>

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2005 HK\$'000	2004 HK\$'000
Fees	605	270
Salaries, other emoluments and other benefits in kind	1,895	2,014
Discretionary bonus	4,603	280
Contributions to defined contribution plans	24	27
	<b>7,127</b>	<b>2,591</b>

Included in the Directors' remuneration were fees of HK\$605,000 (2004: HK\$270,000) paid to the Independent Non-Executive Directors during the year.

# Notes to the Financial Statements

Year ended 31 March 2005

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

The remuneration of Directors were within the following bands:

	Number of Directors	
	2005	2004
<b>HK\$</b>		
Nil	1	1
\$1 to \$1,000,000	6	6
\$5,000,001 to \$5,500,000	1	–
	<b>8</b>	<b>7</b>

Of the five (2004: five) individuals with the highest emoluments, one (2004: two) was Director whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other four (2004: three) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other emoluments	4,020	1,171
Discretionary bonus	297	900
Contributions to defined contribution plans	46	27
	<b>4,363</b>	<b>2,098</b>



# Notes to the Financial Statements

Year ended 31 March 2005

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

	Number of individuals	
	2005	2004
<b>HK\$</b>		
Nil to \$1,000,000	3	3
\$2,000,001 to \$2,500,000	1	–
	<b>4</b>	<b>3</b>

During the year, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. Except for a Director who waived his salaries of HK\$1,980,000, there was no arrangement under which a Director waived or agreed to waive any emoluments during the year.

## 6. TAXATION

	2005 HK\$'000	2004 HK\$'000
<b>Current tax</b>		
Hong Kong Profits Tax:		
– Current year	221	1,500
– Over provision in prior year	(1,374)	–
PRC enterprise income tax	653	–
	<b>(500)</b>	<b>1,500</b>

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

PRC enterprise income tax has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC. However, Kenlap Fine Chemical (Zhuhai) Technology Company Limited (“Kenlap Zhuhai”) is exempted from PRC state income tax and local income tax for two years starting from its first profit-making year of operation after offsetting prior year losses, followed by a 50% relief for the following three years. Therefore, Kenlap Zhuhai is taxable at 50% of the prevailing tax rates in the PRC.

# Notes to the Financial Statements

Year ended 31 March 2005

## 6. TAXATION (continued)

The Group has not recognised deferred tax assets of HK\$281,000 (2004: HK\$634,000) in respect of tax losses of the subsidiaries amounting to HK\$1,606,000 (2004: HK\$3,624,000). The tax losses do not expire under the current tax legislation.

### Reconciliation of effective tax rate

	2005 %	2004 %
Applicable tax rate	17	17
Non-deductible expenses	1	5
Tax-exempted revenue	(13)	(18)
Effect of tax holiday	(4)	(2)
Over provision in prior year	(2)	–
Effective tax rate for the year	<u>(1)</u>	<u>2</u>

The applicable tax rate is the average tax rates prevailing in the territories in which the Group operates.

## 7. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of HK\$29,964,000 (2004: HK\$47,634,000) which has been dealt with in the financial statements of the Company.

## 8. DIVIDENDS

### (a) Dividends attributable to the year

	2005 HK\$'000	2004 HK\$'000
Interim dividend of HK\$0.03 (2004: HK\$0.02) per share	14,391	9,500
Final dividend of HK\$0.03 (2004: HK\$0.04) per share	14,610	19,000
	<u>29,001</u>	<u>28,500</u>

# Notes to the Financial Statements

Year ended 31 March 2005

## 8. DIVIDENDS (continued)

### (b) Dividends approved and paid during the year

	2005 HK\$'000	2004 HK\$'000
Interim dividend in respect of 2005 of HK\$0.03 (2004: HK\$0.02) per share	14,391	9,500
Final dividend in respect of 2004 of HK\$0.04 (2003: HK\$0.04) per share	19,000	19,000
	<b>33,391</b>	<b>28,500</b>

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 March 2005 is based on the net profit attributable to shareholders of approximately HK\$76,328,000 (2004: HK\$70,545,000) and on the weighted average number of 476,370,833 (2004: 455,170,554) ordinary shares.

The calculation of diluted earnings per share for the year ended 31 March 2005 is based on the net profit attributable to shareholders of approximately HK\$76,328,000 and on the weighted average number of 476,865,493 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in note 20 to the financial statements.

The diluted earnings per share for 2004 has not been presented as the exercise price of the Company's share options was higher than the average market price of the Company's shares for the year.

## 10. INVESTMENT PROPERTIES

	Group	
	2005 HK\$'000	2004 HK\$'000
<b>Valuation</b> At beginning of year and at balance sheet date	<b>4,800</b>	4,800

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 2005 by BMI Appraisals Limited, independent Chartered Surveyors.

# Notes to the Financial Statements

Year ended 31 March 2005

## 11. PROPERTY, PLANT AND EQUIPMENT

### Group

	Land and buildings HK\$'000	Construction -in-progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>						
At beginning of year	22,631	3,703	63,578	9,762	889	100,563
Additions	5,437	1,728	685	271	618	8,739
Reclassification	680	(3,978)	3,298	–	–	–
<b>At balance sheet date</b>	<b>28,748</b>	<b>1,453</b>	<b>67,561</b>	<b>10,033</b>	<b>1,507</b>	<b>109,302</b>
<b>Accumulated depreciation</b>						
At beginning of year	830	–	4,898	1,763	161	7,652
Charge for the year	740	–	4,154	1,507	142	6,543
<b>At balance sheet date</b>	<b>1,570</b>	<b>–</b>	<b>9,052</b>	<b>3,270</b>	<b>303</b>	<b>14,195</b>
<b>Net book value</b>						
<b>At balance sheet date</b>	<b>27,178</b>	<b>1,453</b>	<b>58,509</b>	<b>6,763</b>	<b>1,204</b>	<b>95,107</b>
At beginning of year	21,801	3,703	58,680	7,999	728	92,911

# Notes to the Financial Statements

Year ended 31 March 2005

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

### (a) Land and buildings

The Group's land and buildings are held on medium-term leases and their net book value is analysed as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Hong Kong	2,494	2,552
PRC	24,684	19,249
	<u>27,178</u>	<u>21,801</u>

The land use rights of the properties located in Zhuhai, PRC are granted for a term of 50 years expiring in 2051.

### (b) Construction-in-progress

	Group	
	2005 HK\$'000	2004 HK\$'000
At cost:		
Factory buildings	<u>1,453</u>	<u>3,703</u>

### (c) Finance leases

The net book value of the Group's property, plant and equipment includes an amount of HK\$395,000 (2004: Nil) in respect of assets held under finance leases.

# Notes to the Financial Statements

Year ended 31 March 2005

## 12. INTANGIBLE ASSETS

	<b>Group</b>
	<b>HK\$'000</b>
At beginning of year	
Cost	9,434
Accumulated amortisation	(2,302)
Opening carrying amount	7,132
Addition during the year	5,800
Amortisation charges during the year	(2,359)
<b>Closing carrying amount</b>	<b>10,573</b>
<b>At balance sheet date</b>	
Cost	15,234
Accumulated amortisation	(4,661)
<b>Closing carrying amount</b>	<b>10,573</b>

## 13. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>123</b>	123
Due from subsidiaries	<b>83,479</b>	75,397
Due to subsidiaries	<b>83,602</b>	75,520
	<b>(6,896)</b>	–
	<b>76,706</b>	75,520

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

# Notes to the Financial Statements

Year ended 31 March 2005

## 13. INTERESTS IN SUBSIDIARIES (continued)

Details of the subsidiaries at the balance sheet date 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%	Trading electroplating chemicals
Kenlap Fine Chemical (Zhuhai) Technology Company Limited (“Kenlap Zhuhai”)	PRC	PRC	HK\$80,000,000	–	100%	Subcontracting, manufacturing and trading of precious metal electroplating chemicals
Kenlap P.G.C. Manufacturer Company Limited (“Kenlap P.G.C.”)	Hong Kong	Hong Kong	HK\$2 ordinary, HK\$1,113,352 non-voting deferred (Note)	–	100%	Subcontracting, manufacturing and trading of precious metal electroplating chemicals
Ocean Grand Chemicals (BVI) Limited (“OG Chemicals BVI”)	British Virgin Islands	Hong Kong	US\$0.01	100%	–	Investment holding
OGC Management Services Limited	Hong Kong	Hong Kong	HK\$2	–	100%	Management services
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%	Trading electroplating chemicals

# Notes to the Financial Statements

Year ended 31 March 2005

## 13. INTERESTS IN SUBSIDIARIES (continued)

Kenlap Zhuhai is a wholly foreign-owned entity established in the PRC for a period of 30 years expiring in 2031. During the year, its registered capital was approved to be increased from HK\$80,000,000 to HK\$160,000,000. As of date of these financial statements, no further contribution of capital has been made.

None of the subsidiaries had any loan capital in issue at any time during the year.

*Note:* The non-voting deferred shares of Kenlap P.G.C. 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 P.G.C. to the holders of ordinary shares.

## 14. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
At cost:		
Raw materials	12,924	982
Work-in-progress	1,041	1,369
Finished goods	4,507	9,307
	<b>18,472</b>	<b>11,658</b>

## 15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Trade receivables</b> (Note 15a)	<b>276,550</b>	318,001	–	–
<b>Other receivables</b>				
Deposits, prepayments and other debtors	16,120	12,726	–	–
Due from immediate holding company	–	126	–	–
Due from a fellow subsidiary (Note 15b)	450	4,316	–	–
	<b>16,570</b>	17,168	–	–
	<b>293,120</b>	335,169	–	–



# Notes to the Financial Statements

Year ended 31 March 2005

## 15. TRADE AND OTHER RECEIVABLES (continued)

### (a) Trade Receivables

Credit terms granted to customers range from 1 month (for majority of the customers in Hong Kong) to 1 year (for majority of the subcontracting customers), depending on their relationship with the Group and settlement history. The ageing analysis of trade receivables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current (within 1 month)	75,746	118,988
1 month to 2 months	58,216	84,264
2 months to 3 months	25,079	52,593
More than 3 months but less than 12 months	117,509	61,843
More than 12 months but less than 24 months	–	313
	<b>276,550</b>	<b>318,001</b>

### (b) Due From A Fellow Subsidiary

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

## 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Trade payables</b> (Note 16a)	<b>70,442</b>	61,577	–	–
<b>Other payables</b>				
Accrued charges and other creditors	5,197	4,950	–	–
Due to immediate holding company (Note 16b)	69	433	432	432
	<b>5,266</b>	5,383	<b>432</b>	432
	<b>75,708</b>	66,960	<b>432</b>	432

# Notes to the Financial Statements

Year ended 31 March 2005

## 16. TRADE AND OTHER PAYABLES (continued)

### (a) Trade Payables

The ageing analysis of trade payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current (within 1 month)	32,822	42,746
1 month to 2 months	23,229	18,828
2 months to 3 months	14,209	3
More than 3 months but less than 12 months	182	–
	<b>70,442</b>	<b>61,577</b>

### (b) Due To Immediate Holding Company

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

## 17. BANK BORROWINGS

	Group	
	2005 HK\$'000	2004 HK\$'000
Short-term bank borrowings:		
Secured	10,459	4,492
Unsecured	129,939	75,905
	<b>140,398</b>	<b>80,397</b>
Long-term bank borrowings:		
Secured	1,550	2,150
Unsecured	128,460	133,483
	<b>130,010</b>	<b>135,633</b>
	<b>270,408</b>	<b>216,030</b>

# Notes to the Financial Statements

Year ended 31 March 2005

## 17. BANK BORROWINGS (continued)

The long-term bank borrowings are repayable as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Not exceeding 1 year	35,646	5,633
More than 1 year but not exceeding 2 years	22,014	35,664
More than 2 years but not exceeding 5 years	72,350	94,336
	<b>130,010</b>	135,633
Portion classified as current liabilities	<b>(35,646)</b>	(5,633)
Long-term portion	<b>94,364</b>	130,000

## 18. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable within a period as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Not exceeding 1 year	117	–	105	–
More than 1 year but not exceeding 2 years	117	–	110	–
More than 2 years but not exceeding 5 years	98	–	96	–
	<b>215</b>	–	<b>206</b>	–
Future finance charge	<b>332</b> (21)	– –	<b>311</b> –	– –
Present value of lease obligations	<b>311</b>	–	<b>311</b>	–

# Notes to the Financial Statements

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## 19. ISSUED CAPITAL

	2005		2004	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each (2004: HK\$0.10 each)				
<b>Authorised:</b>				
At beginning of year	1,000,000	100,000	1,000	100
Increase during the year	–	–	999,000	99,900
<b>At balance sheet date</b>	<b>1,000,000</b>	<b>100,000</b>	<b>1,000,000</b>	<b>100,000</b>
<b>Issued and fully paid:</b>				
Shares issued and allotted fully paid at 31 March 2003	475,000	47,500	1,000	100
Shares issued as consideration for the acquisition of the entire issued share capital of OG Chemicals BVI	–	–	1,227	123
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public offer and placing in the Stock Exchange	–	–	394,273	39,427
Shares issued for cash at HK\$0.88 each under the initial public offering of the Company's shares	–	–	78,500	7,850
Exercise of share options	4,700	470	–	–
<b>At balance sheet date</b>	<b>479,700</b>	<b>47,970</b>	<b>475,000</b>	<b>47,500</b>

Subsequent to the balance sheet date, the issued share capital of the Company has been increased from HK\$47,970,000 to HK\$48,700,000 as a result of the issuance of 7,300,000 ordinary shares of HK\$0.10 each upon exercise of 7,300,000 share options at subscription price of HK\$1.10 each.

# Notes to the Financial Statements

Year ended 31 March 2005

## 20. SHARE OPTIONS

On 4 September 2003, the Company adopted a share option scheme, which complied with Chapter 17 of the Rules Governing the Listing of Securities of the Stock Exchange, 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.

Movements of share options during the year, and which remain outstanding at the balance sheet date were:

Date of grant	Exercise period	Subscription price per share HK\$	Number of share option					End of year '000
			Beginning of year '000	Granted '000	Exercised '000	Cancelled '000	Lapsed '000	
9 February 2004	9 February 2004 to 3 September 2013	1.38	47,000	-	-	(28,200)	(14,100)	4,700
21 July 2004	21 July 2004 to 3 September 2013	0.97	-	14,100	(4,700)	(4,700)	-	4,700
17 February 2005	17 February 2005 to 3 September 2013	1.10	-	9,400	-	-	-	9,400

# Notes to the Financial Statements

Year ended 31 March 2005

## 21. RESERVES

<b>Group</b>	<b>Share premium HK\$'000</b>	<b>Exchange reserve HK\$'000</b>	<b>Special reserve HK\$'000</b>	<b>Accumulated profits HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 2003	–	667	33,706	120,232	154,605
Dividend approved in respect of previous year	–	–	–	(19,000)	(19,000)
Interim dividend approved	–	–	–	(9,500)	(9,500)
Premium arising from issue of shares upon initial public offering	61,230	–	–	–	61,230
Capitalisation issue credited as fully paid shares	(39,427)	–	–	–	(39,427)
Expenditure in relation to the issue of shares upon initial public offering	(13,208)	–	–	–	(13,208)
Exchange difference on translation of the financial statements of a foreign subsidiary	–	(631)	–	–	(631)
Profit for the year	–	–	–	70,545	70,545
At 31 March 2004	<u>8,595</u>	<u>36</u>	<u>33,706</u>	<u>162,277</u>	<u>204,614</u>
Representing:					
At 31 March 2004					
after proposed final dividend					185,614
2004 final dividend proposed					19,000
					<u>204,614</u>

# Notes to the Financial Statements

Year ended 31 March 2005

## 21. RESERVES (continued)

Group	Share premium HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2004	8,595	36	33,706	162,277	204,614
Dividend approved in respect of previous year	-	-	-	(19,000)	(19,000)
Interim dividend approved	-	-	-	(14,391)	(14,391)
Premium arising from issue of shares upon exercise of share options	4,089	-	-	-	4,089
Profit for the year	-	-	-	76,328	76,328
At 31 March 2005	<b>12,684</b>	<b>36</b>	<b>33,706</b>	<b>205,214</b>	<b>251,640</b>
Representing:					
At 31 March 2005					237,030
after proposed final dividend					14,610
2005 final dividend proposed					
					<b>251,640</b>

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 Financial Statements

Year ended 31 March 2005

## 21. RESERVES (continued)

Company	Share premium HK\$'000	Accumulated profit/(loss) HK\$'000	Total HK\$'000
At 1 April 2003	–	(52)	(52)
Dividend approved in respect of previous year	–	(19,000)	(19,000)
Interim dividend approved	–	(9,500)	(9,500)
Premium arising from issue of shares			
upon initial public offering	61,230	–	61,230
Capitalisation issue credited as fully paid shares	(39,427)	–	(39,427)
Expenditure in relation to the issue of shares			
upon initial public offering	(13,208)	–	(13,208)
Profit for the year	–	47,634	47,634
At 31 March 2004	<u>8,595</u>	<u>19,082</u>	<u>27,677</u>
Representing:			
At 31 March 2004 after proposed dividend			8,677
2004 final dividend proposed			19,000
			<u>27,677</u>

Company	Share premium HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
At 1 April 2004	8,595	19,082	27,677
Dividend approved in respect of previous year	–	(19,000)	(19,000)
Interim dividend approved	–	(14,391)	(14,391)
Premium arising from issue of shares			
upon exercise of share options	4,089	–	4,089
Profit for the year	–	29,964	29,964
At 31 March 2005	<u>12,684</u>	<u>15,655</u>	<u>28,339</u>
Representing:			
At 31 March 2005 after proposed dividend			13,729
2005 final dividend proposed			14,610
			<u>28,339</u>

At balance sheet date, the Company had accumulated profits of HK\$15,655,000 (2004: HK\$19,082,000) available for distribution to shareholders.



# Notes to the Financial Statements

Year ended 31 March 2005

## 22. CASH GENERATED FROM (USED IN) OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit from ordinary activities before taxation	75,828	72,045
Amortisation of intangible assets	2,359	1,902
Depreciation	6,543	5,137
Bad debts written off	427	–
Provision for long outstanding trade receivables	229	8,766
Interest income	(327)	(225)
Interest expenses	9,851	3,255
Changes in working capital:		
Inventories	(6,814)	(6,632)
Trade and other receivables	37,401	(169,418)
Trade and other payables	9,112	(40,262)
Effect of exchange rate changes	–	(631)
<b>Cash generated from (used in) operations</b>	<b>134,609</b>	<b>(126,063)</b>

## 23. PENSION SCHEMES

As stipulated by the PRC regulations, the PRC subsidiary of the Company maintain a defined contribution retirement plan for all of its employees. All of their retired employees are entitled to an annual pension equal to their basic annual salary upon retirement. The PRC subsidiary would contribute to a state sponsored retirement plan a percentage of the basic salary of its employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The costs of the state sponsored retirement plan of the PRC subsidiary of the Company are charged to the income statement. The Group's contributions for the year ended 31 March 2005 amounted to approximately HK\$76,000 (2004: HK\$71,000).

The Hong Kong subsidiaries operates two defined contribution Mandatory Provident Fund Schemes (the "MPF Schemes"), which are defined contribution schemes, for its Hong Kong employees. The assets of the MPF Schemes are held separately in provident funds managed by independent trustees. Under the MPF Schemes, both the Group and the employees make monthly contributions at the lower of HK\$1,000 or 5% of the relevant payroll costs. The costs of the MPF Scheme of the subsidiaries are charged to the income statement. The Group's contributions to the MPF Schemes for the year ended 31 March 2005 were approximately HK\$218,000 (2004: HK\$190,000).

# Notes to the Financial Statements

Year ended 31 March 2005

## 24. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in these financial statements, the Group had the following transactions with related parties:

- (a) During the year, the Group earned management fee of HK\$450,000 (2004: Nil) from a fellow subsidiary during the year.
- (b) On 1 January 2004, a subsidiary of the Company entered into lease agreements with a company which is beneficially owned by a director of the subsidiary of the Company for leasing of two motor vehicles. During the year, the Company paid rental expenses of HK\$960,000 (2004: HK\$240,000).

Directors considered that the above transactions were carried out on normal commercial terms.

## 25. COMMITMENTS

- (a) **Capital expenditure commitments**

	Group	
	2005 HK\$'000	2004 HK\$'000
Contracted but not provided for, net of deposit paid	<b>12,984</b>	18,389

# Notes to the Financial Statements

Year ended 31 March 2005

## 25. COMMITMENTS (continued)

### (b) Operating leases commitments

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:

The Group	Premises		Others	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	3,961	3,539	960	720
Between two to five years	1,331	4,516	720	–
	<b>5,292</b>	<b>8,055</b>	<b>1,680</b>	<b>720</b>

  

The Company	Premises		Others	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	2,660	2,660	–	–
Between two to five years	1,331	3,991	–	–
	<b>3,991</b>	<b>6,651</b>	<b>–</b>	<b>–</b>

# Notes to the Financial Statements

Year ended 31 March 2005

## 26. CONTINGENT LIABILITIES

- (a) During the year, the Company has executed corporate guarantees to banks and other financial institutions for facilities given to the subsidiaries. At the balance sheet date, the banking facilities and other financial credits granted to and utilised by the subsidiaries amounted to HK\$365,561,000 (2004: HK\$357,058,000) and HK\$270,408,000 (2004: HK\$216,030,000) respectively.
- (b) In connection with the subscription agreements entered into between a subsidiary of the Group, its ultimate holding company and the independent subscribers (the "Subscribers") in relation to the subscription of shares in the subsidiary of the Company by the Subscribers, its ultimate holding company, an agent and each of the Subscribers entered into an escrow agreement pursuant to which its ultimate holding company agreed to place the escrow money with the agent and the agent agreed to act as an escrow agent in relation to the escrow money. On the other hand, the subsidiary of the Group entered into a Deed of Indemnity with the agent fully indemnified the agent against all actions, taxes, liabilities, damages, claims, costs and expenses or otherwise whatsoever in respect of any claim, action or otherwise brought by any of the Subscribers and/or any third party against the agent whatsoever and howsoever for acting in accordance with the terms of any of the escrow agreements. This indemnity given by the subsidiary of the Company shall continue notwithstanding the termination of any or all of the escrow agreements.

## 27. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure general banking facilities granted:

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Investment properties	<b>4,800</b>	4,800
Leasehold land and buildings	<b>2,494</b>	2,552
	<b>7,294</b>	7,352

# Notes to the Financial Statements

Year ended 31 March 2005

## 28. SEGMENT INFORMATION

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

### (a) By business segments

The Group's major business segments comprise subcontracting, manufacturing and trading of precious metal electroplating chemicals.

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Consolidated HK\$'000
Year ended 31 March 2005				
External sales	<u>370,468</u>	<u>574,306</u>	<u>73,065</u>	<u>1,017,839</u>
Segment results	<u>22,009</u>	<u>30,798</u>	<u>72,196</u>	125,003
Unallocated operating income and expenses				<u>(39,324)</u>
Profit from operations				85,679
Finance costs				<u>(9,851)</u>
Profit before taxation				75,828
Taxation				<u>500</u>
Net profit attributable to shareholders				<u>76,328</u>
<b>OTHER INFORMATION</b>				
Capital expenditures	14,358	181	–	
Depreciation and amortisation	6,534	1,079	1,289	
Other non-cash expenses other than depreciation and amortisation	<u>41</u>	<u>5,476</u>	<u>–</u>	

# Notes to the Financial Statements

Year ended 31 March 2005

## 28. SEGMENT INFORMATION (continued)

### (a) By business segments (continued)

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Consolidated HK\$'000
Year ended 31 March 2004				
External sales	276,643	368,601	93,492	738,736
Segment results	11,978	20,280	78,714	110,972
Unallocated operating income and expenses				(35,672)
Profit from operations				75,300
Finance costs				(3,255)
Profit before taxation				72,045
Taxation				(1,500)
Net profit attributable to shareholders				70,545
<b>OTHER INFORMATION</b>				
Capital expenditures	6,586	5,505	11,980	
Depreciation and amortisation	2,052	527	4,460	
Other non-cash expenses other than depreciation and amortisation	–	2,290	6,476	

# Notes to the Financial Statements

Year ended 31 March 2005

## 28. SEGMENT INFORMATION (continued)

### (a) By business segments (continued)

	Manufacturing HK\$'000	Trading HK\$'000	Sub- contracting HK\$'000	Rental HK\$'000	Consolidated HK\$'000
Year ended 31 March 2005					
Assets					
Segment assets	<u>169,535</u>	<u>201,403</u>	<u>42,592</u>	<u>4,800</u>	<u>418,330</u>
Unallocated assets					<u>228,529</u>
Total assets					<u>646,859</u>
Liabilities					
Segment liabilities	<u>135,467</u>	<u>70,442</u>	<u>5,820</u>	<u>1,550</u>	<u>213,279</u>
Unallocated liabilities					<u>133,970</u>
Total liabilities					<u>347,249</u>
Year ended 31 March 2004					
Assets					
Segment assets	<u>81,828</u>	<u>230,972</u>	<u>123,399</u>	<u>4,800</u>	<u>440,999</u>
Unallocated assets					<u>94,686</u>
Total assets					<u>535,685</u>
Liabilities					
Segment liabilities	<u>65,467</u>	<u>61,290</u>	<u>22,661</u>	<u>2,150</u>	<u>151,568</u>
Unallocated liabilities					<u>132,003</u>
Total liabilities					<u>283,571</u>

# Notes to the Financial Statements

Year ended 31 March 2005

## 28. SEGMENT INFORMATION (continued)

### (b) By geographical segments

#### Year ended 31 March 2005

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operations HK\$'000
Hong Kong	182,322	629	510,364	36,983
PRC	463,213	13,910	504,329	48,692
Overseas	1,324	–	3,146	4
	<u>646,859</u>	<u>14,539</u>	<u>1,017,839</u>	<u>85,679</u>

#### Year ended 31 March 2004

	Carrying amount of segment assets HK\$'000	Capital expenditure incurred HK\$'000	Revenue from external customers HK\$'000	Contributions to profit from operations HK\$'000
Hong Kong	237,975	277	428,833	(7,508)
PRC	297,710	23,794	309,903	82,808
Overseas	–	–	–	–
	<u>535,685</u>	<u>24,071</u>	<u>738,736</u>	<u>75,300</u>

## 29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.