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Corporate Information

BOARD OF DIRECTORS

Mr YIP Kim Po (Chairman), *FHKIoD*
Mr HUI Ho Ming, Herbert
(Deputy Chairman), *FHKIoD, JP*
The Honourable CHEUNG Yu-yan,
Tommy, *JP **
Mr KWAN Yan
(appointed w.e.f. 14 July 2005)
Mr LAU Ping (resigned w.e.f. 12 May 2005)
Mr LIN Jianping
Dr LO Wing Yan, William, *JP **
Mr WAN Ngar Yin, David ***
Mr YEH V-nee *#*

** Independent Non-Executive Director,
Member of the Audit Committee.*

*# Non-Executive Director, Member of the Audit
Committee.*

COMPANY SECRETARY

Ms CHAN Chik Ching, Olivia

SOLICITORS

Charltons
Deacons
P.C. Woo & Co.

AUDITORS

Moores Rowland Mazars

PRINCIPAL BANKERS

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

PRINCIPAL OFFICE

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

PLANT IN CHINA

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL REGISTRAR

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH REGISTRAR

Tengis Limited
G/F, BEA Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong
(up to 2 January 2006)

26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai, Hong Kong
(with effect from 3 January 2006)

STOCK CODE

2882

HOMEPAGE

<http://www.ogchemicals.com>

INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited

Management Discussion and Analysis

- Chairman's Letter to Shareholders

Dear shareholders

On behalf of the board of directors (the "Board") of Ocean Grand Chemicals Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I report the results of the Group for the six months ended 30 September 2005 (the "Reporting Period").

RESULTS OF THE REPORTING PERIOD

Turnover of the Group for the Reporting Period reached HK\$536,240,000, representing an increase of 1.2% when compared with the same period last year. Gross profit for the Reporting Period was HK\$65,614,000, down 4.2% while net profit was posted at HK\$33,081,000, representing a 15.4% drop when compared to the same period last year.

REVIEW OF BUSINESS AND OPERATIONS

During the Reporting Period, the Group has continued to adopt a customer-focused approach with the aim to, among other things, extend our customer base. In catering for the specific needs of the Group's customers, the Group continues to adhere to the following three business segments:

- (i) manufacturing, whereby the Group purchases precious metals for customers at the most competitive market price and then convert them into chemical products for sale to customers;
- (ii) subcontracting, whereby the Group converts precious metal sourced by customers into chemical products specified by customers; and
- (iii) trading, whereby the Group purchases finished chemical products and resell them to customers.

The turnover and gross profit of the Group are mainly an amalgamation of the results of these three segments. We envisage that in a few years' time, we will be able to consolidate the Group's customer relationships and to develop an optimal business segment mix.

In addition, the Group has, in accordance with its plan, embarked on the expansion of the production capacity of its Zhuhai Plant. Infrastructural work commenced in March 2005 and has spanned through the whole first half of the Reporting Period. The infrastructural work has affected the utilization rate and hence the production capacity of the Zhuhai Plant for the duration of such work, which resulted in a slower growth of the output and turnover during the Reporting Period. The infrastructural work has been completed and the production capacity of the Zhuhai Plant has already resumed to its normal level. The enhancement and modification



The Zhuhai Plant Workshop

Management Discussion and Analysis

- Chairman's Letter to Shareholders

REVIEW OF BUSINESS AND OPERATIONS (continued)

of the equipments will increase the production capacity of our silver salt line from 160,000kg to 280,000kg per annum, and the production capacity of our palladium salt line from 6,000kg to 12,000kg per annum. The additional capacity is expected to be in operation by the end of December 2005. Production lines for the new products will be introduced in first quarter 2006.

Business review on various areas is as follows:

Production and subcontracting

Despite the disruption caused by the infrastructural work at the Zhuhai Plant, the Group's turnover attributed to the production and subcontracting segments amounted to HK\$276 million during the Reporting Period, representing an increase of 58.6% over that of last year. Key contributor to the increase in turnover is the gold salt production, which has increased by 86.3% against HK\$124 million recorded in the same period last year, reaching HK\$231 million.

Trading

During the Reporting Period, the Group's trading business was posted at HK\$260 million, representing a decrease of 26.9% over the same period last year. The Group's strategy has always been to increase the turnover and output of our own production facilities first. The risk of engaging in the trading business can only be justified when there is excessive market demand of the precious metal electroplating chemicals. Going forward it is expected that the growth in trading side of our business should be less than that of production and subcontracting.

Others



Research & Development Laboratory

In order to position itself as a market leader, the Group has consistently placed emphasis on research and development. The research and development team have during the Reporting Period continued to develop new products with market potential. New products that have been developed to date include sodium gold sulphite, silver cyanide, gold chloride, palladium chloride, tetra-ammine palladium chloride etc. These new products will be gradually introduced to the market after their respective production lines are in place.



Heavy Water Treatment System

Management Discussion and Analysis

- Chairman's Letter to Shareholders

REVIEW OF BUSINESS AND OPERATIONS (continued)

Moreover, during the Reporting Period, the Group together with the Department of Chemistry of the University of Hong Kong have sought approval of an Innovation and Technology Fund grant from the Innovation and Technology Commission of the Hong Kong Special Administrative Region Government for a joint project on the research of advanced technology regarding efficient extraction of trace precious metals in industrial effluents. It is expected that the project will start before the end of 2005 and will last for 18 months. The Group has also liaised with eminent professors and specialists in the Chemical Engineering and Environmental Protection areas of leading universities in China regarding joint projects in research and development.

PRICING POLICY

The principal raw materials for the electroplating chemical products of the Group include certain types of precious metals. The costs of such raw material account for a significant part of the Group's total production costs. The Group has adopted a "cost-plus" pricing strategy (i.e. charging a premium on top of the costs of raw materials) in determining the price charged to its customers.



Reactor

The effect of this "cost-plus" approach is that the absolute amount of the Group's gross profit will remain unchanged, but when expressed as a percentage of the electroplating chemical products of the Group, the percentage gross profit decreases when precious metal price increases due to an inflated base in the calculation. It is worth noting that the decreasing trend in gross profit percentage in the past few years was mainly caused by, in addition to the combined result of the change in business segment mix, a sharp increase in the costs of precious metal price instead of a genuine decrease in profitability. The average gross profit in dollar terms of the individual business segment has remained stable in the past few years.

BUSINESS PROSPECT AND FUTURE OUTLOOK

Looking ahead, the Group remains optimistic about the strong and growing demand for precious metal electroplating chemicals in various light industries within China, including jewellery, clocks and watches, lighting equipment, printed circuit boards, electronic components and electrical appliances. Leveraging on its first-mover advantage and being the largest precious metal electroplating chemical producer in China, the Group will continue to enhance its product portfolio by placing more emphasis on high value added products and broaden the market coverage within China. With the new production lines coming into operation and the additional production capacity, the Group is confident that it will achieve a growing path in the next few years.

Yip Kim Po
Chairman

Hong Kong, 15 December 2005

Management Discussion and Analysis

- Report of the Directors

The directors of the Company (the "Directors") present the interim report together with the interim financial statements of the Group for the Reporting Period.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

As at 30 September 2005, the net assets of the Group amounted to HK\$328,962,000 (31 March 2005: HK\$299,610,000). The Group has a solid financial position and maintained a strong liquidity, within the current assets, HK\$187,366,000 (31 March 2005: HK\$224,191,000) was in the form of free cash and cash equivalents.

Total bank borrowings and obligations under finance lease as at 30 September 2005 were 324,572,000 (31 March 2005: HK\$270,719,000), of which approximately 31% (31 March 2005: 35%), HK\$100,471,000 (31 March 2005: HK\$94,570,000) will be due after one year. Net debt gearing (i.e. total borrowings less free cash/net tangible assets) of the Group as at 30 September 2005 was 43% (31 March 2005: 16%).

The Company issued 7,300,000 new shares during the Reporting Period due to the exercise of options pursuant to the share option scheme of the Company.

Foreign Exchange Risk and Interest Rate Risk

The Group's cash and cash equivalents are held predominately in Hong Kong dollar, Renminbi and US dollar. The majority of the Group's borrowings are denominated in Hong Kong dollar and Renminbi at floating interest rates. The management of the Group is of the opinion that the Group's exposure to interest rate and foreign exchange risks is insignificant, and hedging of these risks by means of derivative instruments is considered unnecessary.

Segmental Information

Details of segmental information are set out in note 2 to this 2005 interim report. The subcontracting segment, in which precious metals are provided by customers for processing, remains the most lucrative segment in our business. Margins in all segments remain quite stable during the Reporting Period.

CAPITAL EXPENDITURE PLAN

The Group has finished the infrastructural construction work of the expansion of the main building of the Zhuhai Plant in August 2005, and is in the process of rationalising the interior setting and selection of relevant equipments. Total capital expenditure budget is around HK\$60,000,000 and the funding has already been secured.

Management Discussion and Analysis

- Report of the Directors

SUBSEQUENT EVENT – LONG TERM FINANCE

Subsequent to the Reporting Period, Ocean Grand Holdings Limited (“OGHL”), the holding company of the Company, entered into a subscription agreement dated 30 November 2005 in connection with the issue of US\$125 million aggregate principal amount of 9.25% guaranteed notes due 2010 (the “Notes”). OGHL has made announcements in relation thereto on 16 and 30 November 2005. The obligations of OGHL will be secured by, among other securities, an assignment by OGHL of all of its rights and benefits under the Kenlap Intercompany Loan Agreement (as defined below).

On 7 December 2005, OGHL entered into a loan agreement with Kenlap P.G.C. Manufacturer Company Limited (“Kenlap PGC”), a wholly-owned subsidiary of the Company, pursuant to which OGHL agreed to on-lend US\$15 million of the net proceeds from the issue of the Notes to Kenlap PGC (the “Kenlap Intercompany Loan Agreement”).

The loan on-lent to the Company pursuant to the Kenlap Intercompany Loan Agreement (the “Loan”) will bear 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 in each year. The maturity of the Loan will be on the earliest to occur of 7 December 2010, any date upon which the Notes become redeemable and the occurrence of an event of default under the Notes.

Under the Kenlap Intercompany Loan Agreement, OGHL, a controlling shareholder of the Company, is required to at all times that the Notes or the guarantee of the Notes are outstanding, beneficially own and control, directly or indirectly, not less than 51% of the total voting power of the Company. Breach of this covenant by OGHL may constitute an event of default under the Notes.

The Company has disclosed the above information on the Notes and the Loan pursuant to Rules 13.17 and 13.18 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in an announcement dated 7 December 2005.

The Loan will enable the Group to consolidate its debt maturity profile, which will allow the Group to better ascertain its financial status so as to make future development arrangements.

The Board is of the view that the Loan, in providing long term financing, will allow the Group to plan and meet long term investments. Such long term financing will also enable the Group to gain more flexibility in obtaining any short term financing and in the selection of financing terms.

The Board is of the view that the ready availability of long term financing will facilitate the business development of the Group.

Management Discussion and Analysis

- Report of the Directors

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK2.5 cents per share (*2004: HK3 cents per share*) representing a dividend payout ratio of 37%, for the six months ended 30 September 2005, totaling approximately HK\$12,175,000 to the shareholders registered in the Company's Register of Members as at the close of business on 10 January 2006. The interim dividend will be paid on 9 February 2006 to the shareholders whose names appear on the Register of Members of the Company on 10 January 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 6 January 2006 to 10 January 2006, both days inclusive, in order to determine those shareholders entitled to the proposed interim dividend, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (if on or before 2 January 2006) or at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (if after 2 January 2006) for registration not later than 4:30 pm on 5 January 2006.

INFORMATION ON SHARE OPTIONS

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

Management Discussion and Analysis

- Report of the Directors

INFORMATION ON SHARE OPTIONS (continued)

Movement of share options during the six months ended 30 September 2005:

Eligible Participant	Date of grant	Outstanding at 1 April 2005	Number of share options to subscribe for shares				Outstanding at 30 September 2005	Subscription price per share	Exercise period*
			Granted	Exercised	Cancelled	Lapsed			
Employees:									
Employee	9 February 2004	4,700,000	-	-	-	-	4,700,000	HK\$1.38	9 February 2004 – 3 September 2013
Employees	17 February 2005	9,400,000	-	(7,300,000)	-	-	2,100,000	HK\$1.10	17 February 2005 – 3 September 2013
Employee	1 August 2005	-	4,700,000 (Note a)	-	-	-	4,700,000	HK\$1.09	1 August 2005 – 3 September 2013
						<u>Total: 11,500,000</u>			
Others:									
Business Associate	21 July 2004	4,700,000	-	-	-	(4,700,000) (Note b)	-	HK\$0.97	21 July 2004 – 3 September 2013
						<u>Total: -</u>			

Notes:

- * Share options are vested from date of issue.
- a. The closing price per share immediately before 1 August 2005 on which the options were granted was HK\$1.08.
- b. Options granted to a business associate was lapsed on 1 August 2005.

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

Upon the adoption of Hong Kong Financial Reporting Standard 2 “Share-based Payment”, an amount of approximately of HK\$587,000 representing the estimated fair value of share options granted on 1 August 2005 was charged to the profit and loss account during the Reporting Period.

Management Discussion and Analysis

- Report of the Directors

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

As at 30 September 2005, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the 'Securities Dealing Code' adopted by the Company were as follows:

Long positions

Name	Type of interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the Company's issued share capital
Mr Yip Kim Po	Others	Note	Note	-	Note	Note
Mr Hui Ho Ming, Herbert	Beneficial owner Others	100% Note	9,500,000 Note	- -	9,500,000 Note	1.95 Note
The Honourable Cheung Yu-yan, Tommy	-	-	-	-	-	-
Mr Kwan Yan	Beneficial owner	100%	148,000	-	148,000	0.03
Mr Lin Jianping	-	-	-	-	-	-
Dr Lo Wing Yan, William	-	-	-	-	-	-
Mr Wan Ngar Yin, David	-	-	-	-	-	-
Mr Yeh V-nee	-	-	-	-	-	-

Management Discussion and Analysis

- Report of the Directors

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

Note:

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

The securities of Ocean Grand Holdings Limited are listed on the Main Board of the Stock Exchange. As at 30 September 2005, Mr Yip Kim Po and Mr Hui Ho Ming, Herbert directly and indirectly held 132,000,000 shares and 8,480,000 shares respectively (approximately 31.14% and 2.00% respectively) of the issued share capital of Ocean Grand Holdings Limited.

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

DIRECTORS' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Save as disclosed under the headings "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", none of the Directors or chief executives or their spouses or children under 18 years of age were granted or exercised any right to subscribe for equity or debt securities in the Company.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2005, the interests or short positions of the substantial shareholders and other person (other than those Directors or chief executives of the Company disclosed above) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position – Substantial Shareholders

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Ocean Grand Holdings Limited	Indirectly through Successful Gold Profits Limited	355,196,000	72.94%
Successful Gold Profits Limited	Directly	355,196,000	72.94%

Management Discussion and Analysis

- Report of the Directors

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

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	9.14%

Save as disclosed above, as at 30 September 2005, there was no person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

STAFF POLICY

Staff costs are disclosed in note 3 to this 2005 interim report.

The management firmly believes that an organisation's most precious asset is its staff. The Group offers competitive remuneration packages at market level to staff members who render satisfactory performance. Top performers might receive further incentives at the absolute discretion of the management. Adequate and in-depth on-the-job training is provided to all employees to facilitate the performance of their duties. As at 30 September 2005, the Group had approximately 100 (31 March 2005: approximately 100) full-time employees.

CONTINGENT LIABILITIES

Details of contingent liabilities are disclosed in note 14 to this 2005 interim report.

PLEDGE OF ASSETS

Details of pledge of assets are disclosed in note 15 to this 2005 interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2005 (2004: Nil).

Management Discussion and Analysis

- Report of the Directors

AUDIT COMMITTEE

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

The Audit Committee's principal duties are to review and supervise of the Group's financial reporting process and internal controls. As at 30 September 2005, the Audit Committee comprised Mr Wan Ngar Yin, David (the chairman), the Honourable Cheung Yu-yan, Tommy, Dr Lo Wing Yan, William and Mr Yeh V-nee.

The Audit Committee has reviewed the interim results and the financial statements of the Group for the six months period ended 30 September 2005 and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong. The Audit Committee found no unusual items that were omitted from the financial statements for the six months period ended 30 September 2005 and was satisfied with the disclosures of data and explanations shown in the financial statements.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising the Independent Non-Executive Directors, The Honourable Cheung Yu-yan, Tommy (the chairman), Dr Lo Wing Yan, William and Mr Wan Ngar Yin, David.

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

CREDIT COMMITTEE

The Board has established a Credit Committee comprising the Chairman of the Company and management representatives of various departments to review the credit granting policy to each individual customers of the Group.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted 'Securities Dealing Code' regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the Directors of the Company, all the Directors have confirmed their full compliance with the required standard set out in the 'Securities Dealing Code' throughout the Reporting Period.

Management Discussion and Analysis

- Report of the Directors

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

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

ATTENDANCE AT FULL BOARD/COMMITTEE MEETINGS FOR THE PERIOD FROM 1 APRIL 2005 TO 15 DECEMBER 2005

	Board	Audit Committee	Remuneration Committee
	(Attendance in person/number of meetings)		
Number of meetings	4	2	1
Executive Directors:			
Mr Yip Kim Po	4/4	–	1/1
Mr Hui Ho Ming, Herbert	4/4	–	–
Mr Kwan Yan (appointed wef 14 July 2005)	1/2	–	–
Mr Lau Ping (resigned wef 12 May 2005)	0/1	–	–
Mr Lin Jianping	3/4	–	–
Independent Non-Executive Directors:			
The Honourable Cheung Yu-yan, Tommy	3/4	2/2	1/1
Dr Lo Wing Yan, William	4/4	1/2	1/1
Mr Wan Ngar Yin, David	4/4	2/2	1/1
Non-Executive Director:			
Mr Yeh V-nee	4/4	2/2	–

On behalf of the Board

Yip Kim Po

Chairman

Hong Kong, 15 December 2005

Condensed Consolidated Financial Statements

- Condensed Consolidated Income Statement

The Directors of the Company announce the unaudited consolidated results of the Group for the Reporting Period together with the comparative figures for the corresponding period of last year as follows:

Condensed Consolidated Income Statement – unaudited

		For the six months ended 30 September	
		2005	2004
		HK\$'000	(Restated) HK\$'000
	Note		
Turnover	2	536,240	530,016
Cost of sales		(470,626)	(461,532)
Gross profit		65,614	68,484
Other income		2,612	81
General and administrative expenses		(18,920)	(16,149)
Other operating expenses		(5,387)	(7,850)
Profit from operations		43,919	44,566
Finance costs	3	(8,972)	(4,667)
Profit from ordinary activities before taxation	3	34,947	39,899
Taxation	4	(1,866)	(800)
Net profit attributable to shareholders		33,081	39,099
Dividends attributable to the period	5	12,175	14,250
Earnings per share	6		
– Basic		HK6.83 cents	HK8.23 cents
– Diluted		HK6.82 cents	HK8.22 cents

Condensed Consolidated Financial Statements

- Condensed Consolidated Statement of Changes in Equity

Condensed Consolidated Statement of Changes in Equity – unaudited

	For the six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Opening balance – Total equity	299,610	252,114
Dividend approved in respect of previous year	(14,610)	(19,000)
Issue of shares upon exercise of share options	730	–
Premium arising from issue of shares upon exercise of share options	7,300	–
Share option reserve arising from granting of share options	587	–
Exchange difference on translation of a foreign subsidiary	2,264	–
Profits for the period	33,081	39,099
	29,352	20,099
Closing balance – Total equity	328,962	272,213

Condensed Consolidated Financial Statements

- Condensed Consolidated Balance Sheet

Condensed Consolidated Balance Sheet

	Note	At 30 September 2005 (Unaudited) HK\$'000	At 31 March 2005 (Restated) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		4,800	4,800
Lease premium on land		1,275	1,265
Property, plant and equipment	7	104,164	93,814
Intangible assets		9,463	10,573
		119,702	110,452
Current assets			
Current portion of lease premium on land		28	28
Inventories		21,578	18,472
Trade and other receivables	8	399,184	293,120
Tax recoverable		596	596
Other financial assets		4,930	–
Bank balances and cash		187,366	224,191
		613,682	536,407
Current liabilities			
Trade and other payables	9	77,807	75,708
Short-term bank borrowings		179,108	140,398
Current portion of long-term bank borrowings		44,888	35,646
Current portion of obligations under finance leases		105	105
Current tax liabilities		2,043	822
		303,951	252,679
Net current assets		309,731	283,728
Total assets less current liabilities		429,433	394,180
Non-current liabilities			
Long-term bank borrowings		100,317	94,364
Obligations under finance leases		154	206
		100,471	94,570
NET ASSETS		328,962	299,610
CAPITAL AND RESERVES			
Issued capital	10	48,700	47,970
Reserves	12	280,262	251,640
		328,962	299,610

Condensed Consolidated Financial Statements

- Condensed Consolidated Cash Flow Statement

Condensed Consolidated Cash Flow Statement – unaudited

For the six months
ended 30 September

	2005	2004
	HK\$'000	HK\$'000
Net cash (used in) generated from operating activities	(58,750)	27,604
Net cash used in investing activities	(40,926)	(9,096)
Net cash generated from financing activities	62,851	15,826
Net (decrease) increase in cash and cash equivalents	(36,825)	34,334
Cash and cash equivalents at beginning of period	224,191	83,014
Cash and cash equivalents at end of the period	187,366	117,348
Analysis of cash and cash equivalents		
Bank balances and cash	187,366	117,348

Notes to Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

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

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

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

(a) HKAS 17 "Leases"

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses. Upon the adoption of HKAS 17, the Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to lease premium on land, while leasehold buildings continue to be classified as part of property, plant and equipment. Lease premium on land under operating lease are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet at 31 March 2005 have been restated to reflect the reclassification of leasehold land.

Notes to Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES (continued)

(b) HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”

The Group uses commodity contracts to hedge its risks associated with certain commodity price fluctuations. These contracts were stated at fair value at balance sheet date and were classified as other receivables in prior periods. Upon the adoption of HKAS 32 and HKAS 39, these contracts are classified under other financial assets.

The adoption of HKAS 32 and HKAS 39 does not have any material impact on the Group’s current or prior period’s financial statements.

(c) HKAS 40 “Investment Property”

The adoption of HKAS 40 has resulted in a change in the accounting policy for investment property. Prior to this, changes in the value of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, the excess of the deficit was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged. After the adoption of HKAS 40, any changes in value of investment property are dealt with in the profit and loss account and there should be no revaluation reserve available for offsetting against revaluation deficits.

The adoption of HKAS 40 does not have any impact on the Group’s current or prior period’s financial statements.

(d) HKFRS 2 “Share-based Payment”

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transaction with employees is measured by reference to the fair value at the date at which the instruments are granted.

Following the adoption of HKFRS 2, an amount of approximately of HK\$587,000 (*for the six months ended 30 September 2004: Nil*) representing the estimated fair value of share options granted on 1 August 2005 is charged to the profit and loss account during the period, with a corresponding credit to the equity. These options are valued using the Black-Scholes Model.

Notes to Condensed Consolidated Financial Statements

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Turnover and revenue recognised by category are analysed as follows:

	For the six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Sale of goods	500,889	487,739
Subcontracting fees	35,351	42,277
Revenue	536,240	530,016

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

(a) By business segments

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

	Manufacturing HK\$'000	Subcontracting HK\$'000	Trading HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2005				
External sales	240,784	35,351	260,105	536,240
Segment result	14,131	34,620	14,527	63,278
Unallocated operating income and expenses				(19,359)
Profit from operations				43,919

Notes to Condensed Consolidated Financial Statements

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

(a) By business segments (continued)

	Manufacturing HK\$'000	Subcontracting HK\$'000	Trading HK\$'000	Consolidated HK\$'000
Six months ended 30 September 2004				
External sales	132,044	42,277	355,695	530,016
Segment result	4,420	40,278	16,356	61,054
Unallocated operating income and expenses				(16,488)
Profit from operations				44,566

(b) By geographical segments

For the six months ended
30 September 2005

	Revenue from external customers HK\$'000	Contributions to profit from operations HK\$'000
Hong Kong	338,018	18,560
PRC	197,315	25,337
Overseas	907	22
	536,240	43,919

Notes to Condensed Consolidated Financial Statements

2. TURNOVER, REVENUE AND SEGMENTAL INFORMATION (continued)

(b) By geographical segments (continued)

	For the six months ended 30 September 2004	
	Revenue from external customers HK\$'000	Contributions to profit from operations HK\$'000
Hong Kong	254,561	2,109
PRC	274,565	42,395
Overseas	890	62
	530,016	44,566

3. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging (crediting) the following:

	For the six months ended 30 September	
	2005 HK\$'000	2004 (Restated) HK\$'000
(a) <i>Finance costs</i>		
Interest on bank overdrafts and borrowings wholly repayable within five years	6,662	3,963
Finance charges on obligations under finance leases	30	13
Other borrowing costs	2,280	691
	8,972	4,667
(b) <i>Other items</i>		
Depreciation	2,430	4,342
Amortisation of lease premium on land	14	14
Amortisation of intangible assets	1,190	1,179
Staff costs	8,137	7,467
(Over-provision)		
Provision for long outstanding trade receivables	(163)	3,607

Notes to Condensed Consolidated Financial Statements

4. TAXATION

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

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

5. INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK2.5 cents per share for the six months ended 30 September 2005 (2004: HK3 cents per share).

6. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six months ended 30 September 2005 was based on the Group's profit of approximately HK\$33,081,000 (30 September 2004: HK\$39,099,000). The basic earnings per share is based on the weighted average number of 484,487,000 shares in issue (30 September 2004: 475,000,000 shares) during the period. The diluted earnings per share is calculated based on the weighted average number of 485,190,000 shares (30 September 2004: 475,419,000 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in Note 11 to this condensed consolidated financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's acquisition of property, plant and equipment amounted to HK\$11,217,000 (30 September 2004: HK\$8,145,000).

Notes to Condensed Consolidated Financial Statements

8. TRADE AND OTHER RECEIVABLES

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
Trade receivables	343,003	276,550
Other receivables		
Deposits, prepayment and other debtors	56,181	16,120
Due from a fellow subsidiary	–	450
	399,184	293,120

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

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
Within 1 month	83,142	75,746
1 month to 2 months	70,473	58,216
2 months to 3 months	36,889	25,079
More than 3 months but less than 12 months	152,499	117,509
	343,003	276,550

Notes to Condensed Consolidated Financial Statements

9. TRADE AND OTHER PAYABLES

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
Trade payables	56,817	70,442
Other payables		
Accrued charges and other creditors	6,380	5,197
Due to immediate holding company	–	69
Dividend payable	14,610	–
	77,807	75,708

The aging analysis of trade payables is as follows:

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
Within 1 month	27,497	32,822
1 month to 2 months	28,584	23,229
2 months to 3 months	386	14,209
More than 3 months but less than 12 months	350	182
	56,817	70,442

Notes to Condensed Consolidated Financial Statements

10. ISSUED CAPITAL

	At 30 September 2005		At 31 March 2005	
	Number of '000	Amount HK\$'000	Number of '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At beginning of period/year	479,700	47,970	475,000	47,500
Shares issued upon the exercise of share options	7,300	730	4,700	470
At balance sheet date	487,000	48,700	479,700	47,970

11. SHARE OPTIONS

Date of grant	Exercise period	Subscription price per share HK\$	Outstanding at 1 April 2005 '000	Number of share option				Outstanding at 30 September 2005 '000
				Granted '000	Exercised '000	Cancelled '000	Lapsed '000	
9 February 2004	9 February 2004 to 3 September 2013	1.38	4,700	-	-	-	-	4,700
21 July 2004	21 July 2004 to 3 September 2013	0.97	4,700	-	-	-	(4,700)	-
17 February 2005	17 February 2005 to 3 September 2013	1.10	9,400	-	(7,300)	-	-	2,100
1 August 2005	1 August 2005 to 3 September 2013	1.09	4,700	-	-	-	-	4,700
							Total	11,500

Notes to Condensed Consolidated Financial Statements

12. RESERVES

	Share premium HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2004	8,595	–	36	33,706	162,277	204,614
Final dividend for previous year	–	–	–	–	(19,000)	(19,000)
Profit for the period	–	–	–	–	39,099	39,099
At 30 September 2004	<u>8,595</u>	<u>–</u>	<u>36</u>	<u>33,706</u>	<u>182,376</u>	<u>224,713</u>
At 1 April 2005	12,684	–	36	33,706	205,214	251,640
Final dividend for previous year	–	–	–	–	(14,610)	(14,610)
Issue of shares upon exercise of share options	7,300	–	–	–	–	7,300
Share option expense arising from granting of share options	–	587	–	–	–	587
Exchange difference on translation of a foreign subsidiary	–	–	2,264	–	–	2,264
Profit for the period	–	–	–	–	33,081	33,081
At 30 September 2005	<u>19,984</u>	<u>587</u>	<u>2,300</u>	<u>33,706</u>	<u>223,685</u>	<u>280,262</u>

Notes to Condensed Consolidated Financial Statements

13. COMMITMENTS

(a) Capital expenditure commitments

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
Contracted but not provided for, net of deposit paid	37,671	12,984

(b) Investment commitments

As at 30 September 2005, the Group had an outstanding commitment of HK\$70,000,000 (31 March 2005: HK\$80,000,000) in respect of the capital contribution to a subsidiary in the PRC.

14. CONTINGENT LIABILITIES

During the Reporting Period, the Company provided corporate guarantees to banks and other financial institutions in respect of banking facilities and other finance lease credits given to the subsidiaries. At the balance sheet date, the banking facilities and other finance lease granted to and utilised by the subsidiaries amounted to HK\$412,515,000 (31 March 2005: HK\$365,561,000) and HK\$324,313,000 (31 March 2005: HK\$270,408,000) respectively.

15. PLEDGE OF ASSETS

Certain banking facilities of the Group were secured by corporate guarantees provided by the Company and pledge of properties with carrying value of approximately HK\$7,265,000 (31 March 2005: HK\$7,294,000).

Notes to Condensed Consolidated Financial Statements

16. RELATED PARTY TRANSACTION

In addition to the information disclosed in the report of the directors, the Group had the following transaction with a related party:

On 1 January 2004, a subsidiary of the Company entered into lease agreements with a company which is beneficially owned by a Director of the Company for leasing of two motor vehicles. During the period, the Group paid rental expenses of HK\$480,000 (six months ended 30 June 2004: HK\$480,000) to the lessor.

17. SUBSEQUENT EVENT

On 7 December 2005, Ocean Grand Holdings Limited (“OGHL”), the ultimate holding company of the Company, entered into a loan agreement with Kenlap P.G.C. Manufacturer Company Limited (“Kenlap PGC”), a wholly-owned subsidiary of the Company, pursuant to which OGHL has agreed to on-lend and Kenlap PGC has agreed to borrow US\$15 million of the net proceeds from the issue of the US\$125 million in aggregate principal amount of 9.25% guaranteed notes due 2010 (the “Notes”) to OGHL. The loan 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 loan will be repayable on the earliest to occur of 7 December 2010, any date upon which the Notes become redeemable and the occurrence of an event of default under the Notes.

18. COMPARATIVE FIGURES

Certain comparative figures for the period ended 30 September 2004 and as at 31 March 2005 have been reclassified to conform to the current period’s presentation.