

## 8 Management Discussion and Analysis

### BUSINESS PROSPECTS AND SEGMENTAL INFORMATION

The business of the Group has made a quantum leap during the year. The grand opening of the Zhuhai Plant in January 2003 and the increase of our gold salt manufacturing capacity from 2,000 kg to 7,000 kg per annum in our Hung Hom Plant have placed the Group firmly in the position of one of the largest precious metal electroplating chemicals manufacturer in the PRC. The Group's ability to solicit new and larger orders has been significantly enhanced.

Turnover of the Group increased by 171% from 2002 to HK\$434.2 million. Gross profit also increased by 151% to HK\$79.7 million. Riding on the strong demand for our products the net profit of the Group for 2003 has reached HK\$63.7 million, representing a growth of 175% as compared with 2002, better than the profit estimate disclosed in the Prospectus dated 17 June 2003.

The Group remains optimistic about its business outlook and prospect. Demand for precious metal electroplating chemicals are expected to be strong in the PRC, driven by the robust development of light industries in the region, such as the manufacturing of watches and clocks, jewelries, printed circuit boards and other electronic products. We will capitalise on our first-mover advantage in this market of high growth potential and is committed to establish ourselves as a premier supplier of quality precious metal electroplating chemicals in Hong Kong and the PRC.

### MANUFACTURING

The revenue from the manufacturing and sale of gold salt increased significantly by 110% to HK\$130.8 million. Before the completion of production expansion in the Hung Hom Plant in May 2002, the Hung Hom Plant was nearly operating at full capacity. The annual production capacity of gold salt was expanded from 2,000 kg to 7,000 kg per annum. The increase in revenue generated from the manufacturing and sale of gold salt reflected the Group was able to increase its production of gold salt to satisfy the increasing demand from both existing and new customers.

### TRADING

The revenue from trading of precious metal electroplating chemicals increased by 250% to HK\$236.3 million. The increase in turnover was mainly attributable to the continuous strong demand of palladium salt, silver salt and rhodium sulphate in the PRC market.

### SUBCONTRACTING

The revenue from subcontracting services increased by 123% to HK\$67.1 million. The increase mainly reflected the commencement of the operation of the Zhuhai Plant in January 2003. Since January 2003, the Zhuhai Plant started to provide subcontracting services of palladium salt, silver salt and rhodium sulphate.

### LISTING OF THE COMPANY

On 30 June 2003, the Group was spun off from Ocean Grand Holdings Limited and became a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This move is a key step within the growth strategy of the Group. Not only are funds being raised for growth initiatives such as establishment of a sales and marketing network in the PRC, promotion of our brand name "Kenlap" and the setting up of a comprehensive Research and Development Department in the Zhuhai Plant, the listing also gives the Group a separate listing status which facilitates the formation and implementation of future development plans.

### CAPITAL EXPENDITURE PLAN

The main production facility of the Group, the Zhuhai Plant, commenced operation in January 2003. With its brand-new and sophisticated production equipments, the Group's annual production capacity in silver salt, palladium salt and rhodium sulphate has reached 160,000 kg, 6,000 kg and 200 kg respectively. It is now one of the largest factory for the manufacture of precious metal electroplating chemicals in terms of capacity in the PRC.

The current strategy of the Group is to capture the market potential and economic benefits generated by the new facilities in the Zhuhai Plant. In the short run, the capital expenditure is expected to be approximately HK\$30,000,000.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003, the net current assets of the Group were HK\$64,900,000 (2002: HK\$6,692,000). HK\$36,635,000 (2002: HK\$2,026,000), representing 17% (2002: 2%) of the total current assets were free cash and cash equivalent. The current ratio of the Group as at 31 March 2003 was 144% (2002: 108%).

Shareholders' fund of the Group as at 31 March 2003 was HK\$154,828,000 (2002: HK\$57,471,000). The total bank borrowings of the Group as at 31 March 2003 were HK\$30,534,000 (2002: HK\$13,539,000), giving rise to a gross debt gearing (i.e. total bank borrowings/net assets) of 19.7% (2002: 23.6%).

The financial health of the Group has been strong throughout the year as indicated by the low gearing and high current ratio. It was further enhanced by the listing of the Company's shares on the Main Board of the Stock Exchange on 30 June 2003, which raised approximately HK\$58,000,000. As a result, the gross debt gearing of the Group was reduced to approximately 15%.

### CAPITAL STRUCTURE

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda on 29 July 2002. As at the date of incorporation and the financial year ended 31 March 2003, the Company's authorised share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued, allotted and credited as fully paid.

The Company's shares were listed on the Main Board of the Stock Exchange on 30 June 2003. In order to prepare for the listing, the following transactions which affect the capital structure of the Company were effected.

On 9 June 2003, the authorised share capital of the Company was increased from HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each to HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.10 each, such shares carrying the rights and being subject to the restrictions as set out in the bye-laws of the Company.

The companies comprising the Group underwent a reorganisation ("Reorganisation") and as a result Ocean Grand Chemicals (BVI) Limited ("OGCBVI") became the intermediate holding company and the Company became the holding company of the Group. The Reorganisation involved the following:

1. OGCBVI was incorporated in the British Virgin Islands on 24 July 2002.
2. On 9 August 2002, one ordinary share in the capital of OGCBVI was allotted and issued for cash at par to Successful Gold Profits Limited ("Successful Gold"), the immediate holding company of the Company.
3. On 6 June 2003, two ordinary shares in the capital of Kenlap P.G.C. Manufacturer Company Limited ("Kenlap PGC") were allotted and issued for cash at par to OGCBVI and its nominee.
4. On 6 June 2003, in consideration of the allotment and issuance of 1,006,476 shares of US\$0.01 each in the capital of OGCBVI to Successful Gold, 1,006,477 shares of HK\$1.00 each in the issued share capital of Kenlap PGC held by Successful Gold and its nominee were converted into 1,006,477 non-voting deferred shares of HK\$1.00 each.
5. On 6 June 2003, in consideration of the allotment and issuance of 106,875 shares of US\$0.01 each in the capital of OGCBVI to twelve independent investors in accordance with their respective proportion in the shareholding in Kenlap PGC, 106,875 shares of HK\$1.00 each in the issued share capital of Kenlap PGC held by the twelve independent investors were converted into 106,875 non-voting deferred shares of HK\$1.00 each.
6. On 9 June 2003, the Company acquired 1,113,352 shares of US\$0.01 each of OGCBVI from Successful Gold and the twelve independent investors, and issued 1,012,915 shares, credited as fully paid, to Successful Gold and 213,761 shares, credited as fully paid, to the twelve independent investors.

On 26 June 2003, 394,273,324 new shares were allotted to the persons whose names appeared on the register of members of the Company in proportion to their then existing shareholdings in the Company. These shares rank pari passu with the then existing shares, and are credited as fully paid up at par by way of capitalisation of an amount of HK\$39,427,332.40 from the share premium account.

On 26 June 2003, 78,500,000 new shares were issued by the Company at HK\$0.88 each under the initial public offering of the Company's shares. These new shares rank pari passu with the then existing shares, and are credited as fully paid up.

## FINANCING

During the financial year ended 31 March 2003, the Group generally financed its operations with internally generated resources and banking facilities. The Group also obtained financing from the ultimate holding company, Ocean Grand Holdings Limited, for the construction of the Zhuhai Plant.

As at 31 March 2003, the Group had aggregate composite banking facilities of approximately HK\$74,190,000, of which approximately HK\$30,534,000 had been utilised.

The Group also obtained equity financing amounting to approximately HK\$58,000,000 by listing the Company's shares on the Main Board of the Stock Exchange on 30 June 2003. With the support of a shareholders base comprised of predominately long-term institutional investors, the Group is in an enviable position to capture the huge market potential in the PRC.

The financing from Ocean Grand Holdings Limited and its subsidiaries to the Group had been fully repaid prior to the listing of the Company's shares on the Stock Exchange on 30 June 2003.

## FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The majority of the transactions of the Group is denominated in either HK\$, RMB and US\$. Owing to the pegs of RMB and HK\$ to US\$, in the opinion of the management, the Group's exposure to foreign exchange risk is insignificant.

All bank borrowings of the Group are on a floating rate basis. Given that the gearing of the Group as at 31 March 2003 was only 19.7%, the management is of the view that the Group is not subject to any significant interest rate risk.

## STAFF POLICY

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.

The Group had approximately 80 full-time employees as at 31 March 2003. The aggregate staff costs and Directors' remuneration for the year ended 31 March 2003 was approximately HK\$2,982,000.

## CHARGE ON GROUP ASSETS

Details of charge on the Group's assets are set out in note 26 to the proforma financial statements.

## CONTINGENT LIABILITIES

Details of any contingent liabilities of the Company and of the Group as at 31 March 2003 are set out in note 9 to the financial statements and note 25 to the proforma financial statements respectively.