

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 ("Ocean Grand Chemicals" or the "Company") and its subsidiaries (the "Group"), I am delighted to report the results of the Group for the year ended 31 March 2004 (the "Year").

RESULTS OF THE YEAR

Despite the effect of SARS during the first quarter of the Year, turnover of the Group reached HK\$738,736,000, representing an increase of 70% when compared with last year. Gross profit for the Year has increased by 50% to HK\$119,738,000 while net profit has posted an increase of 11% to HK\$70,545,000.

Earnings per share for the Year is HK\$0.1549. The Board recommended the payment of a final dividend of HK\$0.04 per share. Since an interim dividend of HK\$0.02 per share was declared by the Company during the Year, the total dividend per share for the Year is HK\$0.06.

BUSINESS REVIEW AND SEGMENTAL INFORMATION

During the Year, the Group has according to the laid down strategy and development plan, increased production output, broadened marketing network, strengthened promotion on the "Kenlap" brand and set up representative offices in Shanghai, Beijing, Guangzhou and Shenzhen. Business review on various areas is as follows:

Production and Subcontracting

The utilisation capacity of the silver salt, palladium salt and rhodium sulphate production line of the Group's factory in Zhuhai, since its opening in January 2003 has reached 65%. The factory has also started to produce gold salt at the end of 2003.

Total production turnover of the Year amounted to HK\$277 million, representing growth of 112% over that of last year. Total subcontracting turnover of the Year was HK\$93 million, up by 39% when compared with last year.



Product Packing

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BUSINESS REVIEW AND SEGMENTAL INFORMATION (continued)

Production and Subcontracting (continued)

Hunghom Plant

The Group's gold salt production in Hunghom this Year increased by 76% over that of last year to 4,000kg (2003: 2,272kg), thanks to the influx of Chinese tourists after the SARS which helped boost the jewellery industry in Hong Kong, and the continuous development of industries in the Pearl River Delta.



The Chemical Plant in Zhuhai



The Administration Building of the Zhuhai Plant

Zhuhai Plant

In May 2004, Kenlap Fine Chemical (Zhuhai) Technology Company Limited obtained BS EN ISO 9001:2000 certification regarding its quality management system for the manufacture of electroplating chemical products.

Product Trading

As a result of the growth in demand of precious metal electroplating chemicals in China, especially in the Pearl River Delta, the Group's trading business on silver salt, palladium salt and rhodium sulphate this Year has recorded a growth of 56% over that of last year, reaching HK\$369 million (2003: HK\$236 million).

Others

The Group has during the Year successfully completed the development of two new products, silver nitrate and silver cyanide. Silver nitrate is used in making photosensitive films while silver cyanide is another kind of electroplating chemical product. The Group successfully arranged a syndication loan in the amount of HK\$120 million during the first quarter of 2004. Major part of the proceeds will be used to finance the silver nitrate production line and electroplating fluid recovery line. It is expected that the two production lines mentioned above will be operational by the end of 2004 or early part of 2005.

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BUSINESS PROSPECTS

The Group remains cautiously optimistic about its business outlook and prospect. With China continuing on its path to become the largest industrial production base of the world, the demand of precious metal electroplating chemicals within China should remain strong and growing. The Group will strengthen marketing effort in the Yang-tze River Delta, hoping to capture bigger market share and consolidate market position.

In addition, other precious metal chemical products such as palladium chloride and palladium tetra-ammonia chloride are under development. The market potential of palladium chloride in China is tremendous as it can be used in automobile pollution control, plastic electroplating and chemical catalysis industries. The Group has successfully submitted laboratory produced palladium chloride samples to automobile manufacturers for product testing purposes. It is expected if everything goes according to plan, production can commence in mid 2005.

Opportunities available to the Hunghom plant in Hong Kong brought by the Closer Economic Partnership Arrangement, which may include cooperation with foreign manufacturers to process electroplating chemicals or other related chemical products in Hong Kong in order to obtain tariff exemption for imported chemical products, are being explored.

While embarking on a road to growth, we will monitor the effect of the economic austerity program on the Group closely, and adopt a more prudent attitude in balancing business growth and the exposure of accounts receivable risk. To compliment the expansion in volume and address the risk in a mercurial business environment, the Group has established a better trade receivable risk management control in the form of a CRM system and a prudent provisioning regime for long outstanding trade receivables. The CRM will provide the necessary platform for management to formulate customer credit decisions while the prudent provisioning regime, in which a provision of 10%-50% is made for all overdue trade receivables, will provide the safeguard and warning signals to the management regarding long outstanding trade receivables. It is believed these two measures will instill a vigorous discipline in controlling trade receivable risk in the Group. Furthermore, in order to mitigate the risk of serving only one market and to broaden our customer base, the Group has started expanding in Asian market in July 2004.

Ocean Grand Chemicals will continue to broaden the types and improve the quality of its products and services, extend its market coverage, so that it will become the premier supplier of precious metal chemical products in the region.

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COST CONTROL

The operating cost and selling and administration cost of the Year has reflected the impact of our factory commencing operation and setting up four new representative offices in China. In the coming year, the management will enhance our endeavours in cost control, hoping to continuously expand our business portfolio in the most cost effective manner.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers, bankers, business partners as well as shareholders for their continuous support. A special vote of thanks should also be given to our staff for their hard work.

Last but not least, on behalf of the Board and all the staff of the Group, I would like to pay special tribute to the late Mr Yao Zongren, the co-founder of the Group who unfortunately passed away in May this year. His contribution and friendliness will always be remembered.

Yip Kim Po

Chairman

Hong Kong, 20 July 2004