

## 14. COMPARATIVE FIGURES

Due to the adoption of revised SSAPs during the current period, the presentation of the income statement has been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Ocean Grand recorded remarkable results in the six months ended 30th June 2001. The Group employs a balanced business strategy with emphasis on enhancement of product quality, and industry, geographic and product diversity. This diversification has enabled the Group to reduce cyclical risk and maintain consistent financial performance. Leveraging its industry-wide customer base and management insight, the Group has diversified its metal-related business to stainless steel production, further capturing opportunities in the construction market in Hong Kong and the PRC.

For the six months ended 30th June 2001, the Group recorded turnover of HK\$453,966,000, a rise of over 14.5% against the same period last year. Profit attributable to shareholders surged 45% to HK\$62,408,000, compared to HK\$43,033,000 the same period last year. Earnings per share was HK1.69 cents, representing an increase of 31% compared with that of the same period last year (2000: HK1.29 cents).

### Aluminium Extrusion Materials

Manufacturing and sale of aluminium extrusion materials remains the core business of Ocean Grand, and its subsidiary, Nanhai Xingye Shaped Bronze & Aluminium Products Co. Ltd. ("Nanhai Xingye") received high acclaims from industry players, affirming its leading position in the aluminium industry. It grew satisfactorily and provided stable income to the Group. In the review period, this business segment accounted for over 63% of the Group's turnover.

During the period under review, the construction industry in the PRC has seen prominent growth. The PRC has long been a major market of the Group, which has the support of a dedicated sales and marketing team, a well-established customer base to capture the growing market demand. In the first half of year 2001, sales to the PRC and Hong Kong contributed 66% and 25% respectively to the turnover.

As a result of the active promotion by the Construction Ministry of the PRC, the demand for aluminium extrusion products recorded constant growth. To capture the soaring demand, the Group has been improving its product quality. In addition, the Group strives to broaden the application for its products, further enlarging its customer base.

The Group is committed to exploring overseas market and diversifying market niches in the developed countries with high consumption of aluminium construction materials. More recently, the Group has also been promoting aluminium extrusion materials in developing countries like Mauritius, where the demand for building materials is growing at rocketing speed.

### Stainless Steel

The steel-making industry is one of the most important primary industries in the PRC, and worldwide. With a tremendous customer base and business network, Ocean Grand decided to branch into the steel-making business, to complement its metal-related business, and in turn strengthen its business foundation in the aluminium industry. The Group strongly believes that the stainless steel business will bring substantial profits to the Group and contribute to the business expansion in the construction materials industry in the year ahead.

During the period under review, the Group successfully engaged in the stainless steel business via the acquisition of 40% of issued share capital of Asia Pacific Holdings (China) Ltd ("Asia Pacific Holdings"). The production base of Asia Pacific Holdings located at Panzhihua, Sichuan Province, the PRC. It is capable of producing approximately 100,000 metric tonnes of stainless steel per year.

### Chemicals for Electroplating Process

Kenlap P.G.C. Manufacturer Company Limited ("Kenlap"), a subsidiary of Ocean Grand, which is mainly engaged in the manufacturing of chemicals for electroplating process grew steadily in the first half of the year 2001. Chemicals used in electroplating process, such as Potassium Gold Cyanide (commonly known as "gold salt"), silver and palladium salts are constantly in demand among the light industries, especially the electronics, jewelry, and clocks and watches industries, translating into huge potential in both domestic and overseas markets. With a competitive pricing policy and strong local market network, Kenlap possesses a strong competitive edge over other suppliers mostly of European origins.

In view of the eminent entry of the PRC into the WTO, Ocean Grand plans to expand Kenlap's production capacity in Hong Kong and the PRC to seize the arising market opportunities in the electroplating industries.

The Group is confident that its active engagement in the electroplating industry which complements its core operations in Hong Kong will enable it to secure a substantial portion of this market.

### Information Technology

In keeping with market trends and expansion plans, Ocean Grand has been developing its information technology business with its associates, Linefan Technology Holdings Ltd. ("Linefan"), one of the leading providers of sophisticated Internet and Intranet search-engine technology in the PRC.

Linefan enjoys well-established long-term relationships with its clients through providing them with comprehensive services and technological support. The institutional clientele of Linefan includes f365.com (of Legend Group), Lycos Asia, PhoenixTV.com, Electric Power Bureau of Hubei Province and ChinaBig.com Limited. In the coming year, Linefan will strive to secure a foothold in the Hong Kong market. The Group is optimistic about the long-term prospects of Linefan.



## Prospects

The Group's key business strategy of diversification has proven a success. In the year ahead, we will strategically focus on geographic growth, especially in the PRC, further integration and enhancement of quality control. With our solid business foundation in the aluminium industry, the Group will continue to increase our market share by adopting stringent quality control in the production bases of Nanhai Xingye and Kenlap, in both Hong Kong and the PRC.

In view of China's entry into the WTO, the Mega Development Project in the Western Region and the Olympic 2008 are all expected to generate huge opportunities in the construction industry in the PRC. The Group strongly believes that the demands for construction materials, such as aluminium and stainless steel, will be overwhelming. The gifts and premium sector is also expected to see tremendous growth driven by the advance of the Olympic 2008, which will in turn translate into great demand for electroplating chemicals. Ocean Grand is well positioned to capture these market growth and opportunities to reap the greatest returns for its shareholders.

Since the Group possesses a strong foothold in the PRC market, the terrorist attacks on the United States did not constitute any negative impact on the Group's performance. In view of the constant growth of economy and the blooming construction industry in the PRC, we strongly believe that Ocean Grand is able to capture the prominent opportunities in the future.

The Group's sound business strategy, built upon firm business connections, experience and knowledge, will ensure the success of its business expansion plans, and allow it to become the market leader in the aluminium industry. Look to the future, the Group is confident that it is heading in the right direction and that its strategies and objectives will improve our competitive position in the industry.

The Group signed a USD17 million term loan facility (the "Facility") in July 2001 with six banks of which the Bank of East Asia acting as the Arranger of the Facility. The Facility will be used to finance the expansion of the production capacity of its wholly owned subsidiary, Kenlap P.G.C. Manufacturer Company Limited ("Kenlap"), in chemicals used in the electroplating of precious metal and the refining of gold materials.

The proceeds of USD17 million will be used to finance the Group's expansion plans with the establishment of a production base in China to manufacture palladium salt, silver salt for precious metal electroplating, replacement of the existing manufacturing facility in Hong Kong, as well as the enhancement of our new research laboratory. Kenlap will enlarge its production capacity to accommodate the anticipated booming market demand.

The management strongly believes that the funding will enhance Kenlap's operational efficiencies and productivity, contributing to significant growth in Ocean Grand's business development in the future.



## Financial Position

The Group's financial position is healthy and stable. As at 30th June 2001, the Group's cash and bank deposits reached HK\$176,252,000 (2000: HK\$146,855,000). As at the same date, the Group's total bank borrowings was approximately HK\$78,874,000 (2000: HK\$72,874,000), comprising instalment loans as to approximately HK\$3,800,000 (2000: HK\$4,100,000) and overdrafts, short term loans and trade facilities as to approximately HK\$75,074,000 (2000: HK\$68,774,000). The Group utilized about 46% of total banking facilities granted by various banks. Unused facilities as at the same date amounted to approximately HK\$83,260,000 (2000: HK\$35,866,000). The Group's borrowings are subject to floating interest rates.

The reserves experienced an increase of 24.56% to HK\$322,260,000 (2000: HK\$258,714,000) because of an increase in current period profit and the premium arising from the issue of shares upon the exercise of warrants. Net profit attributable to shareholders was HK\$62,408,000 (2000: HK\$43,033,000), representing a rise of 45%, due to gain on disposal of investment. Group's gearing ratio, representing total interest-bearing borrowings by shareholder's fund was 11% as at 30th June 2001 (2000: 11%). As at 30th June 2001, certain assets with aggregate value of HK\$13,932,000 of the Group was charged (2000: HK\$13,947,000) to secure bank borrowings.

## Employment and Remuneration Policy

As at 30th June 2001, the total number of staff of the Group in Hong Kong and the PRC was 329. In addition to the set up of the share option scheme, the Group also provided Mandatory Provident Fund entitlement to Hong Kong's employees.

## OTHER INFORMATION

### Directors' Interests in Securities

As at 30th June 2001, the Directors of the Company had the following beneficial interests in the shares of \$0.10 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Number of shares	Number of warrants (Note a)	Number of share options
Mr. Yip Kim Po (Notes b, c and d)	1,374,303,524	—	—
Ms. Yip Wan Fung	111,443,141	—	—
Mr. Tang Hin Lun (Note g)	3,000,000	—	9,000,000
Mr. Kwan Yan (Note e)	9,000,000	10,000,000	—
Mr. Suen Shiu Kay	80,000	—	—
Mr. Li Lee Cheung	10,000	—	—
Mr. Chau Po Fan	200,000	—	—
Mr. Choy Tak Ho (Note f)	—	—	5,000,000