

Report of the Directors

The Directors are pleased to present their annual report together with the audited financial statements of Ocean Grand Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company is a holding company. Its subsidiaries are principally engaged in manufacturing and wholesaling of aluminium extrusion products and chemicals for use in electroplating process produced at facilities located in Nanhai and Zhuhai of Guangdong Province and the Hong Kong Special Administrative Region of The People's Republic of China. Other investments include a business in stainless steel production.

Segmental information of the Group's turnover and contribution to profit from operations for the year ended 31 December 2002 is set out in note 34 to the financial statements.

CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2002, the five largest customers of the Group accounted for approximately 50% of the Group's turnover, while the five largest suppliers accounted for approximately 81% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 24% of the Group's sales revenue and the largest supplier of the Group accounted for approximately 32% of the Group's purchases.

None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2002 are set out on page 30 of the 2002 annual report.

The Directors recommend the payment of a final dividend of HK 7 cents per share (2001: Nil) totalling HK\$27,897,000 to the shareholders registered in the Company's register of members as at the close of business on 6 June 2003. As no interim dividend was declared by the Company during the year (2001: Nil), the total dividend per share for the 2002 financial year is HK 7 cents (2001: Nil).

SHARE CONSOLIDATION

At the Special General Meeting of the Company held on 28 November 2002, the consolidation of every 10 issued and unissued shares of HK\$0.10 each in the capital of the Company into 1 consolidated share of HK\$1.00 was approved to take effect on 29 November 2002 (the "Share Consolidation").

SHARE CAPITAL AND SHARE OPTIONS

Movements in share capital and details of share option schemes of the Company are set out in notes 24 and 25 respectively to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 26 to the accompanying financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of the 2002 annual report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2002 (2001: 5,808,000 shares with a par value of HK\$0.10 each were repurchased by the Company, and subsequently cancelled, at the range of HK\$0.104 each to HK\$0.112 each, totalling HK\$625,650.21).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws of Bermuda.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

FIXED ASSETS

Movements of fixed assets during the year are set out in note 12 to the financial statements.

BANK LOANS

Particulars of bank loans as at 31 December 2002 are set out in notes 20 and 22 to the financial statements.

PENSION SCHEME

Details of the pension scheme are set in note 31 to the financial statements.

CONNECTED TRANSACTIONS

Details of connected transactions of the Group are set out in note 33 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Mr Yip Kim Po, Chairman	
Mr Hui Ho Ming, Herbert,	(Appointed as Deputy Chairman on 18 April 2002)
Deputy Chairman and Vice Chairman #	
Mr Tang Hin Lun, Vice Chairman	(Resigned on 1 November 2002)
Mr Choy Tak Ho *	
Mr Chau Po Fan *	
Mr Hung Kwok Wa	(Resigned on 18 March 2002)
Mr Kwan Yan	
Mr Li Lee Cheung	
Ms Yip Wan Fung	

Formerly a Non-Executive Director, appointed as an Executive Director on 8 August 2002

* Independent Non-Executive Director

In accordance with the Bye-law no. 87(1) of the Company, Mr Choy Tak Ho and Mr Kwan Yan will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Neither of the Directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation) with the Company.

DETAILS OF DIRECTORS

Brief details of Directors are set out on pages 27 and 28 of the 2002 annual report.

INFORMATION ON SHARE OPTION SCHEMES

At the Annual General Meeting of the Company held on 7 June 2002, an ordinary resolution was passed approving the adoption of a new share option scheme (the "Share Option Scheme – 2002") which complied with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, and the termination of the share option scheme adopted by the Company on 4 September 1997 (the "Share Option Scheme – 1997"). All options granted prior to the termination of the Share Option Scheme – 1997 continue to be valid and exercisable.

Summary of the terms and particulars of outstanding options of the Share Option Scheme – 1997 and the Share Option Scheme – 2002 are set below pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

	The Share Option Scheme – 1997	The Share Option Scheme – 2002
(a) Purpose	As an incentive to employees.	To provide incentive to the Participants to contribute to the Group and/or to enable the Group to recruit and/or to retain high-calibre individuals and attract human resources that are valuable to the Group.
(b) Participants	Any employees of the Company or any subsidiary (including any Executive Director (of any nationality) of the Company or any subsidiary, but shall not include any employees of the Company or any subsidiary who are PRC nationals).	Any employees or consultants of the Company or any subsidiary (including any Executive Director (of any nationality) of the Company or any subsidiary, but shall not include any employees, consultants or Directors of the Company or any subsidiary who are PRC nationals).
(c) Total number of shares available for issuance	1,400,000 shares (approximately 0.35% of the issued share capital as at the date of the 2002 annual report), being the outstanding options unexercised.	The Company may initially grant options representing 39,853,531 shares (duly adjusted) under the Share Option Scheme – 2002 (approximately 10% of the issued share capital as at the date of the 2002 annual report). The total number of shares available for issue is 32,400,000 (approximately 8.13% of the issued share capital as at the date of the 2002 annual report).

INFORMATION ON SHARE OPTION SCHEMES (continued)

	The Share Option Scheme – 1997	The Share Option Scheme – 2002
(c) Total number of shares available for issuance (continued)	The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme – 1997 may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued on the exercise of options granted under the Share Option Scheme – 1997.	The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme – 2002 and any other schemes of the Company and/or its subsidiary (including the Share Option Scheme – 1997) must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company or its subsidiary if this would result in the 30% limit being exceeded.
(d) Maximum entitlement of each Participant	No option may be granted to any Participant which, if exercise in full, would result in the total number of shares already issued and issuable to him/her under the Share Option Scheme – 1997 exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Share Option Scheme – 1997.	The total number of shares issued and to be issued upon exercise of the options granted to each Participant (including exercised, cancelled and outstanding options) within any twelve-month period under the Share Option Scheme – 2002 and any other share option scheme(s) of the Company and/or any subsidiary must not exceed 1% of the number of shares in issue.
(e) Time of exercise of option	An option may be exercised in accordance with the terms of the Share Option Scheme – 1997 at any time during a period to be notified by the Board to each Participant. Such period shall not exceed the period of 10 years from the adoption date but such period is subject to the provisions for early termination contained in the terms of the Share Option Scheme – 1997.	An option may be exercised in accordance with the terms of the Share Option Scheme – 2002 at any time during a period to be notified by the Board to each Participant at the time of offer of the grant of the option, which must not be more than 10 years from the date of offer of grant of the option.

INFORMATION ON SHARE OPTION SCHEMES (continued)

	The Share Option Scheme – 1997	The Share Option Scheme – 2002
(f) Payment on acceptance of option	A remittance in favour of the Company of HK\$1.00 by way of consideration for the grant of an option is required to be paid by the Participant upon acceptance of the option, and such remittance shall in no circumstances be refundable.	HK\$1.00 in cash is payable by the Participant of the option to the Company on acceptance of the offer.
(g) The basis of determining the exercise price	The subscription price for the shares under the Share Option Scheme – 1997 will be a price determined by the Board and notified to each Participant and will be the higher of: (i) a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option; and (ii) the nominal value of a share.	The subscription price for the shares in relation to the options to be granted under the Share Option Scheme – 2002 will be a price determined by the Board and notified to each Participant at the time of offer of grant of the option and will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the grant of the option; and (iii) the nominal value of the shares.
(h) Remaining life of scheme	The Share Option Scheme – 1997 was adopted on 4 September 1997 and was originally effective until 3 September 2007. On 7 June 2002, the shareholders of the Company resolved to terminate the operation of the Share Option Scheme – 1997.	The Share Option Scheme – 2002 shall be valid and effective for a period of ten years commencing on the adoption date (ie 7 June 2002).

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 2002, the Directors of the Company had the following beneficial interests in the shares of HK\$1.00 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 (Note a)	Number of options
Mr Yip Kim Po (Notes b, c and d)	125,513,444	—
Mr Hui Ho Ming, Herbert	1,000,000	—
Mr Choy Tak Ho (Note e)	—	500,000
Mr Chau Po Fan	20,000	—
Mr Kwan Yan	900,000	—
Mr Li Lee Cheung	1,000	—
Ms Yip Wan Fung	11,144,314	—

Notes:

- a. The number of shares has been adjusted due to the Share Consolidation.
- b. As at 31 December 2002, Holylake Resources Limited ("Holylake") held 72,773,748 shares of the Company. The issued shares of Holylake were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi, respectively. The interests of Mr Yip Kim Po in the issued shares of the Company were corporate interests in the Company by virtue of Practice Note 5 to the Listing Rules.
- c. As at 31 December 2002, Grecian Resources Limited ("Grecian") held 28,103,982 shares of the Company. The issued shares of Grecian were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi, respectively. The interest of Mr Yip Kim Po in the issued shares were corporate interests in the Company by virtue of Practice Note 5 to the Listing Rules.
- d. Mr Yip Kim Po held 23,735,714 shares and Mr Wong Soon Teck (as nominee for Mr Yip Kim Po) held 900,000 shares of the Company. These interests of Mr Yip Kim Po were personal interests as described in Practice Note 5 to the Listing Rules.
- e. The interests of Mr Choy Tak Ho in the options were personal interests in the Company as described in Practice Note 5 to the Listing Rules. Please also refer to details shown in the section under the heading "Information on Share Options".

Save as disclosed above, the Company had no notice of any interest required to be recorded under Section 29 of the SDI Ordinance as at 31 December 2002.

INFORMATION ON SHARE OPTIONS

Movement of share options during the year ended 31 December 2002:

Participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares				Outstanding at 31 December 2002 (Note a)	Subscription price per share	Exercise period
			Outstanding at 1 January 2002	Granted	Exercised	Lapsed			
Director:									
Mr Choy Tak Ho (Independent Non-Executive Director)	Share Option Scheme – 1997	27 March 1998	5,000,000	–	–	–	500,000	HK\$1.20 (Note b)	27 March 1998 to 3 September 2007
Aggregate of employees	Scheme Option Scheme – 1997	2 May 2000	9,000,000	–	–	–	900,000	HK\$1.128 (Note c)	2 May 2000 to 3 September 2007
	Share Option Scheme – 2002	1 August 2002	–	20,000,000	–	–	2,000,000	HK\$1.00 (Notes d and e)	1 August 2002 to 6 June 2012

Movement of share options subsequent to the year ended 31 December 2002 and up to the date of this report:

Participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares				As at the date of this report	Subscription price per share	Exercise period
			As at 1 January 2003	Granted	Exercised	Lapsed			
Aggregate of consultants	Share Option Scheme – 2002	16 January 2003	–	30,400,000	–	–	30,400,000	HK\$1.056 (Note f)	16 January 2003 – 6 June 2012

INFORMATION ON SHARE OPTIONS (continued)

Notes:

- a. *The number of options being granted at the end of the year has been adjusted as a result of the Share Consolidation.*
- b. *The subscription price of HK\$1.20 has been adjusted as a result of the issuance of bonus shares on the basis of two new shares for every one share in issue on 25 November 1999, and the Share Consolidation.*
- c. *The subscription price of HK\$1.128 has been adjusted as a result of the Share Consolidation.*
- d. *The closing price per share of the Company immediately before 1 August 2002 on which the options were granted was HK\$0.09.*
- e. *The subscription price of HK\$1.00 has been adjusted as a result of the Share Consolidation.*
- f. *The closing price per share of the Company immediately before 16 January 2003 on which the options were granted was HK\$1.03.*

Options were granted for a consideration of HK\$1.00 per grant during the year ended 31 December 2002, and also subsequent to the year ended 31 December 2002 and up to the date of this report.

No options were cancelled during the year ended 31 December 2002 and up to the date of this report.

The Directors consider that it is not appropriate to disclose the value of options granted during and subsequent to the year ended 31 December 2002, as a number of variables which are necessary for the calculation of the value of the options have not been determined including the subscription price, exercise period, any lock up period, any performance targets set and other relevant variables.

The Directors believe that the valuation of the options based on a great number of speculative assumptions would not be meaningful and would be misleading to shareholders.

AMENDMENT OF THE SHARE OPTION SCHEME

A resolution proposing the amendment of the Share Option Scheme – 2002 to expand the categories of Participants and refresh the limit of the scheme will be proposed at the forthcoming Annual General Meeting to be held on 6 June 2003. Details are set out in the circular sent together with the 2002 annual report.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

Save as disclosed under the headings "Directors' Interests in Shares" and "Information on Share Options" above, none of the Directors or chief executive or their spouses or children under 18 years of age were granted or exercised any right to subscribe for equity or debt securities of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the preceding paragraphs, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following entity (not being a Director or chief executive of the Company) had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of shares	Percentage shareholding
Holylake Resources Limited	72,773,748	18.26%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31 December 2002.

On 1 April 2003, Part XV of the Securities and Futures Ordinance ("SFO") came into effect, and replaced the repealed SDI Ordinance. As at the date of this report, the following entities (not being a Director or chief executive of the Company) had registered an interest in 5% or more of the issued share capital of the Company:

Name	Number of shares	Percentage shareholding
Cheah Cheng Hye (<i>Note</i>)	38,802,800	9.74%
Grecian Resources Limited	28,103,982	7.05%
Holylake Resources Limited	72,773,748	18.26%
Value Partners Limited (<i>Note</i>)	38,802,800	9.74%

Note:

Mr Cheah Cheng Hye has a controlling interest in Value Partners Limited.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Part XV of the SFO.

PROPOSED SPIN-OFF AND SEPARATE LISTING OF OCEAN GRAND CHEMICALS HOLDINGS LIMITED

On 17 May 2002, Kenlap P.G.C. Manufacturer Company Limited ("Kenlap"), a former indirect wholly-owned subsidiary of the Company, allotted 113,352 shares (representing 10.2% of the issued share capital of Kenlap as enlarged by the allotment) to 13 subscribers. Kenlap is engaged in the production of chemicals used in the electroplating of precious metal and refining of gold materials.

Each of the subscribers entered into subscription arrangements with the Company, which included a condition that the Company would repurchase the relevant shares at a 20% premium to the relevant subscription consideration if Kenlap is not listed on the Main Board of the Stock Exchange within 12 months from the completion date of the subscription arrangements; and then the Company would compensate the relevant subscriber if the market capitalisation of Kenlap immediately upon its listing is less than an agreed amount.

A formal application was made on 26 November 2002 to the Stock Exchange for the proposed spin-off and the separate listing of, and permission to deal in, the shares of Ocean Grand Chemicals Holdings Limited (including Kenlap as its subsidiary after the proposed corporate reorganisation) in issue and to be issued on the Main Board of the Stock Exchange.

The vetting process has been delayed by issues outside the Company's control, such as the uncertainty which arose from the change in practice of the China Securities Regulatory Commission in no longer issuing "No Comment" letters in respect of listing applications to the Stock Exchange.

Despite the unforeseen circumstances, the Company's application was tabled to the Listing Committee of the Stock Exchange on 17 April 2003. However, the gloomy market sentiment due to the Iraq war and the SARS outbreak has rendered it unlikely that the marketing activities relating to the spin-off can be completed before 17 May 2003.

The Company is in the process of negotiating with the 13 subscribers for an extension of the terms relating to the 12 months under the subscription arrangements. In a worst case scenario, which the management believes is not likely, the Company would have to repurchase the 10.2% equity interest in Kenlap at a consideration of HK\$42,000,000. Any amount payable by way of compensation would be dependent on the final terms of the listing, which have not yet been decided, and further negotiation with the 13 subscribers. The amount cannot be quantified as at the date of the 2002 annual report.

The management is of the view that any compensation payable as described above will not have a material adverse effect on the results and financial position of the Group.

CODE OF BEST PRACTICE

The Group has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year under review notwithstanding that the Independent Non-Executive Directors, Mr Chau Po Fan and Mr Choy Tak Ho, are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formulation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness both of the external and internal audit, internal controls and risk evaluation. The Committee comprises Mr Choy Tak Ho (the chairman) and Mr Chau Po Fan. Mr Hui Ho Ming, Herbert ceased to serve on the Committee with effect from 8 August 2002 when he was appointed as an Executive Director.

AUDITORS

The financial statements were audited by Messrs Moores Rowland, *Chartered Accountants, Certified Public Accountants*. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

In 2001, Messrs Arthur Anderson & Co. resigned and Messrs Moores Rowland were appointed as auditors of the Company. There have been no other changes of auditors in the past three years.

On behalf of the Board

Yip Kim Po

Chairman

Hong Kong, 23 April 2003