

Management Discussion and Analysis – Chairman's Letter to Shareholders

Dear Shareholders,

It is my pleasure to report to you the results of Ocean Grand Holdings Limited (the "Company") and its subsidiaries (collectively "Ocean Grand" or the "Group") for the year ended 31 December 2004 (the "Year"), and share with you my thoughts in leading the Group in this challenging and exciting business environment.

RESULTS OF THE YEAR

Turnover of the Group in the Year has reached HK\$2,832,638,000 (2003: HK\$2,067,758,000), an increase of 37% as compared with 2003. Gross profit has in turn increased by 16% to HK\$345,336,000 (2003: HK\$296,979,000). The robust growth in business has propelled Ocean Grand's net profit attributable to shareholders to a record high of HK\$174,088,000 (2003: HK\$149,546,000), up 16%. Earnings per share for 2004 was HK\$0.41 (2003: HK\$0.37). A final dividend of HK\$0.065 per share (2003: HK\$0.065 per share) is recommended by the Board, making the total dividend for the Year HK\$0.10 per share (2003: HK\$0.10 per share).

The growth in business in 2004 was only possible because of the commitment and dedication of all our staff members, and I would like to take this opportunity to extend my heartfelt appreciation for their effort.

ALUMINIUM BUSINESS

Overview

To the Group's aluminium business, the macro-economic environment in 2004 has been favourable but not without its challenges. Overall demand for aluminium extrusion products, both in the PRC and in the international market, has been strong and steady. On the other hand, aluminium price maintained its upward trend and high volatility from 2003 and was close to US\$1,900 per tonne at the end of 2004, adding unwelcome price risk to the industry. Furthermore, the rapid growth of the economy and over-investment in certain industries in China had prompted the Government to roll out an austerity program in April 2004 to try to rein in the overheated economy. In addition, power rationing in summer due to power shortage throughout China has caused the Group's plant in Nanhai to experience power shut down of one day per week.

Thanks to the ingenuity, dedication and industriousness of our staff, Ocean Grand was able to overcome these challenges and achieve healthy growth in its aluminium business. Disruption to production by the power shut down has been kept to a minimum by means of shrewd operational workflow manipulations. Moreover, the risk management strategies of Ocean Grand have made their presence felt and shielded the Group from adverse market volatility. Turnover and contributions to operating profits of the aluminium business segment in 2004 were an encouraging HK\$1,743,942,000 (2003: HK\$1,330,708,000) and HK\$136,003,000 (2003: HK\$120,189,000) respectively, and average gross profit margin for extrusion products for 2004 has remained stable at approximately 21%.

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ALUMINIUM BUSINESS (continued)

Growth and prospects

During the Year, Ocean Grand continued its expansion into international markets such as the USA, Europe, Australia and Japan. The Group’s relationship with William L Bonnell Company Inc. (“Bonnell”), the fourth largest aluminium extruder in the USA, is developing healthily and resulted in increasing orders and frequent mutual visits. We are also very encouraged that Bonnell has designated a team of professionals to liaise with Ocean Grand on a full time basis.

The demand for extrusion products in China has been strong throughout 2004 despite of the austerity measures targeting the property market. It is envisaged that the demand situation in 2005 will remain satisfactory.

The management believes that strong demand of its products both in the PRC and in the international market will provide growth impetus to the Group.

Expansion

In 2004, the utilisation rate of the plant and machinery in the Nanhai factory exceeded 85% on average, and in fact for some of the production lines, such as the powder coating line, utilisation has been close to 100%. As I reported in my previous letter to you, Ocean Grand has embarked on an aggressive expansion plan to increase its capacity.

On 21 May 2004, a foundation setting ceremony was held for the Group’s new factory in Sanshui District, Foshan City, Guangdong Province with an annual production capacity exceeding 100,000 tonnes of aluminium products. This new facility, the Sanshui factory, will be equipped with the top-of-the-line direct extrusion presses, indirect extrusion presses, conformed extrusion presses, brite-dip line, other surface finishing processing lines and other fabrication equipment, and its layout is designed by the highly renowned Luoyang Engineering & Research Institute for Non-ferrous Metals Processing.



Workshop of the Nanhai Plant



Extrusion facilities of the Nanhai Plant

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ALUMINIUM BUSINESS (continued)**Expansion (continued)**

As of the date of this letter, all the underground infrastructure work, such as pipes and drainage, and the outer wall has been completed and the construction of the building structures will commence very soon. Progress of the construction is slower than originally estimated due to factors outside our control, such as bad weather and unforeseen technical issues relating to the nature of the land, but my colleagues are pushing full steam ahead to expedite the process and hopefully by the end of 2005 the aluminium billet and alloy ingot production lines will commence operation. According to our current estimate, the Sanshui factory will be fully operational by the end of 2007. Total investment in this factory is expected to be around HK\$600 million and will be funded by the Group's internal resources and bank financing.

Prior to the Sanshui factory commencing operation, the Group will seek alternative means to increase its capacity in order to capture the momentum of growth.

PRECIOUS METAL ELECTROPLATING CHEMICALS BUSINESS

The precious metal electroplating chemicals business of the Group is undertaken by Ocean Grand Chemicals Holdings Limited ("Ocean Grand Chemicals"), a 74% owned subsidiary separately listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Turnover and contributions to operating profits generated by this business for the Year were HK\$1,080,721,000 (2003: HK\$663,541,000) and HK\$92,646,000 (2003: HK\$67,472,000).

The commencement of operation in January 2003 of the Zhuhai plant, which is one-of-its-kind in China, added a remarkable impetus to this business segment and in 2004 utilisation of this plant has exceeded 85% on average. Apart from broadening its customer base in China, the Group has also begun to tap into the South East Asia market for electroplating chemicals during the Year.

The electroplating chemicals business has entered into the expansion phase in 2005. We are currently planning to roll out a number of new products, which are precious metal related chemicals used in electroplating or other industrial processes, in the next few years. Furthermore, the production capacity of some of the existing products will also be expanded by means of workflow streamlining and equipment enhancement. Construction work for doubling the useable floor area of the factory building in the Zhuhai plant has commenced in the first quarter of 2005, and the total capital expenditure in 2005 for the expansion is estimated to be around HK\$80 - HK\$100 million.



Workshop of the Zhuhai Plant



R & D Centre of the Zhuhai Plant

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STAINLESS STEEL BUSINESS

Divestment from the stainless steel business was completed in 2004. Prior to the disposal, the hot-rolled stainless steel coil factory in Panzhihua City, Sichuan Province continued to be a lucrative operation and contributed HK\$22,125,000 for the period from 1 January 2004 to 31 October 2004 in Ocean Grand’s profit (*For the year ended 31 December 2003: HK\$25,796,000*). As a result of the divestment, a gain on disposal of associates of HK\$4,482,000 was recognised in the income statement in 2004.

MISSION

With the spin-off of Ocean Grand Chemicals and the disposal of the stainless steel business, Ocean Grand has basically completed its corporate manoeuvre to go “back to basics” and focus on its core business, the aluminium business. My colleagues and I are firmly committed to build Ocean Grand as a world-class PRC-based supplier of high quality, high value-added aluminium products to the world. In the long run, we are confident that this strategy will bring a sustainable and remarkable appreciation in shareholder value.

Yip Kim Po

Chairman

Hong Kong, 22 April 2005