

# DIRECTORS' REPORT

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The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended March 31, 2005.

## **CHANGE OF COMPANY NAME**

Pursuant to a special resolution passed by the Company’s shareholders in a special general meeting held on May 21, 2004, the name of the Company was changed from Wah Tak Fung Holdings Limited to Sinochem Hong Kong Holdings Limited.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of the principal subsidiaries and an associate are set out in notes 35 and 36 to the financial statements, respectively.

## **RESULTS**

Details of the Group’s results for the year ended March 31, 2005 are set out in the consolidated income statement on page 18 of the annual report.

The directors do not recommend the payment of a dividend and propose that the net profit for the year to be retained.

## **SHARE CAPITAL**

Details of movements in the issued share capital of the Company during the year are set out in note 24 to the financial statements.

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## **RESERVES**

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 21 and note 26 to the financial statements, respectively.

## **INVESTMENT PROPERTIES**

The Group’s investment properties were revalued at March 31, 2005 on an open market value basis. A surplus arising on revaluation amounting to HK\$5,000,000 has been credited to the consolidated income statement.

Details of these and movements in the investment properties during the year are set out in note 12 to the financial statements.

Particulars of the major properties of the Group at March 31, 2005 are set out on page 59 of the annual report.

## **TANGIBLE FIXED ASSETS**

Details of movements in tangible fixed assets during the year are set out in note 13 to the financial statements.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the respective percentage of the aggregate purchases and turnover attributable to the Group's five largest suppliers and customers was less than 30% of the Group's total purchases and turnover.

As far as the directors are aware, neither the directors, their respective associates, nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Du Ke Ping – <i>Chief Executive Officer</i>	<i>(appointed as executive director and Chief Executive Officer on July 27, 2005)</i>
Mr. Chu Yu Lin, David	<i>(resigned as Chairman and remained as executive director on April 13, 2004)</i>
Mrs. Chu Ho Miu Hing	
Ms. Chen Hao	
Mr. Lei Yonglang	<i>(resigned on April 13, 2004)</i>

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### Non-Executive directors:

Mr. Liu Deshu – <i>Chairman</i>	<i>(appointed as executive director and Chairman on April 13, 2004 and redesignated as non-executive director on July 27, 2005)</i>
Mr. Song Yu Qing – <i>Deputy Chairman</i>	<i>(resigned as Chief Executive Officer and redesignated as non-executive director on July 27, 2005)</i>
Dr. Chen Guo Gang	<i>(appointed on July 27, 2005)</i>
Dr. Stephen Francis Dowdle	<i>(appointed on July 27, 2005)</i>

### Independent non-executive directors:

Dr. Tang Tin Sek	
Mr. Ko Ming Tung, Edward	
Dr. Li Ka Cheung, Eric	<i>(appointed on September 28, 2004)</i>

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Du Ke Ping, Dr. Chen Guo Gang, Dr. Stephen Francis Dowdle and Dr. Li Ka Cheung, Eric retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Clause 87 of the Company's Bye-laws, Mr. Song Yu Qing and Ms. Chen Hao retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The non-executive directors have been appointed for a term subject to retirement by rotation in accordance with the Company's Bye-laws.

## DIRECTORS' REPORT

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At March 31, 2005, the interests of the directors and chief executives and their associates in the shares and underlying shares of the Company or their associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

#### Long positions:

(i) Ordinary shares of HK\$0.1 each of the Company

Name of Director	Capacity	Interest in shares		Total interest in shares	Percentage of the issued share capital of the Company
		Personal interest	Family interest		
Mr. Chu Yu Lin, David	Beneficial owner	312,876,297	64,304,000 (note 1)	377,180,297	10.25%
Mrs. Chu Ho Miu Hing	Beneficial owner	64,304,000	312,876,297 (note 2)	377,180,297	10.25%

#### Notes:

- (1) The family interests of 64,304,000 shares represent the interest of Mrs. Chu Ho Miu Hing, the wife of Mr. Chu Yu Lin, David.
- (2) The family interests of 312,876,297 shares represent the interest of Mr. Chu Yu Lin, David, the husband of Mrs. Chu Ho Miu Hing.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Share Option Scheme".

## DIRECTORS' REPORT

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(ii) *Shares in a subsidiary*

The personal beneficial interests of the directors in the non-voting deferred shares of the Company's subsidiaries as at March 31, 2005 were as follows:

<b>Name of subsidiary</b>	<b>Name of director</b>	<b>Number of non-voting deferred shares</b>
Calorie Limited	Mr. Chu Yu Lin, David	20

The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of Calorie Limited or to participate in any distributions on winding up.

Save as disclosed above and other than the nominee shares in subsidiaries held by a director in trust for the subsidiaries, at March 31, 2005, none of the directors or chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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Save as disclosed below under the heading "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

### **SHARE OPTION SCHEME**

Pursuant to a shareholders' resolution passed on August 26, 2002, the share option scheme of the Company which was approved by its shareholders on September 11, 1996 ("Old Share Option Scheme") enabling the board of directors of the Company to grant options to eligible employees, including executive directors of the Company and/or its subsidiaries to subscribe for shares in the Company, was terminated.

The Old Share Option Scheme was adopted pursuant to a resolution passed on September 11, 1996 for the primary purpose of providing incentives to directors and eligible employees and will expire on September 10, 2006. Under the scheme, the board of directors of the Company may, at its discretion, grant option shares to eligible employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company. Option shares granted, if taken up, must be taken up within 28 days from the date of grant, upon payment of HK\$1 per option. Option shares may be exercised at any time from six months from the date of acceptance of the grant of the option shares to the third anniversary of the date of acceptance of the grant. The exercise price is determined by the directors of the Company and at a price equal to the higher of the nominal value of the shares and at a price not less than 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option shares. The maximum number of shares in respect of which option shares may be granted under the scheme shall not exceed 10% of the issued share capital of the Company from time to time.

A new share option scheme (“New Share Option Scheme”) was approved and adopted on August 26, 2002 by the Company. The New Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. Outstanding options granted pursuant to the Old Share Option Scheme shall continue to be subject to the provisions of the Old Share Option Scheme and the adoption of the New Share Option Scheme does not in any event affect the terms of the grant of such outstanding options.

The New Share Option Scheme was adopted for the purpose of providing incentives or rewards to eligible person as defined in the scheme for their contribution or would be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employee and attract human resources that are valuable to the Group. Under the New Share Option Scheme, the board of directors of the Company may grant options to the eligible person to subscribe for shares of the Company.

Subject to the terms of the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes should not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Share Option Scheme unless approval from the Company’s shareholders is obtained to renew such limit. Notwithstanding the above, the maximum number of shares in respect of which options may be granted under the New Share Option Scheme together with any options outstanding and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to each participant in aggregate in any 12-month period shall not exceed 1% of the total number of shares in issue, any further grant to that particular participant shall be subject to approval of shareholders of the Company in general meeting with such participant and his or her associates abstaining from voting.

Options granted pursuant to the New Share Option Scheme must be accepted within 28 days of the date of option offered, upon payment of HK\$1 by way of consideration. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price per share will be determined by the board of directors of the Company, but in any event shall not be less than the highest of (i) the closing price of the shares as quoted in the Stock Exchange’s daily quotations sheet on the date of the option offered (ii) the average closing price of the shares as quoted in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the option offered and (iii) the nominal value of the shares.

No options have been granted under the New Share Option Scheme since its adoption.

## DIRECTORS' REPORT

Details of the movements in the number of option shares during the year under the Company's Old Share Option Scheme are as follows:

	Date of option shares granted	Exercisable period	Exercise Price HK\$	Number of option shares outstanding				At March 31, 2005
				At March 31, 2004	Exercised during the year	Lapsed during the year	Cancelled during the year	
<b>Directors</b>								
Mrs. Chu Ho Miu Hing	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	5,800,000	–	5,800,000	–	–
Mr. Chu Yu Lin, David	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	5,800,000	–	5,800,000	–	–
				<u>11,600,000</u>	<u>–</u>	<u>11,600,000</u>	<u>–</u>	<u>–</u>
<b>Employees</b>								
	August 1, 2001	February 1, 2002 to January 31, 2005	0.255	3,400,000	3,400,000	–	–	–
	December 8, 2001	June 8, 2002 to June 7, 2005	0.378	4,000,000	–	–	2,000,000	2,000,000
				<u>7,400,000</u>	<u>3,400,000</u>	<u>–</u>	<u>2,000,000</u>	<u>2,000,000</u>
				<u>19,000,000</u>	<u>3,400,000</u>	<u>11,600,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

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The closing prices of the Company's shares immediately before the dates on which the options were exercised ranging from HK\$0.355 to HK\$0.430.

The total number of shares in respect of which options are issuable under the Old Share Option Scheme was 2,000,000, representing 0.05% of the issued share capital of the Company at March 31, 2005.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

At March 31, 2005, the persons (other than directors and chief executives of the Company) who had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Long positions in the ordinary shares of HK\$0.1 each of the Company

Name of shareholder	Capacity	Total interest in shares	Percentage of the issued share capital of the Company
Sinochem Corporation (Note 1)	Held by controlled corporation	51,278,477,633 (Note 2)	1,393.63%

#### Notes:

- (1) Sinochem Corporation is taken to be interested in the ordinary shares in which Sinochem Hong Kong (Group) Company Limited ("Sinochem HK"), its wholly-owned subsidiary, holds an interest.
- (2) The number of shares consists of (a) 778,477,633 ordinary shares beneficially owned by Sinochem HK and (b) a maximum of 50,500,000,000 new ordinary shares issuable to Sinochem HK pursuant to a conditional sale and purchase agreement dated January 28, 2005, as supplemented by an agreement made on June 6, 2005 between the Company and Sinochem HK in relation to a proposed acquisition of the entire issued share capital of a fertilizer company.

Save as disclosed above and under the heading "Directors' and chief executives' interests in shares and underlying shares", the Company has not been notified of any other relevant interests in the issued share capital of the Company as at March 31, 2005.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option scheme disclosed above and described in note 25 to the financial statements, the Company had no outstanding convertible securities, options, warrants or similar rights as at March 31, 2005 and there had been no exercise of any convertible securities, options, warrants or similar rights during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

# DIRECTORS' REPORT

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## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended March 31, 2005.

## **CORPORATE GOVERNANCE**

The independent non-executive directors of the Company were not appointed for a specific term but were subject to re-election in a specified period in accordance with the Company's Bye-laws. Save as disclosed above, none of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the annual report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted the Model Code regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

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## **POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 37 to the financial statements.

On behalf of the Board

**Song Yu Qing**

*Deputy Chairman*

Hong Kong, July 27, 2005