

REPORT OF THE DIRECTORS

13

The Directors submit their report together with the audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 15(a) to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The Directors have declared an interim dividend of HK\$0.02 per ordinary share, totalling approximately HK\$16,664,000, which was paid on 1 December 2003.

The Directors recommend the payment of a final dividend of HK\$0.02 per ordinary share, totalling approximately HK\$16,722,000.

RESERVES

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$30,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12(a) to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out in page 94.

14 REPORT OF THE DIRECTORS (cont'd)

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the accounts.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2003 are set out in note 26 to the accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws in the Cayman Islands.

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 92-93.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

BANK LOANS, OVERDRAFTS AND OBLIGATIONS UNDER FINANCE LEASES

The Group's bank loans, overdrafts and obligations under finance leases as at 31 December 2003 are repayable over the following periods:

	Bank loans and overdrafts HK\$'000	Obligations under finance leases HK\$'000	Total HK\$'000
Within one year	11,796	7,149	18,945
In the second year	—	110	110
In the third to fifth year	—	—	—
	<u>11,796</u>	<u>7,259</u>	<u>19,055</u>

REPORT OF THE DIRECTORS *(cont'd)*

15

CONVERTIBLE BONDS

Details of the convertible bonds of the Group and of the Company as at 31 December 2003 are set out in note 23 to the accounts.

SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. As at 31 December 2003, there were 3,907,000 and 33,229,500 share options granted which remained outstanding under the Old Scheme and the New Scheme respectively. Details of the New Scheme are as follows:

(a) Purpose

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(b) Eligible participants

Eligible participants of the New Scheme include the Company's Directors, including the Non-executive Directors and Independent Non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any minority shareholders of the Company's subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Group.

(c) Maximum number of issuable share options

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2003, the number of shares issuable pursuant to the grant of further options under the New Scheme was 882, which was governed by the latest 10% general limit refreshed and approved by the shareholders in a general meeting.

REPORT OF THE DIRECTORS *(cont'd)*

SHARE OPTIONS *(cont'd)*

(d) Maximum entitlement of each eligible participant

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the New Scheme in any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting.

(e) Exercisable period

The exercisable period of the share options granted is determined by the Directors, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the New Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the New Scheme.

(f) Payment on acceptance of option

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Company within 28 days from the date of the offer.

REPORT OF THE DIRECTORS *(cont'd)*

17

SHARE OPTIONS *(cont'd)*

(g) Basis of determining the exercise price

The exercise price of the share option is determined by the Directors, but not less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

(h) Remaining life of the scheme

The New Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Details of the share options outstanding as at 31 December 2003 which have been granted under the Old Scheme are as follows:

Participant	Date of grant ⁽¹⁾	Exercise price <i>HK\$</i> ⁽²⁾	Number of share options				Company's share price ⁽³⁾	
			1 January 2003	Granted during the year	Exercised during the year	31 December 2003	At of date grant <i>HK\$</i> ⁽²⁾	At date of exercise <i>HK\$</i>
Executive Directors								
Mr. Choi Woon Man	4 January 2001	0.67	469,200	—	(391,000)	78,200	0.82	1.41
Mr. Li Kwong Mo, Peter	4 January 2001	0.67	4,800,000	—	(1,000,000)	3,800,000	0.82	1.35
			5,269,200	—	(1,391,000)	3,878,200		
Other employees								
In aggregate	4 January 2001	0.67	136,800	—	(108,000)	28,800	0.82	1.34
Share options granted under the Old Scheme			5,406,000	—	(1,499,000)	3,907,000		

REPORT OF THE DIRECTORS *(cont'd)*

SHARE OPTIONS *(cont'd)*

Details of the share options outstanding as at 31 December 2003 which have been granted under the New Scheme are as follows:

Participant	Date of grant ⁽¹⁾	Exercise price HK\$ ⁽²⁾	Number of share options				Company's share price ⁽³⁾	
			1 January 2003	Granted during the year	Exercised during the year	31 December 2003	At date of grant HK\$ ⁽²⁾	At date of exercise HK\$
Suppliers of goods or services, customers and others								
In aggregate	22 March 2002	1.33	1,200,000	—	—	1,200,000	1.35	—
	29 July 2002	1.50	25,616,000	—	(15,315,700)	10,300,300	1.44	1.38
	8 January 2003	1.23	—	30,042,000	(24,160,000)	5,882,000	1.23	1.29
	9 June 2003	1.15	—	60,000,000	(45,514,000)	14,486,000	1.15	1.33
			<u>26,816,000</u>	<u>90,042,000</u>	<u>(84,989,700)</u>	<u>31,868,300</u>		
Other employees								
In aggregate	22 March 2002	1.33	1,200,000	—	(1,200,000)	—	1.35	1.31
	29 July 2002	1.50	1,020,000	—	(1,020,000)	—	1.44	1.31
	8 January 2003	1.23	—	29,932,000	(29,434,000)	498,000	1.23	1.34
	9 June 2003	1.15	—	15,996,000	(15,132,800)	863,200	1.15	1.32
			<u>2,220,000</u>	<u>45,928,000</u>	<u>(46,786,800)</u>	<u>1,361,200</u>		
Share options granted under the New Scheme			<u>29,036,000</u>	<u>135,970,000</u>	<u>(131,776,500)</u>	<u>33,229,500</u>		
Total share options granted			<u>34,442,000</u>	<u>135,970,000</u>	<u>(133,275,500)</u>	<u>37,136,500</u>		

No share options have lapsed during the year.

Note:

- (1) The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors.
- (2) For the options granted during 2001 and 2002, the exercise price and the Company's share price as at the date of grant have been adjusted following a board resolution passed on 27 August 2002 for the bonus issue of ordinary shares to the shareholders of the Company.
- (3) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised.

REPORT OF THE DIRECTORS *(cont'd)*

19

SHARE OPTIONS *(cont'd)*

Summary of details of the Company's share option schemes are also set out in note 25(a) to the accounts.

The financial impact of options granted is not recorded in the Company's and Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

The Directors do not consider it appropriate to state the value of the options granted during the year as a number of variables which are crucial for the calculation of the options value have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

An aggregate of 3,878,200 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$0.67 each. Total cash proceeds received thereon before any related expenses was approximately HK\$2,585,000.

WARRANTS

Details of the movements in warrants of the Company are set out in note 25(b) to the accounts.

DIRECTORS

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

Executive Directors

Mr. Lau Jin Wei, Jim
Mr. Choi Woon Man
Mr. Li Kwong Mo, Peter
Ms. Wong Wai Kwan, Connie

Non-executive Director

Professor Ouyang Fan

20 REPORT OF THE DIRECTORS *(cont'd)*

DIRECTORS *(cont'd)*

Independent Non-executive Directors

Mr. Ou Ying Ji

Mr. Yip Wai Leung, Jerry

In accordance with the Company's Articles of Association, Mr. Choi Woon Man and Ms. Wong Wai Kwan, Connie will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Directors of the Company, including the Non-executive Director, are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. The Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out from page 10 to page 12.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of one year commencing from 1 January 2003 (the "Previous Contracts"). Upon the expiry of the Previous Contracts, each of the existing Executive Directors has renewed the service contract with the Company for a term of one year commencing from 1 January 2004 (the "New Contracts"). The New Contracts continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS *(cont'd)*

21

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Choi Woon Man's and Mr. Yip Wai Leung, Jerry's interests in contracts of significance in relation to the Group's business are set out in notes 32(a) and 32(b) respectively to the accounts.

Apart from the above, no other contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 December 2003, which constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Significant related party transactions entered into by the Group during the year ended 31 December 2003, which do not constitute connected transactions under the Listing Rules, are disclosed in note 32 to the accounts.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2003, the interests (which are all long positions) of the Directors and Chief Executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions of the SFO)), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company were as follows:

Name of Director	Number of ordinary shares/underlying shares held			Percentage of shareholding
	Personal interests	Corporate interests	Family interests	
Mr. Lau Jin Wei, Jim	5,400,000 (note (a))	—	80,712,000 (note (b))	10.30%
Mr. Choi Woon Man	938,400 (note (c))	73,368,000 (note (d))	—	8.89%
Mr. Li Kwong Mo, Peter	6,860,000 (note (e))	—	—	0.82%

22 REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (cont'd)

Name of Director	Number of ordinary shares/underlying shares held			Percentage of shareholding
	Personal interests	Corporate interests	Family interests	
Ms. Wong Wai Kwan, Connie	50 (note (f))	—	—	0.00%
Mr. Yip Wai Leung, Jerry	120,000 (note (f))	—	—	0.01%

Notes:

- (a) The personal interest of Mr. Lau Jin Wei, Jim comprises 5,400,000 ordinary shares of the Company.
- (b) There are 80,712,000 ordinary shares of the Company as shown above held by Motivated Workforce Consultants Limited ("MWC"), a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.
- (c) The personal interest of Mr. Choi Woon Man comprises 860,200 ordinary shares and 78,200 underlying shares in respect of share options granted by the Company to him, the details of which are stated in the above section "Share options".
- (d) There are 73,368,000 ordinary shares of the Company as shown above held by Inviting Finance Limited ("IFL"), a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.
- (e) The personal interest of Mr. Li Kwong Mo, Peter comprises 3,060,000 ordinary shares and 3,800,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options".
- (f) The personal interest of Ms. Wong Wai Kwan, Connie and Mr. Yip Wai Leung, Jerry represent ordinary shares of 50 and 120,000 held by them respectively.

Save as disclosed above, no directors, chief executives or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

REPORT OF THE DIRECTORS *(cont'd)*

23

WARRANTS

Pursuant to an ordinary resolution passed in the extraordinary general meeting of the Company held on 18 October 2001, the Company granted bonus warrants to its shareholders on the basis of one warrant for every five existing ordinary shares of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose name appear on the register of members of the Company at the close of business on 18 October 2001. Based on the issued share capital of the Company at that date, approximately 54,121,000 bonus warrants were issued. Each of the bonus warrants entitles the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$2.50 per share, payable in cash and subject to adjustment for any dilutive effects, at any time during the period from 22 October 2002 to 30 December 2003 (both dates inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the warrants rank pari passu in all respects with the existing issued and fully paid ordinary shares on the relevant subscription date.

The number of outstanding warrants and the subscription price have been adjusted to 66,000,884 and HK\$2.05 per ordinary share respectively to reflect the dilutive effects of the issue of convertible bonds and bonus issue during 2002.

During the year, 487 warrants out of the outstanding warrants of 66,000,884 brought forward from last year were exercised and 487 ordinary shares of HK\$0.10 each of the Company were issued for the cash proceeds of approximately HK\$1,000.

The remaining 66,000,397 warrants were lapsed on 30 December 2003 upon expiry of the exercisable period.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2003, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

Name of shareholder	Number of ordinary shares	Percentage of the Company's share capital
MWC	80,712,000	9.65%
IFL	73,368,000	8.78%

24 REPORT OF THE DIRECTORS *(cont'd)*

SUBSTANTIAL SHAREHOLDERS *(cont'd)*

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, the Company has not been notified by any other person (other than a director of the Company disclosed above) who has an interest or short position in the shares or underlying shares of the Company pursuant to Section 336 of the SFO as at 31 December 2003.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	10%
– five largest suppliers combined	39%

Sales

– the largest customer	9%
– five largest customers combined	24%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the Non-executive Director and the Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

REPORT OF THE DIRECTORS *(cont'd)*

25

AUDIT COMMITTEE

The Company's Audit Committee comprises two Independent Non-executive Directors, namely Mr. Ou Ying Ji and Mr. Yip Wai Leung, Jerry.

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 Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee met twice during the year of 2003 in conjunction with the auditors to review the internal controls, interim results and final accounts of the Group prior to recommending them to the Board for approval.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors have an interest in any business constituting a competing business to the Group.

PENSION SCHEME ARRANGEMENTS

On 1 December 2000, the Group set up a Mandatory Provident Fund Scheme (the "MPF Scheme") in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group and under control of an independent trustee.

Both the Group and its employees located in Hong Kong are required to contribute 5% of the employees' monthly salaries. The mandatory contributions required to be made by the Group and an employee are capped at HK\$1,000 per month. Members are entitled to 100% of the employers' mandatory contributions as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), a subsidiary of the Company operates a local municipal government retirement benefits scheme (the "PRC Scheme") for its employees located in the PRC. The subsidiary is required to make contributions to the PRC Scheme at rates specified by the local practice and regulations and the local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group is to make the ongoing required contributions to the PRC Scheme.

26 REPORT OF THE DIRECTORS *(cont'd)*

PENSION SCHEME ARRANGEMENTS *(cont'd)*

The Group's retirement benefit costs are charged to the consolidated profit and loss account when incurred and the aggregate contributions payable by the Group was approximately HK\$507,000 for the year ended 31 December 2003 (2002: HK\$388,000). There were no provisions under the Group's retirement schemes whereby forfeited contributions may be used to reduce future contributions.

SUBSEQUENT EVENTS

- (a) On 19 January 2004, a subsidiary of the Company, Global Chemical (China) Company Limited, entered into a Term Loan Facility Agreement with certain banks for financing the general corporate funding requirements of the Group. Please refer to details set out in note 34 to the accounts.
- (b) On 30 January 2004, the Company issued new convertible bonds of US\$4,080,000 (equivalent to approximately HK\$31,824,000) to Credit Suisse First Boston (Hong Kong) Limited. Please refer to details set out in note 23 to the accounts.
- (c) An aggregate of 3,878,200 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options. Please refer to details set out in note 25(a) to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lau Jin Wei, Jim
Chairman

Hong Kong, 23 April 2004