

Management Discussion and Analysis – Report of the Directors

The Directors are pleased to present the annual report together with the annual financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The Company is a holding company. Its subsidiaries are principally engaged in the manufacturing and wholesaling of aluminium extrusion products and chemicals for use in electroplating process. Such products are produced on sites located in Nanhai and Zhuhai, Guangdong Province, the PRC and in Hong Kong.

Segmental information of the Group's turnover and contribution to profit from operations for the Year is set out in note 36 to the financial statements.

FINANCIAL REVIEW

Liquidity, financial resources and capital structure

As at 31 December 2004, the net current assets of the Group were HK\$1,130,281,000 (31 December 2003: HK\$585,015,000). Within the current assets, HK\$1,050,694,000 (31 December 2003: HK\$471,548,000) was in the form of free cash and cash equivalents.

Total borrowings and obligations under finance leases as at 31 December 2004 were HK\$1,136,300,000 (31 December 2003: HK\$682,925,000), of which approximately 41%, HK\$464,164,000 (31 December 2003: HK\$223,892,000) will be due after one year. Net debt gearing (i.e. total borrowings less free cash/net tangible assets) of the Group as at year end was 7% (31 December 2003: 20%).

Since 2001, the Group has been adopting a strategy to obtain financing with a longer tenure to enhance its liquidity and minimise the maturity mismatch between assets and liabilities. As a result, approximately 41% of the Group's borrowings and obligations under finance leases was due after one year as at 31 December 2004 (31 December 2003: 33%). This strategy will be maintained in the near future.

The Company issued 7,600,000 new shares during the Year due to the exercise of the options pursuant to the share option schemes of the Company.

Foreign Exchange Risk and Interest Rate Risk

The Group's cash and cash equivalents are held predominately in HK\$, RMB and US\$. The majority of the Group's borrowings are denominated in HK\$, RMB and US\$ at floating interest rates. Financing in RMB is used only by the Group's operations in the PRC, which usually receives revenue in RMB. Raw materials for export sales denominated in US\$ are predominately imported and therefore settled in US\$. The management is of the opinion that the Group's exposure to foreign exchange rate risks is insignificant, and hedging by means of derivative instruments is considered unnecessary.

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FINANCIAL REVIEW (continued)**Foreign Exchange Risk and Interest Rate Risk (continued)**

The Group did not hedge its interest rate risk during the Year as the interest rate environment was favourable. In view of the emergence of a trend of rising interest rate in 2005, the Group is seriously considering hedging all or part of its interest rate risk by means of simple derivative instruments.

GENERAL DISCLOSURE OBLIGATION UNDER LISTING RULE 13.18

Certain financial institutions have granted bank facilities of HK\$430,000,000 and HK\$70,000,000 to a wholly-owned subsidiary and a non-wholly-owned subsidiary of the Company respectively on 4 October 2004. As of 31 December 2004, approximately HK\$500,000,000 of these facilities were utilised.

There is an undertaking set out in the loan facility agreements that Mr Yip Kim Po will at all times remain the Chairman and the single largest shareholder of the Company and that Mr Yip Kim Po, Mr Yip Lap Chi and Ms Yip Wan Fung beneficially own at least 30% of the total issued share capital of the Company. An announcement dated 4 October 2004 of the Company was published to comply with the requirements of Rule 13.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). There was no breach of the said undertaking during the Year.

CONNECTED TRANSACTION

On 8 July 2004, OG Development Company Limited ("OGD"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with Hongli Nanfang Galvanized Sheet (Sanshui) Company Limited ("Nanfang-Sanshui"), a company established in the PRC. According to the Agreement, OGD purchased 1,390 metric tonnes of hot dipped galvanized steel sheet coil (the "Steel Sheet") at a cash consideration of US\$869,600 (approximately HK\$6,800,000) from Nanfang-Sanshui. Nanfang-Sanshui is a connected party of the Company for the purposes of the Listing Rules of the Stock Exchange and the Agreement constituted a connected transaction for the purposes of Chapter 14A of the Listing Rules.

OGD sold the Steel Sheet to a customer, who is not connected with any of the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, immediately for a profit.

The price for the supply of the Steel Sheet by Nanfang-Sanshui to OGD under the Agreement is comparable to market prices of hot dipped galvanized steel sheet coil in the PRC, and the Agreement was concluded on normal commercial terms. Although the Agreement constituted a connected transaction for the purposes of Chapter 14A of the Listing Rules, each of the relevant percentages ratios is less than 2.5% for the purposes of Rule 14A.32 of the Listing Rules. The Agreement was exempted from the independent shareholders' approval requirement of the Listing Rules. An announcement dated 14 July 2004 of the Company was published to comply with the requirements of Chapter 14A of the Listing Rules. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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DISCLOSEABLE TRANSACTION

Jinbocho Holdings Limited ("Jinbocho"), a wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement dated 30 July 2004 (the "Agreement") with Evergreen Suppliers Sdn. Bhd. (a company incorporated under the laws of Bermuda ("Evergreen")). Evergreen is an independent third party not connected with the Directors, chief executives and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates. According to the Agreement, Jinbocho will sell 2,306 shares in Asia Pacific Holdings (China) Limited (a company incorporated under the laws of the Commonwealth of The Bahamas) ("Asia Pacific"), representing 49% of its entire issued share capital and representing all the interest of the Group in Asia Pacific, to Evergreen. The principal asset of Asia Pacific is the holding of 100% registered capital of 亞太控股 (攀枝花) 鋼鐵有限公司 (Asia Pacific Holdings (Panzhihua) Iron & Steel Co. Ltd.), a company established under the laws of the PRC, which is principally engaged in the manufacturing and selling of hot-rolled stainless steel coils and owns a factory in Panzhihua City, Sichuan Province, the PRC. The total consideration for the disposal is HK\$182,000,000. According to the Agreement, the disposal is expected to complete on 10 December 2004 or such other date as agreed by Jinbocho and Evergreen. The disposal constituted a discloseable transaction of the Company under the Listing Rules. A circular dated 18 August 2004 containing details about the Agreement and other relevant information has been despatched to shareholders.

On 10 December 2004, Jinbocho and Evergreen entered into a Supplemental Agreement (the "Supplemental Agreement") to vary the terms of the Agreement whereby, inter alia, the completion date of the disposal is postponed to 26 January 2005. In addition, the payment of consideration by Evergreen is amended as follows:

- (i) a deposit of HK\$36,400,000 shall be paid within 14 days from the date on which the conditions precedent are satisfied;
- (ii) a further deposit of HK\$42,000,000 shall be paid on or before 10 December 2004; and
- (iii) the balance of HK\$103,600,000 shall be paid on or before the completion on 26 January 2005.

The total consideration for HK\$182,000,000 has been received in accordance with the payment schedule.

The net proceeds of the disposal is approximately HK\$180,000,000. All of the net proceeds is expected to be used for general working capital purpose.

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CUSTOMERS AND SUPPLIERS

During the financial year ended 31 December 2004, the Group's five largest customers accounted for approximately 35% (2003: 49%) of the Group's turnover, while the five largest suppliers accounted for approximately 60% (2003: 68%) of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 14% (2003: 29%) of the Group's sales revenue and the largest supplier of the Group accounted for approximately 25% (2003: 31%) 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 any 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 2004 are set out on page 33 of the 2004 annual report.

The Directors recommended the payment of a final dividend of HK\$0.065 per share (2003: HK\$0.065) totalling approximately HK\$27,549,000 to the shareholders registered in the Company's register of members as at the close of business on 10 June 2005. An interim dividend of HK\$0.035 per share was declared by the Company during 2004 (2003: HK\$0.035), the total dividend per share for the 2004 financial year is HK\$0.10 (2003: HK\$0.10). Subject to the approval of shareholders at the forthcoming Annual General Meeting ("AGM") of the Company, the dividend warrants are expected to be despatched to shareholders on or before 15 July 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7 June 2005 to 10 June 2005, both days inclusive in order to determine those shareholders entitled to the proposed final dividend. No shares shall be transferred or effected during this period.

In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch registrar of the Company, Tengis Limited of G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 6 June 2005.

SHARE CAPITAL AND SHARE OPTIONS

Movements in share capital of the Company and details of share option schemes of the Company and subsidiary are set out in notes 27 and 28 respectively to the financial statements.

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RESERVES

Movements in reserves of the Group and the Company during the Year are set out in note 29 to the 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 5 of the 2004 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 during the year ended 31 December 2004 (2003: Nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws ("Bye-laws") nor the laws of Bermuda.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the issue of the 2004 annual report.

FIXED ASSETS

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

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

BANK LOANS

Particulars of bank loans as at 31 December 2004 are set out in notes 22 and 24 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 32 to the financial statements.

CHARGES ON GROUP ASSETS

Details of charge on the Group's assets are set out in note 34 to the financial statements.

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PENSION SCHEME

Details of the pension scheme are set in note 33 to the financial statements.

STAFF POLICY

Staff costs are disclosed in note 6 to the financial statements.

The Group believes that human resources are the most valuable assets of all, and is committed to providing a friendly and stimulating working environment for staff members. Remuneration of employees is determined on a merit basis with no regard to sex, age or disability of employees. Employees of the Group are also entitled to share options pursuant to the share option scheme adopted by the Company. On-the-job training is provided to staff members where necessary. As at 31 December 2004, the Group employed, excluding Directors, a total of approximately 600 (31 December 2003: approximately 700) full time employees. About 90% of them are located in the PRC.

In determining the emolument payable to the Directors, factors such as market competitiveness, job responsibilities, performance of the Company and the individuals will be taken into consideration.

Staff costs and Directors' remuneration for the year ended 31 December 2004 amounted to approximately HK\$41,000,000 (31 December 2003: HK\$35,000,000).

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the Year and up to the date of the 2004 annual report were:

Mr Yip Kim Po, Chairman
 Mr Hui Ho Ming, Herbert, Deputy Chairman and Vice Chairman
 Mr Choy Tak Ho *
 Mr Chau Po Fan *
 Mr Kwan Yan
 Mr Lee Kwan Ho, Vincent Marshall *
 Mr Li Lee Cheung
 Ms Yip Wan Fung

* Independent Non-Executive Director

In accordance with Bye-law no. 87(1) of the Company, Mr Chau Po Fan and Mr Kwan Yan will retire at the forthcoming AGM of the Company to be held on 10 June 2005 and, being eligible, will offer themselves for re-election. Neither of the Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation) with the Company.

The Company has received from each Independent Non-Executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange, and the Company considers such Directors to be independent.

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DETAILS OF DIRECTORS

Brief details of Directors are set out on pages 30 and 31 of the 2004 annual report.

DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 7 to the financial statements.

INFORMATION ON SHARE OPTION SCHEMES

At the AGM 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 Listing Rules of 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.

At the AGMs of the Company held on 6 June 2003 and 3 June 2004, ordinary resolutions were passed approving the amendment to the Share Option Scheme – 2002 by expanding the definition of participants and refreshing the scheme's mandate limit. Pursuant to the Share Option Scheme – 2002 (Amended), participants (including Directors of the Group, employees, consultants and business associates) are entitled to be granted options to subscribe for shares in the Company.

Summary of the terms and particulars of outstanding options of the Share Option Scheme – 1997 and the Share Option Scheme – 2002 (Amended) are set out below pursuant to the requirements of Chapter 17 of the Listing Rules.

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INFORMATION ON SHARE OPTION SCHEMES (continued)

	The Share Option Scheme – 1997	The Share Option Scheme – 2002 (Amended)
(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 employee or consultant of the Company or any subsidiary, any directors (including executive directors, non-executive directors and independent non-executive directors (of any nationality) including, for the avoidance of doubt, any of the employees, consultants or directors of the Company or any subsidiary who are PRC nationals holding, exercising and acquiring the option subject to the relevant PRC laws and regulations) and any business associates including but not limited to advisors, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Company or any subsidiary, who the Board considers, in its sole discretion, have contributed to the Company and/or any subsidiary.

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INFORMATION ON SHARE OPTION SCHEMES (continued)

	The Share Option Scheme – 1997	The Share Option Scheme – 2002 (Amended)
(c) Total number of shares available for issuance	<p>900,000 shares (approximately 0.21% of the issued share capital as at the date of the 2004 annual report), being the outstanding options unexercised.</p> <p>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.</p>	<p>39,550,000 shares (approximately 9.33% of the issued share capital as at the date of the 2004 annual report).</p> <p>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 (Amended) 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.</p>
(d) Maximum entitlement of each Participant	<p>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.</p>	<p>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 (Amended) 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.</p>
(e) Time of exercise of option	<p>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.</p>	<p>An option may be exercised in accordance with the terms of the Share Option Scheme – 2002 (Amended) 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.</p>

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INFORMATION ON SHARE OPTION SCHEMES (continued)

	The Share Option Scheme – 1997	The Share Option Scheme – 2002 (Amended)
(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 (Amended) 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 (Amended) shall be valid and effective for a period of ten years commencing on the adoption date (i.e. 7 June 2002).

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions – in the Company

Name	Type of interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the Company's issued share capital
Mr Yip Kim Po	Controlled corporation – Holylake Resources Limited (Note a)	Deemed interest	73,000,000	–	73,000,000	17.22
	Controlled corporation – Grecian Resources Limited (Note b)	Deemed interest	29,000,000	–	29,000,000	6.84
	Beneficial owner	100%	28,000,000	–	28,000,000	6.61
		Total:	130,000,000	–	130,000,000	30.67
Mr Hui Ho Ming, Herbert	Beneficial owner	100%	7,050,000	–	7,050,000	1.66
Mr Choy Tak Ho	Beneficial owner	100%	240,000	–	240,000	0.06
Mr Chau Po Fan	Beneficial owner	100%	20,000	–	20,000	0.005
Mr Kwan Yan	Beneficial owner	100%	550,000	–	550,000	0.13
Ms Yip Wan Fung	Beneficial owner	100%	13,730,000	–	13,730,000	3.24

Notes:

- The issued shares of Holylake Resources Limited were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi respectively.
- The issued shares of Grecian Resources Limited were owned as to 76% and 24% by Mr Yip Kim Po and Mr Yip Lap Chi respectively.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long positions – in the Company (continued)

On 10 January 2005, Mr Hui Ho Ming, Herbert acquired 1,266,000 shares in the Company and his aggregate shareholdings is 8,316,000 shares (approximately 1.96% of the total issued share capital of the Company). On 9 March and 10 March 2005, Mr Kwan Yan disposed of 300,000 shares and 250,000 shares in the Company respectively, and he no longer has a shareholding interest in the Company.

Long positions – in Ocean Grand Chemicals Holdings Limited (a subsidiary)

Name	Type of interest	Attributable interest to the Director	Number of shares	Number of options	Aggregate interest	Approximate % of the associated corporation's issued share capital
Mr Hui Ho Ming, Herbert	Beneficial owner	100%	4,000,000	–	4,000,000	0.83
Mr Kwan Yan	Beneficial owner	100%	148,000	–	148,000	0.03

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2004 were recorded in the register required to be kept under Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies and the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 31 December 2004.

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INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY
The Company:

Movement of share options of the Company during the year ended 31 December 2004:

Participant	Type of share option scheme	Date of grant	Number of share options to subscribe for shares					Outstanding at 31 December 2004	Subscription price per share	Exercise period ^a
			Outstanding at 1 January 2004	Granted	Exercised	Cancelled	Lapsed			
Employees:										
Employee	Share Option Scheme – 1997	2 May 2000	900,000	–	–	–	–	900,000	HK\$1.128	2 May 2000 to 3 September 2007
Employees	Share Option Scheme – 2002	16 January 2003	11,400,000	–	(3,800,000) (Note a)	–	–	7,600,000	HK\$1.056	16 January 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	24 September 2003	9,750,000	–	–	–	–	9,750,000	HK\$1.66	24 September 2003 to 6 June 2012
Employees	Share Option Scheme – 2002 (Amended)	7 October 2003	10,500,000	–	–	–	–	10,500,000	HK\$1.999	7 October 2003 to 6 June 2012
							Total:	28,750,000		
Others:										
Consultant	Share Option Scheme – 2002	16 January 2003	3,800,000	–	(3,800,000) (Note b)	–	–	–	HK\$1.056	16 January 2003 to 6 June 2012
Business Associates	Share Option Scheme – 2002 (Amended)	24 September 2003	19,500,000	–	–	(3,900,000)	–	15,600,000	HK\$1.66	24 September 2003 to 6 June 2012
							Total:	15,600,000		

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INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY (continued)

The Company (continued):

Notes:

- * *Share options are vested from date of issue.*
- a. *Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.*
- b. *Weighted average closing prices of shares immediately before the dates of which the options were exercised were HK\$1.99 and HK\$2.18.*

Options were granted for a consideration of HK\$1.00 per grant during the year ended 31 December 2004.

An option granted to a business associate on 24 September 2003 to subscribe for 3,900,000 shares in the Company at a subscription price of HK\$1.66 each was cancelled on 16 March 2004. An option granted to an employee on 7 October 2003 to subscribe for 3,900,000 shares in the Company at a subscription price of HK\$1.999 each was lapsed on 31 March 2005 due to his resignation. Except as stated above, no option was cancelled/lapsed from 1 January 2004 and up to the date of the 2004 annual report.

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INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY

Subsidiary – Ocean Grand Chemicals:

At the AGM of Ocean Grand Chemicals held on 4 September 2003, an ordinary resolution was passed approving the adoption of a share option scheme which complied with Chapter 17 of the Listing Rules of the Stock Exchange. At the AGM of Ocean Grand Chemicals held on 7 September 2004, an ordinary resolution was passed approving the refreshment of the scheme mandate limit.

Movement of share options of Ocean Grand Chemicals during the year ended 31 December 2004:

Eligible Participant	Date of grant	Number of share options to subscribe for shares					Outstanding at 31 December 2004	Subscription price per share	Exercise period*
		Outstanding at 1 January 2004	Granted	Exercised	Cancelled	Lapsed			
Employees:									
Employees	9 February 2004	-	37,600,000 (Note a)	-	(28,200,000)	(4,700,000)	4,700,000	HK\$1.38	9 February 2004 – 3 September 2013
Employees	21 July 2004	-	9,400,000 (Note b)	(4,700,000)	(4,700,000)	-	-	HK\$0.97	21 July 2004 – 3 September 2013
Total: 4,700,000									
Others:									
Business Associate	9 February 2004	-	9,400,000 (Note a)	-	-	(9,400,000)	-	HK\$1.38	9 February 2004 – 3 September 2013
Business Associate	21 July 2004	-	4,700,000 (Note b)	-	-	-	4,700,000	HK\$0.97	21 July 2004 – 3 September 2013
Total: 4,700,000									

Notes:

- * Share options are vested from date of issue.
- a. The closing price per share of Ocean Grand Chemicals immediately before 9 February 2004 on which the options were granted was HK\$1.40.
- b. The closing price per share of Ocean Grand Chemicals immediately before 21 July 2004 on which the options were granted was HK\$0.96.

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INFORMATION ON SHARE OPTIONS OF THE COMPANY AND SUBSIDIARY (continued)**Subsidiary – Ocean Grand Chemicals (continued):**

On 17 February 2005, options were granted by Ocean Grand Chemicals to two employees to subscribe for a total of 9,400,000 shares in Ocean Grand Chemicals at a subscription price of HK\$1.10 each, both with an exercise period from 17 February 2005 to 3 September 2013. The closing price per share of Ocean Grand Chemicals immediately before 17 February 2005 on which the options were granted was HK\$1.11.

The Directors of Ocean Grand Chemicals do not consider it appropriate to disclose a theoretical value of the share options granted during the Year because the Directors of Ocean Grand Chemicals are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

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

DIRECTORS' INTERESTS IN CONTRACTS

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.

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INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

As at 31 December 2004, the interests or short positions of the substantial shareholders and other persons (other than those Directors or chief executive of the Company disclosed above) 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 position – Substantial Shareholder

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Holylake Resources Limited	Directly	73,000,000	17.22%

Long positions – Other Persons

Name	Type of interest	Number of shares	Approximate % of the Company's issued share capital
Allianz Aktiengesellschaft	Indirectly through Dresdner RCM Little Dragons Fund Limited	21,200,000	5.00%
Mr Cheah Cheng Hye	Indirectly through Value Partners Limited	41,338,800 (Note)	9.75%
Dresdner RCM Little Dragons Fund Limited	Directly	21,200,000	5.00%
Grecian Resources Limited	Directly	29,000,000	6.84%
Peter Cundill & Associates (Bermuda) Ltd.	Directly	22,732,000	5.36%
Value Partners Limited ("VPL")	Investment manager	41,338,800 (Note)	9.75%

Note: Mr Cheah Cheng Hye is deemed to be interested in the shares through his 31.82% interest in VPL. This figure refers to the same interest of VPL in 41,338,800 shares.

Save as disclosed above, as at 31 December 2004, there was no other person (other than the Directors or chief executives of the Company as disclosed above) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Management Discussion and Analysis – Report of the Directors

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Group has complied with the Code of Best Practice as set out in the old Appendix 14 of the Listing Rules of the Stock Exchange throughout the Year under review.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the Directors of the Company, all the Directors have confirmed that they had complied with the required standard set out in the Model Code during the Year.

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 Institute of Certified Public Accountants and Appendix 14 of the Listing Rules of the Stock Exchange.

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 of the external audit, internal controls and risk evaluation. The Committee comprises Mr Lee Kwan Ho, Vincent Marshall (chairman), Mr Choy Tak Ho and Mr Chau Po Fan.

The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2004.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising Independent Non-Executive Directors, Mr Choy Tak Ho (chairman), Mr Chau Po Fan and Mr Lee Kwan Ho, Vincent Marshall.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

Management Discussion and Analysis – Report of the Directors

ATTENDANCE AT FULL BOARD/COMMITTEE MEETINGS IN 2004

	Board	Audit Committee
	(Attendance in person/number of meetings)	
Executive Directors:		
Mr Yip Kim Po	2/2	–
Mr Hui Ho Ming, Herbert	2/2	–
Mr Kwan Yan	1/2	–
Mr Li Lee Cheung	0/2	–
Ms Yip Wan Fung	2/2	–
Independent Non-Executive Directors:		
Mr Choy Tak Ho	2/2	2/2
Mr Chau Po Fan	2/2	2/2
Mr Lee Kwan Ho, Vincent Marshall	2/2	2/2

AUDITORS

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

On behalf of the Board

Yip Kim Po

Chairman

Hong Kong, 22 April 2005