

## REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries have not changed during the year and are detailed in note 33 to the financial statements.

### SEGMENTED INFORMATION

An analysis of the Group's turnover and operating results by principal activity and geographical area of operations for the years ended 31 December 2000 and 1999 is as follows.

	2000		1999	
	Turnover	Operating profit/(loss)	Turnover	Operating profit/(loss)
	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>
By principal activity:				
Manufacture and sale of steel products	1,565	(139)	1,358	(183)
Rebar stockholding and trading of steel products	297	(35)	1,145	(117)
Transportation and shipping	326	(8)	130	1
Rental income	22	(3)	21	3
Others	2	(8)	3	(22)
	<u>2,212</u>	<u>(193)</u>	<u>2,657</u>	<u>(318)</u>
By geographical area:				
The People's Republic of China (the "PRC"):				
Hong Kong SAR	389	(52)	995	(56)
Elsewhere	1,545	(130)	1,442	(223)
Singapore	-	(1)	22	(29)
Taiwan	174	2	117	(1)
The Philippines	-	(4)	15	(1)
Japan	90	(8)	54	(7)
Korea	14	-	12	(1)
	<u>2,212</u>	<u>(193)</u>	<u>2,657</u>	<u>(318)</u>

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 85.

The directors do not recommend the payment of any dividend in respect of the year.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 86 of this annual report.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in note 12 to the financial statements.

Particulars of the Group's major investment properties at 31 December 2000 are summarised on pages 87 and 88 of this annual report.

### CAPITALISATION OF INTEREST

During the year, borrowing costs, principally interest expense, in the amount of HK\$1,215,000 (1999: HK\$1,383,000) were capitalised as part of the costs of the Group's construction in progress.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 33 to the financial statements.

### ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Group's associates and jointly controlled entities are set out in notes 13 and 14 to the financial statements, respectively.

### BANK LOANS, BANK OVERDRAFTS AND OTHER BORROWINGS

Details of the Group's bank borrowings are set out in note 27, and other borrowings are set out in notes 28 and 29 to the financial statements, respectively.

### CONVERTIBLE BONDS

Details of the Group's convertible bonds are set out in note 25 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

### DIRECTORS

The directors of the Company during the year were as follows:

Zhang Yanlin	
Su Genqiang	
Xu Xianghua	<i>(appointed on 10 March 2000)</i>
Ip Tak Chuen, Edmond	
Leung Shun Sang, Tony	
Lai Kam Man, David*	
Chow Kun Chee, Roland*	
Choy Hok Man, Constance*	<i>(appointed on 3 April 2000)</i>
Ye Ruiling	<i>(resigned on 10 March 2000)</i>
Cao Qirui	<i>(resigned on 7 September 2000)</i>

\* Independent non-executive directors

Subsequent to the balance sheet date, on 19 April 2001, Mr Zhang Yanlin resigned as a director and Mr. Wang Qinghai was appointed as a director.

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Wang Qinghai, Su Genqiang and Chow Kun Chee, Roland will retire at the forthcoming annual general meeting and, being eligible, Messrs. Wang Qinghai and Su Genqiang will offer themselves for re-election at the forthcoming annual general meeting. However, Mr. Chow Kun Chee, Roland will not offer himself for re-election and it is not intended to fill up Mr. Chow's vacated office at the forthcoming annual general meeting.

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as detailed in note 31 to the financial statements, at the balance sheet date, the outstanding share options granted in favour of the directors, which were also recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Date of grant	Options to subscribe for shares of the Company
Zhang Yanlin	26 June 1997	4,000,000
Ip Tak Chuen, Edmond	10 July 1997	2,600,000
Leung Shun Sang, Tony	10 July 1997	2,600,000

*Notes:*

1. Mr. Cao Qirui, a former director of the Company, held 3,000,000 share options during the year, all of which lapsed on 7 December 2000 upon the resignation of Mr. Cao on 7 September 2000.
2. All of the outstanding share options are exercisable at a subscription price of HK\$1.355 per share during the period from the date of grant to 10 April 2001. Each of the directors paid HK\$1 as cash consideration for the grant of the options in accordance with the share option scheme. No share options were exercised by the directors during the year and all of the above share options lapsed on 10 April 2001 upon the expiry of the share option scheme.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At the balance sheet date, the interests of the Company's directors, chief executives and their associates in the share capital of the Company and its associated corporations, as recorded in the register required to be kept under Section 29 of the SDI Ordinance, were as follows:

Name of director	Shougang Concord International Enterprises Company Limited	
	Number of ordinary shares and nature of interest	
Lai Kam Man, David	250,000	Personal

Save as disclosed above and as disclosed under the heading "Directors' rights to acquire shares", none of the directors, chief executives or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or its associated corporations as defined under the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31 December 2000, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

Name of shareholder		Number of ordinary shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")		745,341,925
Jasmine Group Limited ("Jasmine")	<i>Note (1)</i>	329,844,769
Cheung Kong (Holdings) Limited ("Cheung Kong")	<i>Note (2)</i>	212,033,955

*Notes:*

- Jasmine is a subsidiary of Shougang HK and its interests are included in the interests held by Shougang HK.
- By virtue of their interests in Cheung Kong, the following person and companies are each deemed to be interested in the 212,033,955 shares held by Cheung Kong:

Mr. Li Ka Shing  
 Li Ka-Shing Unity Holdings Ltd  
 Li Ka-Shing Unity Trustee Co Ltd  
 Li Ka-Shing Unity Trustee Corporation Ltd

## CONNECTED TRANSACTIONS

Conditional waivers have been given by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") by the Company for the following connected transactions:

- the supply of steel by Shougang Corporation, the holding company of Shougang HK which is the Company's controlling shareholder, to the Group and the sales of scrap metals to Shougang Corporation by the Group.
- the arrangement by SCIT (Chartering) Limited, an indirectly wholly-owned subsidiary of the Company, for the shipping of iron ores for the related companies of Shougang Corporation.

**CONNECTED TRANSACTIONS (Continued)**

- (iii) the purchases of raw materials of principally steel billets, iron ingots and steel slabs, from Shougang Corporation and/or its associates (the "Purchases"); and the sales of steel products of principally strip steel products, steel wire products, steel plates and scrap materials, to Shougang Corporation and/or its associates (the "Sales") by Beijing Shougang-Gitane Alloy Materials Co., Ltd. ("Gitane"), Beijing Shougang-Pohseng Strip Steel Co., Ltd. ("Pohseng"), Beijing Shougang-Liwoh Bar Steel Co., Ltd. ("Liwoh") and Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao") (Gitane, Pohseng, Liwoh and Qinhuangdao, collectively the "Joint Ventures"), all being non wholly-owned subsidiaries of the Company, on the condition that, inter alia, the Purchases and Sales would be subject to caps of 40% and 10%, respectively, of the annual turnover of the Group for each immediate preceding financial year.

The connected transactions in respect of (i), (ii) and (iii) above, which took place during the year, have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions were conducted on normal commercial terms and in the normal course of business and are fair and reasonable as far as the shareholders are concerned. Details of the above transactions are set out in notes 37 (i), (iii), (vi), (xv) and (xvi) to the financial statements under the heading of "Related party transactions".

In addition to the above, during the year, the following connected transactions were recorded:

**(a) Financial assistance to Radnor Limited**

Radnor Limited ("Radnor") is a company which is held as to 75% by Shougang Concord Steel Group Limited, a wholly-owned subsidiary of the Company and as to 25% by Mr. Tang Kam Kay ("Mr. Tang"), a director of Radnor.

- (i) As stated in a press announcement dated 21 March 2000, banking facilities up to an aggregate amount of US\$6 million were granted by a bank to two wholly-owned subsidiaries of the Company, namely Shougang Concord Steel International Trading Co. Ltd. and Shougang Concord Construction Materials Limited, and Radnor, of which an aggregate amount of US\$2 million would be made available to Radnor as its general working capital and for its trading activities in the ordinary course of business. In consideration of the bank granting the facilities, the Company was required to provide the following security (the "Security") with the bank:

- (1) a corporate guarantee for an amount of US\$6 million;

CONNECTED TRANSACTIONS (Continued)

- (2) first legal charges over the following properties:
- (2.1) Workshop nos. 4, 5, 8, 9 and 15-18, 10th Floor, Honour Industrial Centre, No. 6 Sun Yip Street, Chai Wan, Hong Kong owned by Good News Investment Limited, an indirectly wholly-owned subsidiary of the Company; and
- (2.2) Lot Nos. 883, 884A&B, 908, 916, 917, 918, 919, 920, 921 and 1551 Section B Sub-Section 2 in Demarcation District No. 77, Ping Che, Fanling, New Territories owned by Shougang Concord Godown Limited, an indirectly wholly-owned subsidiary of the Company; and
- (3) an equitable mortgage over 104,030,459 shares of Shougang Concord Grand (Group) Limited owned by Hatley Trading Limited, an indirectly wholly-owned subsidiary of the Company.

In accordance with the terms of the facilities, one-third of the total value of the Security was used for securing the part of the facilities made available to Radnor.

In view of the fact that the proportional share of the financial assistance provided and procured by the Company for Radnor under the facilities is greater than the Company's proportional equity interest in Radnor, the provision of the Security by the Company constituted a connected transaction of the Company under the Listing Rules.

- (ii) As stated in a press announcement dated 5 October 2000, banking facilities in an aggregate amount of not exceeding HK\$13 million were granted by a bank to Radnor to be used by Radnor as general working capital in the ordinary course of business. The banking facilities were granted conditional on:
- (1) the creation of a charge by the bank over a fixed deposit of HK\$3 million maintained by Radnor with the bank; and

**CONNECTED TRANSACTIONS (Continued)**

- (2) the provision of a corporate guarantee by the Company for securing all the obligations and liabilities of Radnor under the banking facilities (the "Guarantee").

In view of the fact that the Guarantee covered 100% of the obligations and liabilities of Radnor under the banking facilities, the provision of the Guarantee by the Company constituted a connected transaction of the Company under the Listing Rules.

Mr. Tang had previously executed a guarantee in favour of the Company in respect of 25% of the total obligations and liabilities incurred by the Company arising from providing corporate guarantees to various bankers to secure credit facilities granted to Radnor.

**(b) Tenancy agreements**

As stated in the press announcement dated 29 December 2000, the following tenancy agreements were renewed, the terms of which were determined on the basis of arm's length negotiation and in the normal course of business:

- (i) a tenancy agreement dated 29 December 2000 whereby a portion of the 7th Floor, First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 3,250 square feet was leased by Wonderfine Development Limited ("Wonderfine"), an indirectly wholly-owned subsidiary of Shougang HK, to Shougang Concord Services Limited ("Shougang Services"), a wholly-owned subsidiary of the Company, for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$52,000, exclusive of rates and other charges.
- (ii) a tenancy agreement dated 29 December 2000 whereby a portion of the 7th Floor, First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 3,250 square feet was leased by Wonderfine to Long Cosmos Investment Limited which is an indirectly wholly-owned subsidiary of Shougang Concord Grand (Group) Limited, a non wholly-owned subsidiary of the Company, for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$52,000, exclusive of rates and other charges.

## CONNECTED TRANSACTIONS (Continued)

- (iii) a tenancy agreement dated 29 December 2000 whereby a portion of the 6th Floor, First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 2,357 square feet was leased by Winluck Properties Limited, an indirectly wholly-owned subsidiary of Shougang HK, to Shougang Concord Shipping Services Limited (“Shougang Shipping”), an indirectly wholly-owned subsidiary of the Company, for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$37,800, exclusive of rates and other charges.
- (iv) a tenancy agreement dated 29 December 2000 whereby a portion of the 5th Floor, First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,991 square feet was leased by Billioncorp Development Limited, an indirectly wholly-owned subsidiary of Shougang HK, to Shougang Concord Management Company Limited, an indirectly wholly-owned subsidiary of the Company, for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$111,856, exclusive of rates and other charges.
- (v) a tenancy agreement dated 29 December 2000 whereby Flat E, 22nd Floor, Hoi Tien Mansion, Taikoo Shing, Hong Kong with an aggregate gross floor area of approximately 876 square feet was leased by Shougang HK to Shougang Services for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$21,000, exclusive of rates and other charges.
- (vi) a tenancy agreement dated 29 December 2000 whereby 1906B, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 508 square feet was leased by Shougang HK to Shougang Services for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$8,000, exclusive of rates and other charges.
- (vii) a tenancy agreement dated 29 December 2000 whereby Flat 3303A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 545 square feet was leased by Shougang HK to Shougang Shipping for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$8,500, exclusive of rates and other charges.

### CONNECTED TRANSACTIONS (Continued)

- (viii) a tenancy agreement dated 29 December 2000 whereby Flat 1401, Block N, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang HK to Shougang Services for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$12,000, exclusive of rates and other charges.
- (ix) a tenancy agreement dated 29 December 2000 whereby Flat 1816, Block P, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang HK to Shougang Services for a term of one year which commenced on 1 January 2001 at a monthly rental of HK\$12,000, exclusive of rates and other charges.

The office premises listed in items (i) to (iv) above continued to be used by the respective tenants and/or their respective groups as their offices, whilst the residential premises listed in items (v) to (ix) continued to be used by the senior executives of the respective tenants as their residential quarters.

- (c) As stated in a press announcement dated 2 April 2001, during the financial year ended 31 December 2000, certain associates (as defined in the Listing Rules) of Shougang Corporation had provided spare parts for equipment and machinery for an aggregate amount (excluding value added tax) of RMB14,249,097 to Gitane, Pohseng and Qinhuangdao. Besides, certain associates of Shougang Corporation had supplied energy for an aggregate amount (excluding value added tax) of RMB1,511,982 and provided processing and repairing services for an aggregate amount (excluding value added tax) of RMB6,199,086 to Qinhuangdao. Similarly, Qinhuangdao had also provided processing services for an aggregate amount (excluding value added tax) of RMB2,164,593 to certain associates of Shougang Corporation.

Further details of the above transactions are set out in notes 37 (vii), (xiv) and (xvii) to the financial statements under the heading of "Related party transactions".

### CONNECTED TRANSACTIONS (Continued)

As far as the transactions which took place in the year are concerned, transactions as set out in notes 37 (i), (ii), (iii), (iv), (vi), (vii), (xii), (xiv), (xv), (xvi) and (xvii) to the financial statements under the heading of "Related party transactions" have been previously announced in the newspapers by the Company and/or approved by the independent shareholders in a members' meeting. The transactions as set out in notes 37 (v), (viii), (ix) and (xiii) to the financial statements under the heading of "Related party transactions" were connected transactions which were exempted from any disclosure or shareholders' approval requirements under the Listing Rules. The remaining transactions as set out under the heading of "Related party transactions" did not constitute connected transactions.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### DISTRIBUTABLE RESERVES

As at 31 December 2000, the Company had no reserves available for distribution as calculated in accordance with the provisions of Section 79(B) of the Companies Ordinance.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for less than 30% of the total sales for the year. Purchases from the five largest suppliers accounted for 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%. Certain fellow subsidiaries of the Company's controlling shareholder have beneficial interests in three of the Group's five largest suppliers.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

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 accounting period covered by the annual report, except in relation to guideline 7, as the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors 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.

### AUDIT COMMITTEE

An Audit Committee of the Company was established in 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee comprises three independent non-executive directors and its principal duties include the review of the Company's financial reporting process and internal controls and the results of the Group. A meeting of the Audit Committee was held on 10 April 2001 for, amongst other things, reviewing the unaudited final results of the Company for the financial year ended 31 December 2000.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

**Su Genqiang**  
*Managing Director*

Hong Kong, 19 April 2001