



The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 31 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical segment for the year ended 31 December 2001 are set out in note 4 to the financial statements.

RESULTS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 73.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and adjusted for the effects of the retrospective changes in accounting policy affecting goodwill, as further detailed in note 2 to the financial statements, is set out below:

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	20,061	4,739	(72,564)	(199,520)	(34,609)
TOTAL ASSETS	574,873	574,845	651,752	846,611	1,292,068
TOTAL LIABILITIES	(85,918)	(113,690)	(218,172)	(351,969)	(592,880)
MINORITY INTERESTS	(95,296)	(90,371)	(103,330)	(107,148)	(117,381)
	393,659	370,784	330,250	387,494	581,807

Report of the Directors

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and the Group and the investment properties of the Group during the year are set out in note 14 to the financial statements.

Particulars of the Group's investment properties as at 31 December 2001 are summarised on page 74 of this annual report.

SHARE CAPITAL

During the year, there was no movement in the Company's share capital.

SHARE OPTION SCHEME

On 11 March 1992, a share option scheme (the "Existing Scheme") was approved by the Company's shareholders. In accordance with the Existing Scheme, the board of directors (the "Board") may, at their discretion, grant share options to executives and/or employees of the Group to subscribe for shares in the capital of the Company. The Existing Scheme will remain in force for a period of ten years from the date of its adoption.

No share options were granted during the year, and there were no share options outstanding at 31 December 2001.

The Existing Scheme expired, subsequent to the balance sheet date, on 10 March 2002. An ordinary resolution will be proposed at the Company's forthcoming annual general meeting for the approval of the adoption of a new share option scheme (the "New Scheme"). The New Scheme will be operated by the Company for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group.

A circular containing the details and conditions of the New Scheme and a summary of the principal terms of the rules of the New Scheme will be dispatched to the shareholders of the Company in due course.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Cao Zhong (appointed on 23 November 2001)
Tong Yihui
Leung Shun Sang, Tony
Li Shaofeng
Xu Xianghua
Tang Kwok Kau
Su Genqiang (resigned on 23 November 2001)

Independent non-executive directors:

Yip Kin Man, Raymond
Lai Kam Man

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92, 93 and 97 of the Company's articles of association. Messrs. Cao Zhong, Tang Kwok Kau, Lai Kam Man and Yip Kin Man, Raymond, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director 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 other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "Share option scheme" above, 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' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2001, none of the directors, chief executives or their respective associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to date of this annual report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, according to the register required to be 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	Notes	Number of shares held
Shougang Holding (Hong Kong) Limited ("Shougang HK")	(1)	279,797,400
Shougang Concord International Enterprises Company Limited ("Shougang International")	(2)	279,797,400
Fair Union Holdings Limited ("Fair Union")		279,797,400
Richson Limited ("Richson")	(3)	144,984,400

Notes:

- (1) Shougang HK was deemed to be interested in those shares by virtue of its controlling interest in Shougang International.
- (2) Shougang International was deemed to be interested in those shares by virtue of its 100% shareholding in Fair Union.
- (3) Richson is a wholly owned subsidiary of Fair Union and the interest in the 144,984,400 shares held is included in the interest in 279,797,400 shares reported by Fair Union.

Save as disclosed above, no other person had registered an interest in the share capital of the Company under Section 16(1) of the SDI Ordinance.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group and the controlling shareholder of Shougang International and with Shougang International itself are set out in note 37 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CONNECTED TRANSACTIONS

The Group has the following continuing connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter 14, paragraph 14.25(2) of the Listing Rules:

- (a) At the balance sheet date, advances made by the Group to Online Investments Limited ("Online"), a 71.8% owned subsidiary, were outstanding in the aggregate amount of HK\$72,805,000. The advances were used by Online to finance its capital investment projects. The advances are unsecured, interest-free and have no fixed repayment terms.
- (b) The Company made advances to Everwinner Investments Limited, an indirect 71.8% owned subsidiary, to finance its working capital. At the balance sheet date, the outstanding balance, amounting to HK\$27,974,000, was unsecured, bore interest at LIBOR plus 3% per annum and is repayable after more than one year.
- (c) The Group made advances to Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong Metals"), a 91% owned subsidiary, to finance its capital investment and working capital. At the balance sheet date, the outstanding balance, amounting to HK\$42,984,000, was unsecured, interest-free and has no fixed repayment terms except for amounts of HK\$7,033,000 and HK\$18,554,000 which are interest bearing at the Hong Kong Dollar prime rate and at 8% per annum, respectively.
- (d) The Company executed, in the normal course of business, certain guarantees for banking facilities granted to an indirect non-wholly owned subsidiary for its operations. These guarantees are continuing in nature and will lapse on the expiration of three months after formal notification to the banks. At the balance sheet date, corporate guarantees totalling HK\$18,000,000 were executed for banking facilities granted to Hing Cheong Metals.
- (e) On 10 August 2001, Bogay Investment Limited ("Bogay"), a direct wholly owned subsidiary of the Company, entered into an agreement (the "Shengjia Agreement") with Shanxi Changda International Trade Co., Ltd. which is 45% owned by the joint venture partner, Shanxi Jinsheng Trade Company in Shanxi Shengjia Real Estate Developing Co., Ltd. ("Shanxi Shengjia"), for the disposal of a 63% equity interest in Shanxi Shengjia held by Bogay for a consideration of RMB13,860,000 (approximately HK\$13,080,000) (the "Shengjia Disposal").

Further details were set out in the Company's announcement dated 13 August 2001 and the Company's circular to shareholders dated 30 August 2001.

The Shengjia Disposal was approved by the shareholders of the Company at the extraordinary general meeting held on 28 September 2001 and by the relevant governmental authorities on 19 November 2001.

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RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as further detailed in note 37 to the financial statements. In the opinion of the directors, each of the transactions with Shougang International and its subsidiaries (the “Shougang International Group”) was:

- (i) conducted in the ordinary and usual course of the Group’s business;
- (ii) conducted in accordance with the terms of the agreements governing such transactions; and
- (iii) under the threshold of HK\$1,000,000 and not subject to disclosure in the annual report under the Listing Rules.

In relation to the transactions with other related parties, they did not constitute connected transactions since these parties were not connected persons of the Company as defined under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group’s five largest customers accounted for approximately 60% (2000: 56%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 27% (2000: 24%).

Purchases from the Group’s five largest suppliers accounted for approximately 38% (2000: 39%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16% (2000: 11%).

As far as the directors are aware, neither the directors, their associates, nor those 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 the Group’s five largest customers or suppliers.

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) since 1998 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants in December 1997. Two meetings of the Audit Committee were held during the year to review and advise the Board on the Group’s financial reporting process and internal controls. The Audit Committee also reviewed the interim and the final results of the Group before their submission to the Board for approval.

CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except in relation to guideline 7, where the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's articles of association.

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

Cao Zhong

Chairman

Hong Kong

22 April 2002