



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 2001.

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 37 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the years ended 31 December 2001 and 2000 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss 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 28 to 105.

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 106 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 14 to the financial statements.

Particulars of the Group's major investment properties at 31 December 2001 are summarised on pages 107 and 108 of this annual report.

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 35 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 36 to the financial statements.



DIRECTORS

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

Wang Qinghai	<i>(appointed on 19 April 2001)</i>
Cao Zhong	<i>(appointed on 23 November 2001)</i>
Xu Xianghua	
Ip Tak Chuen, Edmond	
Leung Shun Sang, Tony	
Lai Kam Man, David*	
Choy Hok Man, Constance*	
Zhang Yanlin	<i>(resigned on 19 April 2001)</i>
Su Genqiang	<i>(resigned on 23 November 2001)</i>
Chow Kun Chee, Roland*	<i>(retired on 15 June 2001)</i>

* *Independent non-executive directors*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Cao Zhong, Ip Tak Chuen, Edmond and Lai Kam Man, David will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The outstanding share options granted in favour of the directors at the beginning and at the end of the financial year, 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	Number of options to subscribe for shares of the Company	
		At beginning of year	At end of year
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	–

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (continued)

The above share options were granted pursuant to the Company's share option scheme adopted on 11 April 1991 as detailed under the heading "Share option schemes" and were 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 in total to the Company as cash consideration for the options granted.

None of the share options were exercised by the directors during the year and all of the above share options lapsed at the close of business on 10 April 2001.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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.

SHARE OPTION SCHEMES

On 11 April 1991, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. Under the Scheme, the directors were able to, at their discretion, invite employees of the Company and its subsidiaries, including directors, to take up options to subscribe for shares of the Company. An option granted under the Scheme was able to be exercised at any time during a period not exceeding five years commencing one month after the date the option was accepted and expiring on the last day of such period or 10 years from 11 April 1991, whichever was the earlier. The Scheme expired on 10 April 2001.

On 15 June 2001, a new share option scheme (the "Existing Scheme") was adopted by the shareholders of the Company. Under the Existing Scheme, the directors might, at their discretion, invite employees of the Company and its subsidiaries, including executive directors, to take up options to subscribe for shares of the Company. An option granted under the Existing Scheme was able to be exercised during the period as determined by the directors save that no option may be exercised later than 10 years after it has been accepted by the grantee. The total number of shares available for issue under the Existing Scheme at the date of this report is 229,554,645 which represents 10% of the current issued share capital of the Company. The Existing Scheme will remain in force until 14 June 2011.



SHARE OPTION SCHEMES (continued)

A summary of both the Scheme and the Existing Scheme is set out as follows:

- (1) the purpose of the Scheme and the Existing Scheme is to attract, retain and motivate high-calibre employees;
- (2) the total number of shares available for issue is 10% of the issued share capital of the Company, excluding any shares issued upon exercise of option, from time to time;
- (3) the maximum entitlement of each participant is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the respective schemes;
- (4) the minimum period for which an option must be held before it can be exercised will be determined by the directors of the Company in their absolute discretion;
- (5) HK\$1.00 in total is payable by the grantee upon acceptance of the grant of an option; and
- (6) the exercise price will be determined by the directors at their discretion and shall be the higher of (i) the nominal value of a share of the Company; and (ii) a price not less than 80% of the average closing price of the shares of the Company as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("The Stock Exchange") for the five business day immediately preceding the date of grant.

Details of the share options granted, exercised and lapsed pursuant to the Scheme during the year are set out in note 35 to the financial statements. The number of share options as at the beginning of the year included 9,200,000 share options held by the directors of the Company during the year. The remaining 6,650,000 share options were held by the employees of the Group.

During the year, no share options were granted under the Existing Scheme.

Upon the introduction of the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on share option schemes which were effective from 1 September 2001, the Company must comply with the new requirements of Chapter 17 of the Listing Rules when granting options under the Existing Scheme. The directors intends to adopt a new share option scheme which will be in conformity with Chapter 17 of the Listing Rules and to terminate the Existing Scheme in due course.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At the balance sheet date, none of the directors, chief executives or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At the balance sheet date, 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	Notes	Number of ordinary shares held	Percentage of the Company's issued capital
Shougang Holding (Hong Kong) Limited ("Shougang HK")		900,821,925	39.2%
Jasmine Group Limited ("Jasmine")	(1)	485,324,769	21.1%
Cheung Kong (Holdings) Limited ("Cheung Kong")	(2)	255,401,955	11.1%

Notes:

- (1) Jasmine is a wholly-owned subsidiary of Shougang HK and its interests are included in the interests held by Shougang HK.
- (2) By virtue of their interests in Cheung Kong, the following person and companies are each deemed to be interested in the 255,401,955 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



DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following directors have declared interests in the following businesses (other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
Wang Qinghai	Shougang HK*	Investment holding and property investment	Director
Cao Zhong	Shougang HK*	Investment holding and property investment	Director
Xu Xianghua	Shougang HK*	Investment holding and property investment	Director
Ip Tak Chuen, Edmond	Cheung Kong*	Leasing, finance and investment	Director
	Cheung Kong Infrastructure Holdings Limited*	Finance and investment	Director
Zhang Yanlin #	Shougang HK*	Investment holding and property investment	Director
Su Genqiang #	Shougang HK*	Investment holding and property investment	Director

* Such businesses may be carried out through its subsidiaries, associates or by way of other forms of investments.

resigned during the year

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DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

The Directors are independent from the boards of the above-mentioned entities and are accountable to shareholders. Coupled with the diligence of its independent non-executive directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

CONNECTED TRANSACTIONS

Conditional waivers have been given by The Stock Exchange from strict compliance with the Listing Rules by the Company for the following connected transactions:

- (i) the supply of steel by Shougang Corporation to the Group and the sale of scrap metals to Shougang Corporation by the Group.
- (ii) the arrangement by SCIT (Chartering) Limited, an indirect wholly-owned subsidiary of the Company, for the shipping of iron ores for related companies of Shougang Corporation.
- (iii) the purchases of raw materials from Shougang Corporation and/or its associates (the "Purchases"); and the sales of steel products 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"), 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 immediately 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 ordinary course of business, and are fair and reasonable as far as the shareholders are concerned. Details of the above transactions are set out in note 42(i), (ii), (xiv) and (xv) to the financial statements under the heading of "Related party transactions".



CONNECTED TRANSACTIONS (continued)

In addition to the above, during the year and up to the date of this report, the following connected transactions were recorded:

(i) Tenancy agreements

As stated in the announcement dated 7 January 2002, the following tenancy agreements were renewed or entered into, which constituted connected transactions under the Listing Rules:

- (a) a tenancy agreement dated 7 January 2002 whereby a portion of the 7th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 3,485 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 commencing from 1 January 2002 at a monthly rental of HK\$52,275, exclusive of rates and other charges.
- (b) a tenancy agreement dated 7 January 2002 whereby a portion of the 7th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 3,015 square feet was leased by Wonderfine to Long Cosmos Investment Limited ("Long Cosmos"), 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 commencing from 1 January 2002 at a monthly rental of HK\$45,225, exclusive of rates and other charges.
- (c) a tenancy agreement dated 7 January 2002 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 1,886 square feet was leased by Winluck Properties Limited ("Winluck"), an indirectly wholly-owned subsidiary of Shougang HK, to Shougang Concord Management Company Limited ("Shougang Management"), an indirectly wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$28,290, exclusive of rates and other charges.
- (d) a tenancy agreement dated 7 January 2002 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 1,728 square feet was leased by Winluck to Shougang Concord Shipping Services Limited ("Shougang Shipping"), an indirectly wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$25,920, exclusive of rates and other charges.

CONNECTED TRANSACTIONS (continued)

(i) Tenancy agreements (continued)

- (e) a tenancy agreement dated 7 January 2002 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 commencing from 1 January 2002 at a monthly rental of HK\$20,000, exclusive of rates and other charges.
- (f) a tenancy agreement dated 7 January 2002 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 commencing from 1 January 2002 at a monthly rental of HK\$10,000, exclusive of rates and other charges.
- (g) a tenancy agreement dated 7 January 2002 whereby Flat 2411, 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 Management for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$10,000, exclusive of rates and other charges.
- (h) a tenancy agreement dated 7 January 2002 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 commencing from 1 January 2002 at a monthly rental of HK\$8,500, exclusive of rates and other charges.

The office premises listed in items (a) to (d) above would be used by the respective tenants and/or their respective groups as their offices, whilst the residential premises listed in items (e) to (h) would be used by the senior executives of the respective tenants as their quarters.

(ii) Transactions made by Pohseng and Qinhuangdao

As stated in a press announcement dated 12 April 2002, during the financial year ended 31 December 2001, certain associates (as defined in the Listing Rules) of Shougang Corporation provided spare parts for equipment and machinery to Pohseng and Qinhuangdao for aggregate considerations (excluding VAT) of RMB5,065,916 and RMB5,744,142, respectively. In addition, certain associates of Shougang Corporation provided repair services to Qinhuangdao for an aggregate consideration (excluding VAT) of RMB7,068,032. Qinhuangdao provided processing services to certain associates of Shougang Corporation for an aggregate consideration (excluding VAT) of RMB844,196.

Further details of the above transactions are set out in note 42(vi), (xiii) and (xvi) to the financial statements under the heading of "Related party transactions".



CONNECTED TRANSACTIONS *(continued)*

Save as aforesaid and as far as the transactions which took place in the year are concerned, the transactions as set out in note 42(iii) and (xi) to the financial statements under the heading of "Related party transactions" were connected transactions or incidental to the connected transactions which 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 note 42(iv), (v), (vii), (viii) and (xii) to the financial statements under the heading of "Related party transactions" were connected transactions or incidental to the connected transactions which were exempt 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 (whether on The Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had no reserves available for distribution as calculated in accordance with the provisions of Section 79(B) of 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 43%. Certain fellow subsidiaries of the Company's controlling shareholder have beneficial interests in two of the Group's five largest suppliers.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules throughout the 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 but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's articles of association.



Report of the Directors

AUDIT COMMITTEE

The Company has an audit committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. The Audit Committee comprises two independent non-executive directors, namely Mr. Lai Kam Man, David and Ms. Choy Hok Man, Constance, and its principal duties include the review of the Company's financial reporting process, internal controls and the results of the Group. A meeting of the Audit Committee was held on 16 April 2002 for, amongst other things, reviewing the final results of the Company for the financial year ended 31 December 2001.

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

Managing Director

Hong Kong, 22 April 2002