

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

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 34 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 75.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and adjusted as appropriate, is set out below:

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>42,283</u>	<u>20,061</u>	<u>4,739</u>	<u>(72,564)</u>	<u>(199,520)</u>
TOTAL ASSETS	599,209	574,873	574,845	651,752	846,611
TOTAL LIABILITIES	(41,959)	(85,918)	(113,690)	(218,172)	(351,969)
MINORITY INTERESTS	(112,761)	(95,296)	(90,371)	(103,330)	(107,148)
	<u>444,489</u>	<u>393,659</u>	<u>370,784</u>	<u>330,250</u>	<u>387,494</u>

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 13 to the financial statements.

Particulars of the Group's investment properties as at 31 December 2002 are summarised on page 76 of this annual report.

SHARE CAPITAL AND SHARE OPTIONS

During the year, there was no movement in the Company's share capital. The Company introduced a new share option scheme (the "2002 Scheme") during the year, under which the Company granted certain eligible participants 49,740,000 share options to subscribe for shares in the capital of the Company. Subsequent to the balance sheet date, on 12 March 2003, the Company granted a further 26,784,000 share options. Further details of the grant of share options during the year are set out in note 30 to the financial statements.

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RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, 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
 Tong Yihui
 Leung Shun Sang, Tony
 Li Shaofeng
 Xu Xianghua
 Tang Kwok Kau

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. Tong Yihui, Leung Shun Sang, Tony and Li Shaofeng 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 OR DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" and the share option scheme disclosures in note 30 to the financial statements, 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.

SHARE OPTION SCHEME

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 “Employee benefits”, most of the detailed disclosures relating to the Company’s share option scheme are now included in note 30 to the financial statements.

With regard to the share options granted during the year as detailed in note 30 to the financial statements, the directors do not consider that it is appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation are subjective and uncertain. In addition, the market value of the share options on the shares of the Company is not readily available. Accordingly, any valuation of the share options based on various speculative assumptions may not be meaningful and could be misleading.

DIRECTORS’ INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2002, the interests of the directors in the share capital of the Company or 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”) were as follows:

Rights to acquire shares in the Company:

Name of director	Options to subscribe for shares in the Company		
	Number of shares over which options were granted	Exercise period	Exercise price per share (HK\$)
Cao Zhong	7,652,000	23/8/2002 to 22/8/2012	0.295
Tong Yihui	7,652,000	23/8/2002 to 22/8/2012	0.295
Li Shaofeng	7,652,000	23/8/2002 to 22/8/2012	0.295
Xu Xianghua	7,652,000	23/8/2002 to 22/8/2012	0.295
Leung Shun Sang, Tony	4,592,000	23/8/2002 to 22/8/2012	0.295
Tang Kwok Kau	2,296,000	23/8/2002 to 22/8/2012	0.295
Yip Kin Man, Raymond	382,000	23/8/2002 to 22/8/2012	0.295
Lai Kam Man	382,000	23/8/2002 to 22/8/2012	0.295

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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.

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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 2002, 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 40 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries 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\$63,471,000. 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\$14,043,000, 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\$48,022,000, was unsecured, interest-free and has no fixed repayment terms except for an amount of HK\$29,275,000 which is interest bearing at the Hong Kong Dollar prime rate per annum.
- (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 a period of generally three months after formal notification to the banks. At the balance sheet date, corporate guarantees totalling HK\$52,000,000 were executed for banking facilities granted to Hing Cheong Metals.
- (e) A conditional waiver has been granted by The Stock Exchange of Hong Kong limited (the “Stock Exchange”) from strict compliance with the Listing Rules by the Company for the continuing connected transactions entered into by Santai Manufacturing Limited (“Santai Manufacturing”), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited (“Shougang Technology”), and Hing Cheong Metals whereby Santai Manufacturing purchased, and Hing Cheong Metals sold, copper sheets and brass sheets (the “Transactions”). The Transactions which took place during the year, as long as they constituted connected transactions for the Company pursuant to the Listing Rules, have been reviewed by the independent non-executive directors of the Company who have confirmed that:
 - (i) the Transactions were conducted in the ordinary and usual course of business of the Group;
 - (ii) the Transactions were conducted on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
 - (iii) the Transactions were entered into in accordance with the terms of the agreements governing such Transactions; and
 - (iv) the aggregate amount of the Transactions being approximately HK\$1,654,000 did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

CONNECTED TRANSACTIONS (continued)

(e) (continued)

The auditors of the Company have reviewed the Transactions and confirmed that:

- (i) the Transactions were approved by the board of directors (the "Board") of the Company;
- (ii) the Transactions were entered into in accordance with the terms of the agreements governing such Transactions and according to prices and conditions similar to those offered to other third party customers of the Group; and
- (iii) the aggregate amount of the Transactions did not exceed the limit being the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the Group as at 31 December 2002.

Following the completion of group restructuring of Shougang Technology in June 2002, the Transactions would not constitute connected transactions for the Company and the Company would no longer require to apply to the Stock Exchange for a conditional waiver from strict compliance under the Listing Rules.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as further detailed in note 40 to the financial statements. In the opinion of the directors, each of the transactions with Shougang International and its subsidiaries 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% (2001: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 18% (2001: 27%).

Purchases from the Group's five largest suppliers accounted for approximately 44% (2001: 38%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 20% (2001: 16%).

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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Company are set out in note 41 to the financial statements.

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. The Audit Committee currently comprises the two independent non-executive directors of the Company. It reviews, advises and makes recommendation to the Board in relation to the Company’s financial reporting process and internal control systems throughout the Group. The Audit Committee meets twice during the year in conjunction with the auditors to review the said financial and internal control matters. During the year, it had reviewed the interim and the final results of the Group before their submission to the Board for approval.

The Audit Committee may also meet with the management of the Company occasionally to make recommendation on corporate governance issues of the Company.

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
16 April 2003