

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 36 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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 87.

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 of the Group and adjusted as appropriate, is set out below:

	2003 HK\$'000	2002 HK\$'000 (As restated)	2001 HK\$'000 (As restated)	2000 HK\$'000	1999 HK\$'000
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS	66,092	42,481	19,900	4,739	(72,564)
TOTAL ASSETS	726,221	599,209	574,873	574,845	651,752
TOTAL LIABILITIES	(132,351)	(69,218)	(87,090)	(113,690)	(218,172)
MINORITY INTERESTS	—	(86,502)	(95,011)	(90,371)	(103,330)
	593,870	443,489	392,772	370,784	330,250

The figures for the two financial years 2001 and 2002 have been adjusted to reflect the changes in accounting policies, as described in note 2 to the financial statements.

Report of the Directors

FIXED ASSETS

Particulars of the Group's investment properties as at 31 December 2003 are summarised on page 88 of this annual report.

Details of movements in the investment properties, property, plant and equipment of the Company and the Group during the year are set out in notes 12 and 13, respectively to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

During the year, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.10 each to HK\$200,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.10 each by the creation of additional 1,000,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company. Pursuant to two share placements to independent placees and a subscription of shares of the Company by Shougang Holding (Hong Kong) Limited ("Shougang HK"), the Company issued 250,476,000 shares at a total consideration of approximately HK\$100,800,000 and also issued 3,732,000 shares at a total consideration of approximately HK\$1,605,000 pursuant to the exercise of share options granted by the Company. Details of the above and other movements in the share capital of the Company are set out in note 28 to the financial statements. The Company introduced a share option scheme in 2002. During the year, the Company granted 187,872,000 share options to certain eligible participants to subscribe for shares in the capital of the Company. Further details of the grant of share options during the year are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereunder and in note 34 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 37 and 38 of this annual report and in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$21,380,000, of which approximately HK\$20,435,000 has been proposed as a final dividend for the year.

DIVIDENDS

The directors recommend to shareholders the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2003 and the balance of the profit will be retained. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be payable on or about 25 June 2004 to the shareholders whose names appear at the Register of Members of the Company as at the close of business on 8 June 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 3 June 2004 to 8 June 2004, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 2 June 2004.

DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Executive directors:

Cao Zhong

Li Shaofeng

Tong Yihui

Leung Shun Sang, Tony

Tang Cornor Kwok Kau

Xu Xianghua (resigned on 13 April 2004)

Cheng Xiaoyu (appointed on 29 April 2003 and resigned on 6 January 2004)

Independent non-executive directors:

Lai Kam Man

Yip Kin Man, Raymond

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, 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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" and in note 34 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

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereunder and in note 34 to the financial statements.

As disclosed in note 34 to the financial statements, the Company had granted a total number of 187,872,000 share options during the year. The directors do not consider it is appropriate to disclose a theoretical value of the share 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 misleading.

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

As at 31 December 2003, save for the share options held by some of the Directors, details of which are set out as below, none of the Directors had any interests and short positions in the shares, debentures or underlying shares of the Company or any of their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

Directors of the Company	Number of share options for 2003			Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year	At 31.12.2003			
Cao Zhong	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	57,350,000 (Note a)	57,350,000	2.10.2003	2.10.2003 to 1.10.2013	0.780
	<u>7,652,000</u>	<u>57,350,000</u>	<u>65,002,000</u>			
Li Shaofeng	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	30,614,000 (Note a)	30,614,000	25.6.2003	25.6.2003 to 24.6.2013	0.365
	<u>7,652,000</u>	<u>30,614,000</u>	<u>38,266,000</u>			
Tong Yihui	7,652,000	–	7,652,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	38,268,000 (Note a)	38,268,000	25.6.2003	25.6.2003 to 24.6.2013	0.365
	<u>7,652,000</u>	<u>38,268,000</u>	<u>45,920,000</u>			
Leung Shun Sang, Tony	4,592,000	–	4,592,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	3,060,000	3,060,000	12.3.2003	12.3.2003 to 11.3.2013	0.325
	–	4,592,000	4,592,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>4,592,000</u>	<u>7,652,000</u>	<u>12,244,000</u>			
Tang Cornor Kwok Kau	2,296,000	–	2,296,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	1,000,000	1,000,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>2,296,000</u>	<u>1,000,000</u>	<u>3,296,000</u>			
Xu Xianghua	<u>7,652,000</u>	–	<u>7,652,000</u>	23.8.2002	23.8.2002 to 22.8.2012	0.295
Cheng Xiaoyu	2,296,000	–	2,296,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	5,356,000	5,356,000	12.3.2003	12.3.2003 to 11.3.2013	0.325
	<u>2,296,000</u>	<u>5,356,000</u>	<u>7,652,000</u>			
Lai Kam Man	382,000	–	382,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	382,000	382,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>382,000</u>	<u>382,000</u>	<u>764,000</u>			
Yip Kin Man, Raymond	382,000	–	382,000	23.8.2002	23.8.2002 to 22.8.2012	0.295
	–	382,000	382,000	25.8.2003	25.8.2003 to 24.8.2013	0.740
	<u>382,000</u>	<u>382,000</u>	<u>764,000</u>			
	<u>40,556,000</u>	<u>141,004,000</u>	<u>181,560,000</u>			

Notes:

- Share options granted were in excess of the individual limit and approval from shareholders of the Company was obtained in general meetings held on 25 June 2003 and 2 October 2003.
- The vesting period of the share option is from the date of grant to the end of the exercise period.

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, 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") in force prior to 31 March 2004.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, so far as was known to the Directors, the following had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

Long position in shares

Name of shareholder	Total number of shares/ underlying shares held	% with respect to total number of issued share capital as at 31 December 2003	Capacity
Richson Limited ("Richson")	144,984,400	14.22	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	279,797,400	27.44	Beneficial owner and deemed interest ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	279,797,400	27.44	Deemed interest ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	12.45	Beneficial owner ⁽³⁾
Shougang HK	416,501,400	40.85	Deemed interest ⁽⁴⁾

SUBSTANTIAL SHAREHOLDERS (continued)**Long position in shares (continued)**

Name of shareholder	Total number of shares/ underlying shares held	% with respect to total number of issued share capital as at 31 December 2003	Capacity
Morgan Stanley	95,810,000	9.40	Beneficial owner ⁽⁵⁾
Baring Asset Management	53,334,000	5.23	Investment manager ⁽⁶⁾
J. P. Morgan Chase & Co.	51,939,000	5.09	Approved lending agent ⁽⁷⁾
Cao Zhong	65,002,000	6.38	Beneficial owner ⁽⁸⁾

Notes:

- (1) Fair Union is beneficially interested in 132,475,000 shares and is deemed to be interested in the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.
- (2) Shougang International is deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.
- (3) Able Legend is beneficially interested in 126,984,000 shares.
- (4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 9,720,000 shares held by Able Legend and Prime Success Investment Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is also deemed to be interested in the 132,475,000 shares held by Fair Union, the 144,984,400 shares held by Richson and the 2,338,000 shares held by Casula as it is the beneficial owner of approximately 39.24% of shareholding interest in Shougang International.

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SUBSTANTIAL SHAREHOLDERS (continued)

Long position in shares (continued)

Notes: (continued)

- (5) Morgan Stanley is interested in 95,810,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	–	95,810,000	9.40
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	–	95,810,000	9.40
Morgan Stanley International Holdings Inc.	Morgan Stanley	90	–	95,810,000	8.46
Morgan Stanley International Incorporated	Morgan Stanley	100	–	95,810,000	9.40
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Incorporated	90	–	95,810,000	8.46
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	–	95,810,000	9.40
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd	Morgan Stanley Asia Regional (Holdings) III LLC	100	–	95,810,000	9.40
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	95,810,000	–	9.40

SUBSTANTIAL SHAREHOLDERS (continued)**Long position in shares (continued)**

Notes: (continued)

- (6) The capacity of Baring Asset Management in holding the 53,334,000 shares was as investment manager.

The following is a breakdown of the interests in shares of Baring Asset Management:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares		Approximate % of the issued share capital
			Direct interest	Deemed interest	
Baring International Investment Management Limited	Baring Asset Management Limited	100	-	53,334,000	5.23
Baring Asset Management UK Holdings Limited	Baring Asset Management Limited	100	-	53,334,000	5.23
Baring Asset Management (Asia) Holdings Limited	Baring Asset Management Limited	100	-	53,334,000	5.23
Baring Asset Management (Asia) Limited	Baring Asset Management Limited	100	53,334,000	-	5.23

- (7) The capacity of J. P. Morgan Chase Bank in holding the 51,939,000 shares was as an approved lending agent. J. P. Morgan Chase & Co. was deemed to be interested in the 51,939,000 shares as it wholly owns J. P. Morgan Chase Bank.

- (8) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" hereabove.

SUBSTANTIAL 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 35 to the financial statements.

Report of the Directors

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 in force before 31 March 2004:

- (a) At 7 October 2003, advances made by the Group to Online Investments Limited ("Online"), a then 71.8% owned subsidiary, were outstanding in the aggregate amount of HK\$29,725,000. 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 ("Everwinner"), a wholly owned subsidiary of Online, to finance its working capital. At 7 October 2003, the outstanding balance, amounting to HK\$14,374,000, was unsecured, bore interest at the London Interbank Offered Rate plus 3% per annum and is repayable after more than one year.

Effective from 7 October 2003, Online became the wholly owned subsidiary of the Group and the advances to Online and Everwinner ceased to constitute connected transactions of the Company.

- (c) The Group made advances to Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong Metals"), a then 91% owned subsidiary, to finance its capital investment and working capital. At 7 October 2003, the outstanding balance, amounting to HK\$52,648,000, was unsecured, interest-free and has no fixed repayment terms except for an amount of HK\$10,123,000 and HK\$20,082,000 which are interest bearing at 2.5% and 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 its subsidiaries for their 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 7 October 2003, corporate guarantees totalling HK\$62,000,000 were executed for banking facilities granted to Hing Cheong Metals.

Effective from 7 October 2003, Hing Cheong Metals became the wholly owned subsidiary of the Group and the advances and corporate guarantees given ceased to constitute connected transactions of the Company.

CONNECTED TRANSACTIONS (continued)

- (e) A conditional waiver has been granted by the Stock Exchange from strict compliance with the Listing Rules by the Company for the continuing connected transactions entered into between 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\$2,089,000 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 2003.

Following the completion of group restructuring of Shougang Technology in June 2002, the Transactions would not constitute connected transactions for the Company under the Listing Rules. However, after the completion of subscription of new shares of the Company by Shougang HK on 30 June 2003, Shougang Technology was deemed to be a connected person to the Company and therefore, the Transactions constituted connected transactions during the year.

- (f) On 6 May 2003, the Company entered into a subscription agreement with Shougang HK for the subscription of 126,984,000 new shares at HK\$0.315 (the “Subscription”). The Subscription was approved by the independent shareholders of the Company at the extraordinary general meeting (“EGM”) on 25 June 2003 and 126,984,000 shares were subsequently allotted.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

- (g) On 21 August 2003, the Company entered into sale and purchase agreements with the minority shareholders of Online which is the investment holding company of Jiaxing Eastern Steel Cord Co., Ltd. for the acquisition of approximately 28.24% of the equity interest of Online at a consideration of HK\$160,000,000 (the "Acquisition"). The Acquisition was approved by the independent shareholders of the Company at the EGM on 2 October 2003 and completed on 7 October 2003.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions as further detailed in note 35 to the financial statements. In the opinion of the directors, each of the transactions with Shougang HK and its subsidiaries and 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 in force prior to 31 March 2004.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 67% (2002: 60%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 21% (2002: 18%).

Purchases from the Group's five largest suppliers accounted for approximately 35% (2002: 44%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15% (2002: 20%).

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. Its function is to supervise and review the financial reporting process and internal control of the Company. The Audit Committee met twice during the year in conjunction with the auditors to review the said financial and internal control matters. Its members also have occasional meetings with the directors to express their view and opinions on those issues when they require.

During the year, it had 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 in force prior to 31 March 2004 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

During the year, Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as the auditors of the Company. A resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

Cao Zhong

Chairman

Hong Kong

19 April 2004