

## 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 2003.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries during the year consisted of property investment and management. There were no significant changes in the nature of the Group's principal activities during the year.

### RESULTS AND DIVIDENDS

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 21 to 57.

The directors do not recommend the payment of any dividend in respect of the 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 60 of this annual report. This summary is not part of the audited financial statements.

### INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 10 and 11 to the financial statements respectively. Particulars of the major properties of the Group as at the balance sheet date are set out on pages 58 to 59 of this annual report.

### SUBSIDIARIES AND ASSOCIATES

The Group's interest in Shougang Concord Technology Holdings Limited ("SCT") was diluted from approximately 46.30% at the start of the year to approximately 31.13% at the end of the year as a result of the conversion of SCT's convertible bonds and the placing and subscription of SCT's share during the year.

### SHARE OPTIONS

Details of the share options of the Group are set out in note 18 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 19 to the financial statements and in the consolidated statement of changes in equity, respectively.

At 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$341,631,000. In addition, under the laws of Bermuda, the Company's share premium account, in the amount of HK\$206,844,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the five largest customers accounted for 43% of the total sales for the year and sales to the largest customer included therein amounted to 10%.

As far as the directors are aware, neither the directors, their associates, nor any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's share capital, had any interest in the five largest customers.

## DIRECTORS

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

### Executive directors:

Wang Qinghai (*Chairman*)

Cao Zhong (*Vice-Chairman*)

Li Shaofeng (*Managing Director*)

Luo Zhenyu (resigned on 29 April 2003)

Xu Xianghua

### Non-executive director:

Leung Shun Sang, Tony

### Independent non-executive directors:

Choy Hok Man, Constance

Tam King Ching, Kenny

## Report of the Directors

### DIRECTORS (continued)

Subsequent to the balance sheet date, the following changes of directors were recorded:

- On 6 January 2004, Mr. Chen Zheng and Ms. Cheng Xiaoyu were appointed as executive directors of the Company.
- On 1 March 2004, Mr. Wang Tian was appointed as executive director of the Company.
- On 13 April 2004, Mr. Li Shaofeng resigned as managing director of the Company and Ms. Xu Xianghua resigned as director of the Company.

In accordance with clauses 99(A) and 102(B) of the Company's bye-laws, Mr. Chen Zheng, Ms. Cheng Xiaoyu, Mr. Wang Tian and Mr. Leung Shun Sang, Tony, will retire from office and, being eligible, will 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' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Company to which the Company or any of its holding companies, fellow subsidiaries, subsidiaries, jointly-controlled entity and associates was a party during the year.

### SHARE OPTIONS

Due to the adoption during the year of the Statement of Standard Accounting Practice 34 "Employee benefits", certain of the disclosures relating to the Company's share option scheme have been moved to note 18 to the financial statements.

Concerning the share options granted during the year to the directors, employees and a consultant, as detailed in note 18 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because the board of directors believes that any calculation of the value of the options based on a great number of speculative assumptions may not be meaningful and could be misleading to the shareholders of the Company.

## DIRECTORS' INTERESTS IN SECURITIES AND ITS RESPECTIVE ASSOCIATED CORPORATIONS

At the balance sheet date, the directors or chief executive of the Company have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Name of director	Name of corporation in which interests are held	Number of shares under options	Nature of interests
Wang Qinghai	The Company (Note 1)	8,278,679 (Note 6)	Personal
Cao Zhong	The Company (Note 1)	8,278,679 (Note 6)	Personal
Li Shaofeng	The Company (Note 2)	8,278,679 (Note 6)	Personal
Xu Xianghua	The Company (Note 1)	8,278,679 (Note 6)	Personal
Leung Shun Sang, Tony	The Company (Note 1)	5,795,075 (Note 8)	Personal
Leung Shun Sang, Tony	The Company (Note 2)	2,483,604 (Note 9)	Personal
Tam King Ching, Kenny	The Company (Note 1)	400,000 (Note 7)	Personal
Choy Hok Man, Constance	The Company (Note 1)	400,000 (Note 6)	Personal
Cao Zhong	Shougang Concord Technology Holdings Limited ("Shougang Technology") (Note 3)	8,026,000	Personal
Cao Zhong	Shougang Technology (Note 5)	32,106,000	Personal

## Report of the Directors

**DIRECTORS' INTERESTS IN SECURITIES AND ITS RESPECTIVE ASSOCIATED CORPORATIONS (continued)**

<b>Name of director</b>	<b>Name of corporation in which interests are held</b>	<b>Number of shares under options</b>	<b>Nature of interests</b>
Li Shaofeng	Shougang Technology (Note 3)	8,026,000	Personal
Xu Xianghua	Shougang Technology (Note 3)	8,026,000	Personal
Leung Shun Sang, Tony	Shougang Technology (Note 3)	4,816,000	Personal
Leung Shun Sang, Tony	Shougang Technology (Note 4)	3,200,000	Personal
Choy Hok Man, Constance	Shougang Technology (Note 3)	400,000	Personal

During the year, no share options granted were exercised.

*Note 1:* Under the share option scheme of the Company adopted on 7 June 2002, the options to subscribe for shares of HK\$0.01 each in the capital of the Company are exercisable at any time from 23 August 2002 to 6 June 2012 at a subscription price of HK\$0.73 per share of the Company, subject to adjustment. The options were granted on 23 August 2002 to each grantee at a consideration of HK\$1.00.

*Note 2:* Under the share option scheme of the Company adopted on 7 June 2002, the options to subscribe for shares of HK\$0.01 each in the capital of the Company are exercisable at any time from 6 March 2003 to 5 March 2013 at a subscription price of HK\$0.76 per share of the Company, subject to adjustment. The options were granted on 6 March 2003 to each grantee at a consideration of HK\$1.00.

*Note 3:* The Company beneficially owned 31.13% of Shougang Technology. The options to subscribe for shares of HK\$0.25 each in the capital of Shougang Technology are exercisable at any time during the period from 15 November 2002 to 14 November 2012 at an exercise price of HK\$0.58 per share, subject to adjustment. The options were granted on 15 November 2002 to each grantee at a consideration of HK\$1.00.

*Note 4:* The options to subscribe for shares of HK\$0.25 each in the capital of Shougang Technology are exercisable at any time during the period from 14 March 2003 to 13 March 2013 at an exercise price of HK\$0.495 per share, subject to adjustment. The options were granted on 14 March 2003 to each grantee at a consideration of HK\$1.00.

## **DIRECTORS' INTERESTS IN SECURITIES AND ITS RESPECTIVE ASSOCIATED CORPORATIONS (continued)**

*Note 5:* The options to subscribe for shares of HK\$0.25 in the capital of Shougang Technology are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as from 13 October 2006 at an exercise price of HK\$0.70 (subject to adjustment). The options were granted on 13 October 2003 to the grantee at a consideration of HK\$1.00.

*Note 6:* Subsequent to the balance sheet date, on 1 March 2004, the share options are fully exercised.

*Note 7:* Subsequent to the balance sheet date, on 20 February 2004, the share options are fully exercised.

*Note 8:* Subsequent to the balance sheet date, on 1 March 2004, 5,795,000 share options were exercised.

*Note 9:* Subsequent to the balance sheet date, on 1 March 2004, 2,483,000 share options were exercised.

Save as disclosed above, none of the directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES**

Apart from as disclosed under the paragraphs headed "DIRECTORS' INTERESTS IN SECURITIES AND ITS RESPECTIVE ASSOCIATED CORPORATIONS" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, the following persons (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

<b>Name</b>	<b>Notes</b>	<b>Number of Shares held</b>	<b>%</b>
Wheeling Holdings Limited	1	441,291,315	51.44
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	1	441,291,315	51.44
Cheung Kong (Holdings) Limited ("CKH")	2, 3	133,048,717	15.51
Max Same Investment Limited	3	91,491,193	10.66

Notes:

1. Wheeling Holdings Limited is a wholly-owned subsidiary of Shougang Holding and its interests above are in respect of the same interests held by Shougang Holding. Shougang Holding is a wholly-owned subsidiary of Shougang Corporation, a state-owned enterprise in Mainland China.
2. By virtue of their interests in CKH, the following person and companies are each deemed to be interested in the 133,048,717 shares held by CKH:
  - Mr. Li Ka-Shing
  - Li Ka-Shing Unity Holdings Ltd.
  - Li Ka-Shing Unity Trustee Company Ltd.
  - Li Ka-Shing Unity Trustee Corporation Ltd.
3. Max Same Investment Limited is a wholly-owned subsidiary of CKH and its interests above are included in the interests held by CKH.

Subsequent to the balance sheet date, there were 81,448,753 shares of the Company issued and allotted due to the exercise of share options of the Company. The shareholding of Shougang HK in the issued share capital of the Company was reduced from approximately 51.44% to approximately 47.45% upon the exercise of share options of the Company. The shareholding of CKH in the issued share capital of the Company was reduced from approximately 15.51% to approximately 14.16% upon the exercise of share options of the Company.

Save as disclosed above, no other person (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

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

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 25 to the financial statements.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

### AUDIT COMMITTEE

The Company had an audit committee in accordance with paragraph 14 of the Code throughout the accounting period covered by the annual report. The audit committee meets at least twice a year and has written terms of reference.

### AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting of the Company held on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Cao Zhong**

*Vice-Chairman*

Hong Kong

19 April 2004