

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 43 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 38.

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 101 of this annual report.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2003 at approximately HK\$18,309,000. The revaluation resulted in a deficit amounting to approximately HK\$1,791,000 which has been charged to the income statement. Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

Particulars of the Group's major investment properties at 31 December 2003 are summarised on page 102 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 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 and in note 34 to the financial statements, respectively.

Report of the Directors

DIRECTORS

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

Wang Qinghai

Cao Zhong

Chen Zhouping

Zhang Wenhui

Xu Xianghua

Tsoi Wai Kwong

Ip Tak Chuen, Edmond

Leung Shun Sang, Tony

Lai Kam Man, David*

Choy Hok Man, Constance*

* *Independent Non-executive Directors*

Subsequent to the balance sheet date, on 13 April 2004, Ms. Xu Xianghua resigned as a director of the Company.

In accordance with clause 103(A) of the Company's articles of association, Mr. Wang Qinghai, Mr. Lai Kam Man, David and Ms. Choy Hok Man, Constance will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At the balance sheet date, the interests of the Company's directors in the underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) Long positions in underlying shares of the Company attached to the share options granted by the Company

Name of director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2003
	At the beginning of the year	Granted during the year	At the end of the year					
Wang Qinghai	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.87%
Cao Zhong	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	-	91,820,000	91,820,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>22,950,000</u>	<u>91,820,000</u>	<u>114,770,000</u>					4.34%
Chen Zhouping	-	9,180,000	9,180,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	-	57,388,000	57,388,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>-</u>	<u>66,568,000</u>	<u>66,568,000</u>					2.52%
Zhang Wenhui	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	-	52,796,000	52,796,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>22,950,000</u>	<u>52,796,000</u>	<u>75,746,000</u>					2.86%

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

(a) Long positions in underlying shares of the Company attached to the share options granted by the Company (continued)

Name of director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2003
	At the beginning of the year	Granted during the year	At the end of the year					
Xu Xianghua	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.87%
Tsoi Wai Kwong	4,200,000	-	4,200,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	-	27,546,000	27,546,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>4,200,000</u>	<u>27,546,000</u>	<u>31,746,000</u>					1.20%
Ip Tak Chuen, Edmond	8,000,000	-	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	-	4,590,000	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>8,000,000</u>	<u>4,590,000</u>	<u>12,590,000</u>					0.48%
Leung Shun Sang, Tony	8,000,000	-	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	-	4,590,000	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>8,000,000</u>	<u>4,590,000</u>	<u>12,590,000</u>					0.48%
Lai Kam Man, David	1,000,000	-	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.04%
Choy Hok Man, Constance	1,000,000	-	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.04%
	<u>114,000,000</u>	<u>247,910,000</u>	<u>361,910,000</u>					

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"), details of which are set out in the section headed "Share Option Scheme" below. Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

(b) Long positions in underlying shares of an associated corporation, Shougang Concord Century Holdings Limited ("Shougang Century"), attached to the share options granted by Shougang Century

Name of director	Options to subscribe for shares of Shougang Century			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2003
	At the beginning of the year	Granted during the year	At the end of the year					
Cao Zhong	7,652,000	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	6.38%
	-	57,350,000	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	HK\$0.780	Beneficial owner	
	<u>7,652,000</u>	<u>57,350,000</u>	<u>65,002,000</u>					
Chen Zhouping	7,652,000	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.75%
Xu Xianghua	7,652,000	-	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.75%
Leung Shun Sang, Tony	4,592,000	-	4,592,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	1.20%
	-	3,060,000	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	
	-	4,592,000	4,592,000	25.8.2003	25.8.2003 – 24.8.2013	HK\$0.740	Beneficial owner	
	<u>4,592,000</u>	<u>7,652,000</u>	<u>12,244,000</u>					
Lai Kam Man, David	382,000	-	382,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.07%
	-	382,000	382,000	25.8.2003	25.8.2003 – 24.8.2013	HK\$0.740	Beneficial owner	
	<u>382,000</u>	<u>382,000</u>	<u>764,000</u>					
	<u><u>27,930,000</u></u>	<u><u>65,384,000</u></u>	<u><u>93,314,000</u></u>					

The above share options are unlisted cash settled options granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Upon exercise of the share options in accordance with the share option scheme of Shougang Century, ordinary shares of HK\$0.10 each in the share capital of Shougang Century are issuable. The share options are personal to the respective directors.

Save as disclosed above, at the balance sheet date, none of the Company's directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 any member of 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	Notes
Wang Qinghai	Shougang Corporation	Manufacture, sale and trading of steel products, shipping services and property investment	Director	1
Cao Zhong	China Shougang International Trade and Engineering Corporation	Trading of steel products, property investment and shipping services	Director	1
Chen Zhouping	Shougang Holding (Hong Kong) Limited ("Shougang HK")	Property investment and shipping services	Director	1

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

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	Notes
Zhang Wenhui	Hanbonn Shipping Limited	Shipping services	Director	1
Xu Xianghua	Shougang HK	Property investment and shipping services	Director	1
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited ("Cheung Kong")	Leasing and investment	Director	1
	Cheung Kong Infrastructure Holdings Limited	Power Plant and investment	Director	1, 2

Notes:

- Such businesses may be carried out through its subsidiaries, associates or by way of other forms of investments.
- Following the acquisition of 51% interest in a Sino-foreign joint venture engaged in power generation business by the Group during the year ended 31 December 2002, power plant business of the entity in which the director has interest constitutes competing business with that of the Group.

The board of directors of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's 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.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares and underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares and underlying shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company		Total interests as to % to the issued share capital as at 31.12.2003	Notes
		Interests in shares (other than equity derivatives)	Interests under cash settled unlisted equity derivatives		
Shougang HK	Beneficial owner, interest of controlled corporations	1,200,821,925	571,428,571	66.99%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	–	32.82%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	–	571,428,571	21.60%	1
Cheung Kong	Interest of controlled corporations	305,401,955	–	11.54%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	273,054,586	–	10.32%	2
Li Ka-Shing	Interest of controlled corporations, founder of discretionary trusts	305,401,955	–	11.54%	3
Li Ka-Shing Unity Trustcorp Limited	Trustee, beneficiary of a trust	305,401,955	–	11.54%	3
Li Ka-Shing Unity Trustee Company Limited	Trustee	305,401,955	–	11.54%	3
Li Ka-Shing Unity Trustee Corporation Limited	Trustee, beneficiary of a trust	305,401,955	–	11.54%	3

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(continued)*

Long positions in the shares and underlying shares of the Company *(continued)*

Notes:

1. Both Grand Invest and China Gate were wholly-owned subsidiaries of Shougang HK and their respective interests were included in the interests held by Shougang HK.
2. Max Same was a wholly-owned subsidiary of Cheung Kong and its interests were included in the interests held by Cheung Kong.
3. By virtue of their interests in Cheung Kong, the following person and companies were taken to have a duty of disclosure in the interests held by Cheung Kong:

Mr. Li Ka-Shing

Li Ka-Shing Unity Trustcorp Limited as trustee of a discretionary trust holding units in The Li Ka-Shing Unity Trust

Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust

Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust holding units in The Li Ka-Shing Unity Trust

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of the associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of the associated companies, share options to subscribe for shares of the Company.

Report of the Directors

SHARE OPTION SCHEME (continued)

The maximum number of shares which may be issued upon exercise of all share options granted under the Scheme is 464,070,000 which represents 13.15% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK\$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The period during which a share option may be exercised will be determined by the directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

SHARE OPTION SCHEME (continued)

Details of movements in the share options under the Scheme during the year were as follows:

Grantees	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Directors of the Company	114,000,000	–	114,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	–	18,360,000	18,360,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	–	229,550,000	229,550,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	<u>114,000,000</u>	<u>247,910,000</u>	<u>361,910,000</u>			
Employees of the Group	3,900,000	–	3,900,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Other participants	31,100,000	–	31,100,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	–	61,960,000	61,960,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	<u>31,100,000</u>	<u>61,960,000</u>	<u>93,060,000</u>			
	<u><u>149,000,000</u></u>	<u><u>309,870,000</u></u>	<u><u>458,870,000</u></u>			

Report of the Directors

SHARE OPTION SCHEME (continued)

Notes:

1. Details of the share options granted to each director of the Company are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
2. The number of share options granted during the year to Mr. Cao Zhong, Mr. Chen Zhouping, Mr. Zhang Wenhui and Mr. Tsoi Wai Kwong, directors of the Company, each exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company on 18 November 2003.
3. No share option granted under the Scheme was exercised, cancelled and lapsed during the year. Since there was no share option exercised during the year, no weighted average closing price of shares of the Company in respect thereof is required to be disclosed.
4.
 - (a) The closing price of the shares of the Company immediately before 23 August 2002 at which date the share options were granted was HK\$0.285 per share.
 - (b) The closing price of the shares of the Company immediately before 12 March 2003 at which date the share options were granted was HK\$0.27 per share.
 - (c) The closing price of the shares of the Company immediately before 18 November 2003 at which date the share options were granted was HK\$0.410 per share.
5. The directors consider that it is not appropriate to state herein the value of the share options granted during the year. Any such valuation will be made on the basis of certain options pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. The directors believe that any calculation of the value of the share options as at 31 December 2003 based on a number of speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company.
6. The share options granted under the Scheme are not recognised in the financial statements until they are exercised.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company had no reserves available for distribution as calculated in accordance with the provisions of Section 79B of Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 14%. Purchases from the five largest suppliers accounted for 71% of the total purchases for the year and purchases from the largest supplier included therein amounted to 28%. The Company's ultimate controlling shareholder has beneficial interests in two of the Group's five largest customers, and two of the Group's five largest suppliers.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

The following connected transactions were recorded during the year and up to the date of this annual report:

I. Ongoing connected transactions

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

- (a) the supply of steel by Shougang Corporation to the Group and the sale of scrap metals to Shougang Corporation by the Group.
- (b) 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.
- (c) the purchases of raw materials, spare parts, energy, services from Shougang Corporation and/or its associates (collectively "Shougang Corp") (the "Steel Purchases"), and the sales of steel products, scrap materials, services and other related products to Shougang Corp, by Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao Plate Mill"), being a non wholly-owned subsidiary of the Company (the "Steel Sales").

Report of the Directors

CONNECTED TRANSACTIONS (continued)

I. Ongoing connected transactions (continued)

- (d) (i) the sales of electricity, steam and hot water to Shougang Corp by Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant"), a non wholly-owned subsidiary of the Company (the "Power Sales"); (ii) the purchases of water and recycled water, chemical, raw materials, coal, coal gas, nitrogen, spare parts and other related ancillary raw materials, energy and products by Beijing Power Plant from Shougang Corp (the "Power Purchases"); (iii) the construction of fixed assets of plants, machineries and equipment by Shougang Corp for Beijing Power Plant (the "Construction"); and (iv) the repair and maintenance service for plants, machineries and equipment and any other related ancillary service provided to Beijing Power Plant by Shougang Corp (the "Services").

The above connected transactions which took place during the year have been reviewed by the independent non-executive directors of the Company who have confirmed that:

- (a) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;
- (b) the transactions were conducted on normal commercial terms, and are fair and reasonable as far as the shareholders, taken as a whole, are concerned;
- (c) the transactions were entered into either in accordance with the terms of the agreements governing such transactions or, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties;
- (d) the Steel Purchases by Qinhuangdao Plate Mill did not exceed 40% of the annual turnover of the Group for the immediately preceding financial year;
- (e) the Steel Sales by Qinhuangdao Plate Mill did not exceed 15% of the annual turnover of the Group for the immediately preceding financial year;
- (f) the Power Sales did not exceed 30% of the annual turnover of the Group for the financial year 2003;
- (g) the Power Purchases did not exceed 15% of the annual turnover of the Group for the financial year 2003;
- (h) the aggregate amount payable by Beijing Power Plant to Shougang Corp for the Construction did not exceed 3% of the annual turnover of the Group for the financial year 2003; and
- (i) the aggregate amount payable for the Services provided to Beijing Power Plant by Shougang Corp did not exceed 3% of the annual turnover of the Group for the financial year 2003.

CONNECTED TRANSACTIONS (continued)

II. Tenancy agreements

As stated in the announcement of the Company dated 6 January 2003, the following tenancy agreements were renewed or entered into:

- (a) a tenancy agreement dated 6 January 2003 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 4,024 square feet was leased by Wonderfine Development Limited (“Wonderfine”), an indirect 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 2003 at a monthly rental of HK\$56,300, exclusive of rates and other charges.
- (b) a tenancy agreement dated 6 January 2003 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 1,456 square feet was leased by Wonderfine to Shougang Concord Management Company Limited (“Shougang Management”), an indirect wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$20,400, exclusive of rates and other charges.
- (c) a tenancy agreement dated 6 January 2003 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 1,021 square feet was leased by Wonderfine to Shougang Concord Shipping Services Limited (“Shougang Shipping”), an indirect wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$14,300, exclusive of rates and other charges.
- (d) a tenancy agreement dated 6 January 2003 whereby Workshops 4, 5, 8, 9 and 15-18 on the 10th Floor of Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet was leased by Good News Investment Limited (“Good News”), an indirect wholly-owned subsidiary of the Company, to Santai Corporate Services Limited (“Santai”), a wholly-owned subsidiary of Shougang Concord Technology Holdings Limited which is an associate of Shougang HK, for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$66,000, exclusive of rates and other charges.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

II. Tenancy agreements (continued)

- (e) a tenancy agreement dated 6 January 2003 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 2003 at a monthly rental of HK\$16,500, exclusive of rates and other charges.
- (f) a tenancy agreement dated 6 January 2003 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 2003 at a monthly rental of HK\$8,800, exclusive of rates and other charges.
- (g) a tenancy agreement dated 6 January 2003 whereby Flat 1401, Block N, 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 2003 at a monthly rental of HK\$8,800, exclusive of rates and other charges.
- (h) a tenancy agreement dated 6 January 2003 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 2003 at a monthly rental of HK\$7,700, exclusive of rates and other charges.
- (i) a tenancy agreement dated 6 January 2003 whereby Flat 2602, Block N, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 582 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of Shougang Concord Grand (Group) Limited which is an associate of Shougang HK, to Shougang Services for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$8,200, exclusive of rates and other charges.

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

CONNECTED TRANSACTIONS (continued)

II. Tenancy agreements (continued)

As stated in the announcement dated 31 December 2003, the following tenancy agreements were renewed:

- (a) a tenancy agreement dated 31 December 2003 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 4,024 square feet was leased by Wonderfine to Shougang Services for a term of one year commencing from 1 January 2004 at a monthly rental of HK\$56,300, exclusive of rates and other charges payable to independent third parties.
- (b) a tenancy agreement dated 31 December 2003 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 1,456 square feet was leased by Wonderfine to Shougang Management for a term of one year commencing from 1 January 2004 at a monthly rental of HK\$20,400, exclusive of rates and other charges payable to independent third parties.
- (c) a tenancy agreement dated 31 December 2003 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 1,021 square feet was leased by Wonderfine to Shougang Shipping for a term of one year commencing from 1 January 2004 at a monthly rental of HK\$14,300, exclusive of rates and other charges payable to independent third parties.
- (d) a tenancy agreement dated 31 December 2003 whereby Workshops 4, 5, 8, 9 and 15-18 on the 10th Floor of Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet was leased by Good News to Santai for a term of one year commencing from 1 January 2004 at a monthly rental of HK\$62,000, exclusive of rates and other charges payable to independent third parties.
- (e) a tenancy agreement dated 31 December 2003 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 2004 at a monthly rental of HK\$14,500, exclusive of rates and other charges payable to independent third parties.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

II. Tenancy agreements (continued)

- (f) a tenancy agreement dated 31 December 2003 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 2004 at a monthly rental of HK\$8,000, exclusive of rates and other charges payable to independent third parties.
- (g) a tenancy agreement dated 31 December 2003 whereby Flat 1401, Block N, 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 2004 at a monthly rental of HK\$8,000, exclusive of rates and other charges payable to independent third parties.
- (h) a tenancy agreement dated 31 December 2003 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 2004 at a monthly rental of HK\$7,300, exclusive of rates and other charges payable to independent third parties.

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

III. Investment in Steel Business

On 26 September 2003, an agreement (the "Shouqin Agreement") was entered into between Shougang Corporation, Qinghuangdao Plate Mill, Shougang HK and Atlanta Minmetals, Inc., an independent party, pursuant to which the parties agreed to increase the registered capital of Qinghuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin") from RMB275,000,000 (approximately HK\$259,187,500) to RMB550,000,000 (approximately HK\$518,375,000) and adjust the shareholding structure of Shouqin such that the interest in Shouqin held by Qinghuangdao Plate Mill would increase from 0.36% to 24%. Shouqin is a Sino-foreign joint venture enterprise established in the People's Republic of China and is engaged in the design, manufacture and sale of steel products, its related processed products and by-products. Prior to the entering into of the Shouqin Agreement, Qinghuangdao Plate Mill had committed to invest RMB1,000,000 in Shouqin. The additional investment amount payable by Qinghuangdao Plate Mill pursuant to the Shouqin Agreement would be RMB131,000,000 (equivalent to approximately HK\$123,467,500). The Shouqin Agreement was ratified, approved and confirmed by shareholders of the Company other than Shougang HK and its associates on 18 November 2003 and the transaction was completed during the year 2003.

CONNECTED TRANSACTIONS (continued)

IV. Subscription of New Shares

On 7 October 2003, a conditional subscription agreement were entered into between Grand Invest and Max Same as subscribers and the Company as issuer in respect of the subscription of an aggregate of 350,000,000 new shares of HK\$0.20 each in the capital of the Company at an subscription price of HK\$0.32 per share. The net proceeds from the subscription have been applied to reduce the debt of the Group and used for general working capital of the Group. The agreement was ratified, approved and confirmed by shareholders of the Company other than Shougang HK, Cheung Kong and their respective associates and parties acting in concert on 18 November 2003 and the subscription was completed on 24 November 2003.

Save as aforesaid and as far as the transactions which took place in the year are concerned, the transaction as set out in note 42(k) to the financial statements under the heading of "Related Party Disclosures" was incidental to a connected transaction which was approved by the independent shareholders of the Company on 3 June 2002 and the transactions as set out in notes 42(e), (g), (h), (i) and (l) were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The remaining transactions as set out under the heading of "Related Party Disclosures" did not constitute connected transactions.

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 this annual report, except in relation to paragraph 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 the annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 44 to the financial statements.

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 in December 1997. The Audit Committee comprises the two independent non-executive directors, namely Mr. Lai Kam Man, David and Ms. Choy Hok Man, Constance. 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 14 April 2004 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2003.

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.

By Order of the Board

Cao Zhong

Managing Director

Hong Kong, 19 April 2004