

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 2004.

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 38 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 91.

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, is set out below:

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>148,114</u>	<u>66,092</u>	<u>42,481</u>	<u>19,900</u>	<u>4,739</u>
TOTAL ASSETS	949,121	726,221	599,209	574,873	574,845
TOTAL LIABILITIES	(306,964)	(132,351)	(69,218)	(87,090)	(113,690)
MINORITY INTERESTS	—	—	(86,502)	(95,011)	(90,371)
	<u>642,157</u>	<u>593,870</u>	<u>443,489</u>	<u>392,772</u>	<u>370,784</u>



INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Particulars of the Group's investment properties as at 31 December 2004 are summarised on page 92 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

Details of 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. Details of share options are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 36 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 39 and 40 of this annual report and in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$16,837,000, of which approximately HK\$15,391,000 has been proposed as a final dividend for the year.

FINAL DIVIDEND

The directors recommended to shareholders the payment of a final dividend of HK1.5 cents per share for the year ended 31 December 2004 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 4 July 2005 to the shareholders whose names appear at the Register of Members of the Company as at the close of business on 13 June 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 8 June 2005 to 13 June 2005, 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 7 June 2005.

Report of the Directors

DIRECTORS

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

Directors:

Cao Zhong (*Chairman*)

Li Shaofeng (*Managing Director*)

Tong Yihui (*Deputy Managing Director*)

Leung Shun Sang, Tony

Tang Cornor Kwok Kau (*Deputy Managing Director*)

Xu Xianghua

(resigned on 13 April 2004)

Cheng Xiaoyu

(resigned on 6 January 2004)

Lai Kam Man (*Independent Non-executive Director*)

(resigned on 30 September 2004)

Yip Kin Man, Raymond (*Independent Non-executive Director*)

Chen, Kelvin Siu Min (*Independent Non-executive Director*)

(appointed on 30 August 2004)

Hui, Hung Stephen (*Independent Non-executive Director*)

(appointed on 30 September 2004)

Law, Yui Lun (*Independent Non-executive Director*)

(appointed on 18 April 2005)

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. Leung Shun Sang, Tony, Tang Cornor Kwok Kau, Chen, Kelvin Siu Min ("Mr. Chen"), Hui, Hung Stephen and, Law, Yui Lun, will retire and, being eligible, offer themselves, with the exception of Mr. Chen, 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 AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and in note 36 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 36 to the financial statements.

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

As at 31 December 2004, save for the interest of the Directors in the shares and share options of the Company 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.

Long Positions in shares

(a) Ordinary shares of HK\$0.1 each of the Company

Name of Director	Total number of shares held	% with respect to total number of issued share capital as at 31 December 2004	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.24%	Beneficial owner (Note)

Note: Those shares were beneficially owned by Mr. Tang and in which of 200,000 shares were also jointly owned by his wife.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**(b) Share options**

As at 31 December 2004, there were a total of 163,196,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

Name of director	Options to subscribe for shares of the Company				Outstanding options at the end of the year	Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 31 December 2004
	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise						
Cao Zhong	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner	6.34
	57,350,000 (Note a)	-	-	-	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	65,002,000	-	-	-	65,002,000					
Li Shaofeng	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner	3.73
	30,614,000 (Note a)	-	-	-	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	38,266,000	-	-	-	38,266,000					
Tong Yihui	7,652,000	-	-	-	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295	Beneficial owner	4.48
	38,268,000 (Note a)	-	-	-	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	45,920,000	-	-	-	45,920,000					

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Share options (continued)

Options to subscribe for shares of the Company										
Name of director	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise	Outstanding options at the end of the year	Date of grant (Note b)	Exercise period	Exercise price per share HK\$	Capacity in which interests are held	% of the issued share capital as at 31 December 2004
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		
	12,244,000	-	-	-	12,244,000				Beneficial owner	1.19
Mr. Tang	2,296,000	-	1,296,000	9/2/2004	-	23/8/2002	23/8/2002 to 22/8/2012	0.295		
			500,000	20/4/2004						
			500,000	31/5/2004						
	1,000,000	-	-	-	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	3,296,000	-	2,296,000	-	1,000,000				Beneficial owner	0.10
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		
	764,000	-	-	-	764,000				Beneficial owner	0.07
Chen, Kelvin Siu Min	-	-	-	-	-					
Hui, Hung Stephen	-	-	-	-	-					
	165,492,000	-	2,296,000	-	163,196,000					

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Share options (continued)

Note:

- (a) 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.
- (b) The vesting period of the share option is from the date of grant to the end of the exercise period.

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"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective 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 (the "Listing Rules").

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE COMPANY OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2004, 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 2004	Capacity
Richson Limited ("Richson")	148,537,939	14.48	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	27.94	Beneficial owner and deemed interest ⁽¹⁾
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	27.94	Deemed interest ⁽²⁾
Able Legend Investments Limited ("Able Legend")	126,984,000	12.38	Beneficial owner ⁽³⁾
Shougang Holding (Hong Kong) Limited ("Shougang HK")	431,961,179	42.10	Deemed interest ⁽⁴⁾
Morgan Stanley	80,325,000	7.83	Interests of controlled corporations ⁽⁵⁾
Cao Zhong	65,002,000	6.34	Beneficial owner ⁽⁶⁾

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE COMPANY OF SHAREHOLDERS UNDER THE SFO (continued)

Long position in shares (continued)

Notes:

- (1) Fair Union is beneficially interested in 135,721,936 shares and is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 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 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 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 15,016,000 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 deemed to be interested in the 3,306,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited (“Shougang Grand”) and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the holding company of Shougang International.

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE COMPANY OF SHAREHOLDERS UNDER THE SFO (continued)

Long position in shares (continued)

Notes: (continued)

- (5) Morgan Stanley is interested in 80,325,000 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	-	80,325,000	7.83
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	-	80,325,000	7.83
Morgan Stanley International Incorporated	Morgan Stanley	90	-	80,325,000	7.83
Morgan Stanley International Holdings Inc.	Morgan Stanley	80	-	80,325,000	7.83
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Holdings Inc.	90	-	80,325,000	7.83
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	-	80,325,000	7.83
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	Morgan Stanley Asia Regional (Holdings) III LLC	100	-	80,325,000	7.83
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	80,325,000	-	7.83

- (6) 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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group and Shougang HK and Shougang International respectively are set out in note 37 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased a total of 5,500,000 shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month/Year	Number of ordinary share of HK\$0.10 each repurchased	Price per share		Total consideration (Before expenses) HK\$
		Lowest	Highest	
		HK\$	HK\$	
05/2004	5,500,000	0.73	0.80	4,231,300

All shares repurchased were cancelled and destroyed and accordingly the Company's issued share capital was reduced by the nominal value of those shares. The repurchases were effected for the benefit of the shareholders as a whole by enhancing the Company's earnings per share and the value of its shares.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.



RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as “Related Parties” under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm’s length basis. Further details are set out in note 37 to the financial statements.

Some of these transactions also constituted “Connected Transaction” under the Listing Rules, as identified below.

CONNECTED TRANSACTION

The Group has the following continuing connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter 14A, rules 14A.45 to 14A.47 of the Listing Rules:

Continuing Connected Transactions exempt from the Independent Shareholders’ Approval Requirements

Hing Cheong Metals (China & Hong Kong) Limited (“Hing Cheong”) and Meta International Limited (“Meta International”), both are engaged in processing and trading of copper and brass products, the wholly owned subsidiaries of the Company entered into between Santai Manufacturing Limited (“Santai”), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited which is defined as connected person pursuant to the Listing Rules whereby Santai purchased, and Hing Cheong and Meta International sold, copper sheets and brass sheets (the “Transactions”). The Transactions were entered into under the ordinary course of business basis. The Transactions constitute connected transaction for the Company and will extend over a period of time and will take place on continuing basis. The aggregate amount of the Transactions during the year was approximately HK\$4,576,000 which was fell within the proposed annual cap as disclosed in the published announcement of the Company dated 4 May 2004.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 49% (2003: 67%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 15% (2003: 21%).

Purchases from the Group's five largest suppliers accounted for approximately 40% (2003: 35%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17% (2003: 15%).

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

During the year under review, the Audit Committee of the Company is composed of three independent non-executive directors. One of the independent non-executive directors is experienced professional in the accounting, finance, corporate management and development, and corporate and investment banking. Meetings are held to review with the external auditors the accounting principles and practices adopted by the Group, the accuracy and fairness of the financial statements; and the scope of external audit work. The Committee members also review the effectiveness of internal control procedures of the Company. The Audit Committee held two meetings during 2004. The Committee will have occasional meetings informally meet with the management to discuss matters in relation to financial reporting quality and reliability of the internal control systems.

CODE OF BEST PRACTICE AND THE MODEL CODE

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 1 January 2005 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.

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Code of Conduct regarding directors' securities transactions.

During the year under review, none of the directors is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not in compliance with the Model Code.

AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past two years, retired at the annual general meeting held on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution for 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

18 April 2005