



The directors herein present their report and the audited financial statements of the Group for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 41 to the financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2004 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 105 of this annual report.

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 10 to the financial statements.

Particulars of the Group's major investment properties at 31 December 2004 are summarised on page 106 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 11 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 31 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 page 42 of this annual report and in note 33 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

Tsoi Wai Kwong

Ip Tak Chuen, Edmond

Leung Shun Sang, Tony

Choy Hok Man, Constance

Kan Lai Kuen, Alice\* (appointed on 30 September 2004)

Kwan Bo Ren, Dick\* (appointed on 30 September 2004)

Wong Kun Kim\* (appointed on 30 September 2004)

Xu Xianghua (resigned on 13 April 2004)

Lai Kam Man, David\* (resigned on 30 September 2004)

\* *Independent non-executive directors*

Subsequent to the balance sheet date, on 12 January 2005, Mr. Luo Zhenyu was appointed as a director of the Company. On the same date, Mr. Zhang Wenhui resigned as a director of the Company.

In accordance with clauses 94 and 103(A) of the Company's articles of association, Ms. Kan Lai Kuen, Alice, Mr. Kwan Bo Ren, Dick, Mr. Wong Kun Kim, Mr. Luo Zhenyu, Mr. Cao Zhong and Mr. Ip Tak Chuen, Edmond 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

The directors of the Company who held office at 31 December 2004 had the following interests 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")) at the balance sheet date 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 Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### (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 31.12.2004
	At the beginning of the year	Exercised 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	0.49%
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>114,770,000</u>	<u>-</u>	<u>114,770,000</u>					2.47%
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>66,568,000</u>	<u>-</u>	<u>66,568,000</u>					1.44%
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>75,746,000</u>	<u>-</u>	<u>75,746,000</u>					1.63%

## 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 31.12.2004
	At the beginning of the year	Exercised during the year	At the end of the year					
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	(5,800,000)	21,746,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>31,746,000</u>	<u>(10,000,000)</u>	<u>21,746,000</u>					0.47%
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>12,590,000</u>	<u>–</u>	<u>12,590,000</u>					0.27%
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>12,590,000</u>	<u>–</u>	<u>12,590,000</u>					0.27%
Choy Hok Man, Constance	1,000,000	–	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.02%
	<u>337,960,000</u>	<u>(10,000,000)</u>	<u>327,960,000</u>					

\* Mr. Zhang Wenhui resigned as a director of the Company on 12 January 2005.

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\$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective directors. Further details of the share options are set out in the section headed "Share Option Scheme" below.

## 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 at the beginning and the end of the year	Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	% to the issued share capital as at 31.12.2004
Cao Zhong	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	HK\$0.780	Beneficial owner	
	<u>65,002,000</u>					6.34%
Chen Zhouping	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	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	
	4,592,000	25.8.2003	25.8.2003 – 24.8.2013	HK\$0.740	Beneficial owner	
	<u>12,244,000</u>					1.19%
	<u><u>84,898,000</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.

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

(continued)

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 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **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 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:

**DIRECTORS' INTERESTS IN COMPETING BUSINESSES** (continued)

<b>Name of director</b>	<b>Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the director in the entity</b>
Wang Qinghai	Shougang Corporation <sup>#</sup>	Manufacture, sale and trading of steel products, shipping services and property investment	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation <sup>#</sup>	Trading of steel products, property investment and shipping services	Director
Chen Zhouping	Shougang Holding (Hong Kong) Limited ("Shougang HK") <sup>#</sup>	Property investment and shipping services	Director
Zhang Wenhui*	Hanbonn Shipping Limited <sup>#</sup>	Shipping services	Director
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited ("Cheung Kong") <sup>#</sup>	Property investment and investment in securities	Director
	Cheung Kong Infrastructure Holdings Limited <sup>#</sup>	Power plants, investment holding and investment in securities	Director
	CK Life Sciences Int'l., (Holdings) Inc. <sup>#</sup>	Investment holding	Director

<sup>#</sup> Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

\* Mr. Zhang Wenhui resigned as a director of the Company on 12 January 2005.

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 fell 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	Interests in shares of the Company (other than equity derivatives)	Total interests as to % to the issued share capital as at 31.12.2004	Note(s)
Shougang HK	Beneficial owner, interest of controlled corporations	2,817,738,686	60.76%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	18.73%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	32.99%	1
Cheung Kong	Interest of controlled corporations	455,401,955	9.82%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	9.12%	2
Li Ka-shing	Interest of controlled corporations, founder of discretionary trusts	455,401,955	9.82%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	9.82%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	9.82%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	9.82%	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 interest was included in the interests held by Cheung Kong.
3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

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 fell 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.

**SHARE OPTION SCHEME** (continued)

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.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 454,070,000 which represents approximately 9.77% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 213,554,645, representing approximately 4.60% 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.

**SHARE OPTION SCHEME** (continued)

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 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.

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 <sup>6</sup>	Transfer from other category during the year	Transfer to other category during the year	Exercised during the year <sup>7</sup>	At the end of the year			
Directors of the Company <sup>1 &amp; 2</sup>	114,000,000	-	-	(23,950,000) <sup>3</sup>	(4,200,000)	85,850,000	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	-	-	-	(5,800,000)	223,750,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	<u>361,910,000</u>	<u>-</u>	<u>-</u>	<u>(23,950,000)</u>	<u>(10,000,000)</u>	<u>327,960,000</u>			
Employees of the Group	3,900,000	-	-	-	(800,000)	3,100,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	-	-	110,000 <sup>4</sup>	-	-	110,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	-	11,000,000	-	-	-	11,000,000	18.3.2004	18.3.2004 – 17.3.2014	HK\$0.660
	<u>3,900,000</u>	<u>11,000,000</u>	<u>110,000</u>	<u>-</u>	<u>(800,000)</u>	<u>14,210,000</u>			
Other participants	31,100,000	-	23,950,000 <sup>3</sup>	-	(1,000,000) <sup>5</sup>	54,050,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	61,960,000	-	-	(110,000) <sup>4</sup>	-	61,850,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	-	5,000,000	-	-	-	5,000,000	18.3.2004	18.3.2004 – 17.3.2014	HK\$0.660
	<u>93,060,000</u>	<u>5,000,000</u>	<u>23,950,000</u>	<u>(110,000)</u>	<u>(1,000,000)</u>	<u>120,900,000</u>			
<u>458,870,000</u>	<u>16,000,000</u>	<u>24,060,000</u>	<u>(24,060,000)</u>	<u>(11,800,000)</u>	<u>463,070,000</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 to Mr. Cao Zhong, Mr. Chen Zhouping, Mr. Zhang Wenhui and Mr. Tsoi Wai Kwong, all being directors of the Company during the year, on 18 November 2003 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. Including the share options held by two grantees who ceased to be directors of the Company during the year. Such share options remain exercisable up to the original respective expiry dates and were re-classified from the category of "Directors of the Company" to "Other participants" during the year.
4. The share options were held by a grantee who became an employee of the Group during the year. Such share options were re-classified from the category of "Other participants" to "Employees of the Group" during the year.
5. The share options were held by a grantee who ceased to be a director of the Company during the year.
6.
  - (a) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK\$0.68 per share.
  - (b) 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 2004 based on a number of speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company.
7. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK\$0.69 per share.

No share option granted under the Scheme was cancelled and lapsed during the year.

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.

## DISTRIBUTION 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 less than 30% of the total sales for the year. Purchases from the five largest suppliers accounted for 70% of the total purchases for the year and purchases from the largest supplier included therein amounted to 41%. The Company's ultimate controlling shareholder has beneficial interests in three 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. Continuing connected transactions during the year

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 continuing connected transactions:

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

**CONNECTED TRANSACTIONS** (continued)**I. Continuing connected transactions during the year** (continued)

- (b) (i) the sales of electricity, steam and hot water to Shougang Corporation 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 Corporation (the "Power Purchases"); (iii) the construction of fixed assets of plants, machineries and equipment by Shougang Corporation 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 Corporation (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, or if there is no available comparison, on terms that are fair and reasonable as far as the shareholders of the Company, 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, if there is no such agreements, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties;
- (d) the aggregate amount of the Steel Sales by Qinhuangdao Plate Mill did not exceed 15% of the annual turnover of the Group for the financial year 2003;
- (e) the aggregate amount of the Steel Purchases by Qinhuangdao Plate Mill did not exceed 40% of the annual turnover of the Group for the financial year 2003;
- (f) the aggregate amount of the Power Sales did not exceed 30% of the annual turnover of the Group for the financial year 2004;
- (g) the aggregate amount of the Power Purchases did not exceed 15% of the annual turnover of the Group for the financial year 2004;



## CONNECTED TRANSACTIONS (continued)

### I. Continuing connected transactions during the year (continued)

- (h) the aggregate amount for the Construction did not exceed 3% of the annual turnover of the Group for the financial year 2004; and
- (i) the aggregate amount for the Services did not exceed 3% of the annual turnover of the Group for the financial year 2004.

### II. Continuing connected transactions subsequent to the balance sheet date

- (a) As set out in the Company's circular dated 8 February 2005, a master agreement (the "Master Agreement I") was entered into between Beijing Power Plant and Shougang Corporation, a connected person of the Company by virtue of it being the holding company of Shougang HK which is a substantial shareholder of the Company, on 21 January 2005. Pursuant to the Master Agreement I, Shougang Corporation will, and will procure its associates, to provide energy, raw materials, products and services to Beijing Power Plant (the "Purchases"), principally in the areas of (a) energy/raw materials including water, coal, gas, nitrogen, coal gas for high temperature boilers and furnaces, compressed air, steam and chemicals; (b) products including spare parts and components; and (c) services including construction, repair and maintenance and daily amenity services; and Beijing Power Plant will in turn supply to Shougang Corporation and its associates energy, raw materials and products (the "Sales"), principally in the areas of energy/raw materials/products including electricity, steam and hot water. The Master Agreement I has a term of three financial years ending 31 December 2007. The proposed cap amounts of the transactions contemplated under the Master Agreement I for each of the three financial years ending 31 December 2007 will not exceed (i) HK\$300,000,000 for the Purchases; and (ii) HK\$450,000,000 for the Sales. The transactions contemplated under the Master Agreement I are subject to various conditions as set out in the said circular. The Master Agreement I was ratified, approved and confirmed and the said proposed cap amounts were approved by shareholders of the Company other than Shougang HK and its associates on 28 February 2005.

**CONNECTED TRANSACTIONS** (continued)**II. Continuing connected transactions subsequent to the balance sheet date** (continued)

- (b) As set out in the Company's circular dated 16 March 2005, a master agreement (the "Master Agreement II") was entered into between Shougang Concord Steel International Trading Co. Ltd. ("Shougang Concord Steel"), a wholly-owned subsidiary of the Company, and Shougang Corporation on 22 February 2005. Pursuant to the Master Agreement II, Shougang Corporation will provide, or procure its associates to provide, raw materials and products principally iron ore and steel products to Shougang Concord Steel. The Master Agreement II has a term of three financial years ending 31 December 2007. The proposed cap amount of the transactions contemplated under the Master Agreement II for each of the three financial years ending 31 December 2007 will not exceed HK\$1,500,000,000 each year. The transactions contemplated under the Master Agreement II are subject to various conditions as set out in the said circular. The Master Agreement II was ratified, approved and confirmed and the said proposed cap amount was approved by shareholders of the Company other than Shougang HK and its associates on 1 April 2005.

**III. Further Investments in Steel Manufacturing Segment**

- (a) On 19 April 2004, an agreement (the "Agreement") was entered into between Central Pro Investments Limited ("Central Pro"), a wholly-owned subsidiary of the Company, and Shougang Corporation. Pursuant to the Agreement, Central Pro agreed to acquire from Shougang Corporation a 27% interest in the registered capital of Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), for a consideration of RMB148,500,000 (equivalent to approximately HK\$140,094,340) in cash. Shouqin is a Sino-foreign equity joint venture enterprise established in the People's Republic of China (the "PRC") and is engaged in the design, manufacture and sale of steel products, its related processed products and by-products. It is expected that the investment in Shouqin can further enhance the Group's position in the manufacture and sale of steel products in the PRC and enables the Group to further extend its market presence in the PRC. The said acquisition can also broaden the Group's income base and enhance the net asset value of the Group after Shouqin coming into full production and in the long run. The Agreement was ratified, approved and confirmed by shareholders of the Company other than Shougang HK and its associates on 8 June 2004 and the Agreement was completed during the year 2004.





## CONNECTED TRANSACTIONS (continued)

### III. Further Investments in Steel Manufacturing Segment (continued)

- (b) On 18 August 2004, an agreement (the "Acquisition Agreement") was entered into between Firstlevel Holdings Limited ("Firstlevel Holdings"), a wholly-owned subsidiary of the Company, and Shougang HK, a connected person of the Company by virtue of it being a substantial shareholder of the Company. Pursuant to the Acquisition Agreement, Firstlevel Holdings agreed to acquire from Shougang HK the entire issued share capital of, and the shareholder's loan in the amount of HK\$214,993,954.46 to, Equity Dragon Assets Limited ("Equity Dragon") for a total consideration of HK\$377,400,000, which was satisfied as to HK\$301,920,000 by the issue of 958,476,190 new shares of the Company at an issue price of HK\$0.315 per share to Shougang HK and as to the remaining of HK\$75,480,000 in cash. Equity Dragon is an investment holding company and its sole asset is its 47% interest in the registered capital of Qinhuangdao Plate Mill which is principally engaged in the production and sale of steel plates. The said acquisition represents an attractive opportunity for the Company to further consolidate its stake and control in Qinhuangdao Plate Mill and to benefit from the strong financial performance of Qinhuangdao Plate Mill. The Acquisition Agreement was ratified, approved and confirmed by shareholders of the Company other than Shougang HK and Cheung Kong and their respective associates on 28 September 2004 and the transaction was completed during the year 2004.

Save as aforesaid and as far as the transactions which took place in the year under review are concerned, the transactions as set out in notes 40(a), (b), (c), (f), (m), part of (p) and (q) to the financial statements under the heading of "Related Party Disclosures" were continuing connected transactions which have been previously approved by the independent shareholders of the Company. The transactions as set out in notes 40(d), (j) and (k) to the financial statements under the heading of "Related Party Disclosures" were connected transactions or incidental to the connected transactions which have been previously announced in newspapers by the Company and/or approved by the independent shareholders of the Company and the transactions as set out in notes 40(e), (g), (i), part of (p) and (t) were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

## 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 in force prior to 1 January 2005 throughout the year 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.

## 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 Institute of Certified Public Accountants in December 1997. The Audit Committee comprises one non-executive director, Ms. Choy Hok Man, Constance and the three independent non-executive directors, namely Ms. Kan Lai Kuen, Alice, Mr. Kwan Bo Ren, Dick and Mr. Wong Kun Kim. 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 12 April 2005 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2004.

### AUDITORS

Messrs. Deloitte Touche Tohmatsu was appointed as auditors of the Company in place of Messrs. Ernst & Young upon their retirement at the annual general meeting of the Company held on 25 June 2003. 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, 18 April 2005