

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. The principal activities of the subsidiaries are property investment and management. Details of the principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's results 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 22 to 64.

On 13 February 2004, the directors declared to distribute a special dividend to be satisfied by the distribution in specie of the Group's entire shareholding of approximately 31.02%, representing 371,029,995 shares in an associate, Shougang Concord Technology Holdings Limited ("Shougang Technology"), to the Company's shareholders on a pro-rata basis (the "Distribution"). The Distribution was completed on 23 March 2004 and market price of Shougang Technology's share at that date was HK\$1.01 per share. Total special dividend distributed amounted to approximately HK\$374,740,000, represented approximately HK39.9 cents per share. Details of which are set out in notes 9 and 15 to the financial statements.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

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 66 of this annual report. This summary is not part of the audited financial statements.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 11 and 12 to the financial statements respectively. Particulars of the major properties of the Group as at the balance sheet date are set out on page 65 of this annual report.

SUBSIDIARIES

Details of the Company's subsidiaries are set out in note 13 to the financial statements.



SHARE CAPITAL

Details of the movements in the authorised and issued share capital of the Company for the year are set out in note 21 to the financial statements.

SHARE OPTIONS

Details of the share options of the Group are set out in note 28 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 22 to the financial statements and in the consolidated statement of changes in equity, respectively.

At 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$63,823,000. In addition, under the laws of Bermuda, the Company's share premium account, in the amount of HK\$266,317,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. Sales to the five largest customers accounted for approximately 46% of the total sales for the year and sales to the largest customer included therein amounted to approximately 19%.

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

DIRECTORS

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

Executive directors:

Wang Qinghai (*Chairman*)

Cao Zhong (*Vice-Chairman*)

Chen Zheng (appointed on 06 January 2004)

Wang Tian (appointed on 01 March 2004)

Cheng Xiaoyu (appointed on 06 January 2004)

Li Shaofeng (resigned on 13 April 2004)

Xu Xianghua (resigned on 13 April 2004)

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DIRECTORS (continued)

Non-executive director:

Leung Shun Sang, Tony

Choy Hok Man, Constance

(re-designated from independent non-executive director to non-executive director on 30 September 2004)

Independent non-executive directors:

Tam King Ching, Kenny

Hui Hung Stephen

Zhou Jianhong

(appointed on 30 September 2004)

(appointed on 30 September 2004)

The Company has received annual confirmation from each of the independent non-executive director regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

In accordance with clauses 99(A) and 102(B) of the Company's Bye-laws, Mr. Cao Zhong, Ms. Choy Hok Man, Constance, Mr. Hui Hung Stephen and Ms. Zhou Jianhong, will retire from office and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

SHARE OPTIONS

The Company has currently maintained a share option scheme adopted on 7 June 2002. Details of the scheme are disclosed in note 28 to the financial statements.

The directors consider it is not appropriate to disclose a theoretical value of the options granted because any valuation of the options would be subject to a number of assumptions which are subjective and uncertain.

Save as the share options granted under the scheme during the year and outstanding at 31 December 2004 disclosed in note 28 to the financial statements, no other share options have been granted, exercised, cancelled or lapsed in accordance with the terms of the scheme during the year.

Details of the share option granted to directors under the scheme during the year and outstanding at 31 December 2004 were stated in the following section on directors' interest in securities.

DIRECTORS' INTERESTS IN SECURITIES

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

Name of Director	Name of corporation in which interests are held	Number of Shares held	Number of share options held				Nature of interests	% of total interests* to the issued share capital as at 31.12.2004	
			Notes	At 1.1.2004	Granted during the year	Exercised during the year			At 31.12.2004
Wang Qinghai	Company	8,278,679	2	8,278,679	-	(8,278,679)	-	Personal	0.88
Cao Zhong	Company	8,278,679	2	8,278,679	-	(8,278,679)	-	Personal	3.16
			1	-	21,447,000	-	21,447,000	Personal	
Chen Zheng	Company	-	1	-	18,015,000	-	18,015,000	Personal	1.92
Wang Tian	Company	-	1	-	16,299,000	-	16,299,000	Personal	1.74
Cheng Xiaoyu	Company	8,278,679	2	1,822,944	-	(1,822,944)	-	Personal	2.53
			3	6,455,735	-	(6,455,735)	-	Personal	
			1	-	15,441,000	-	15,441,000	Personal	
				<u>8,278,679</u>	<u>15,441,000</u>	<u>(8,278,679)</u>	<u>15,441,000</u>		
Leung Shun Sang, Tony	Company	8,278,000	2	5,795,075	-	(5,795,000)	75	Personal	0.88
			3	2,483,604	-	(2,483,000)	604	Personal	
				<u>8,278,679</u>	-	<u>(8,278,000)</u>	<u>679</u>		
Choy Hok Man, Constance	Company	400,000	2	400,000	-	(400,000)	-	Personal	0.04
Tam King Ching, Kenny	Company	-	2	400,000	-	(400,000)	-	Personal	-

* Total interests represented the aggregate of number of Shares and share options held by the Directors.

DIRECTORS' INTERESTS IN SECURITIES (continued)*Notes:*

1. Under the share option scheme of the Company adopted on 7 June 2002 and the terms and conditions as set out in the circular of the Company dated 10 May 2004, the options to subscribe for the Shares will be exercisable not later than 7 June 2014 at a subscription price of HK\$0.82 per Share, subject to adjustment and the following restrictions on the exercise period of the options and sale of the relevant shares:

- up to 40%, 70%, the balance of the share options will be exercisable from the 13th, the 25th and the 37th month respectively after the date of offer of grant;
- the Shares then in issue may not be sold within 90 days from their relevant allotment dates.

The options were granted on 8 June 2004 to each grantee at a consideration of HK\$1.00.

2. Under the share option scheme of the Company adopted on 7 June 2002, the options to subscribe for the Shares are exercisable at any time from 23 August 2002 to 6 June 2012 at a subscription price of HK\$0.73 per Share, subject to adjustment. The options were granted on 23 August 2002 to each grantee at a consideration of HK\$1.00.
3. Under the share option scheme of the Company adopted on 7 June 2002, the options to subscribe for the Shares are exercisable at any time from 6 March 2003 to 5 March 2013 at a subscription price of HK\$0.76 per Share, subject to adjustment. The options were granted on 6 March 2003 to each grantee at a consideration of HK\$1.00.

Save as disclosed above, none of the Directors and chief executive of the Company hold any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange and nor any of the Directors and the chief executive (including their spouses and children under the age of 18) had, as at 31 December 2004, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.



SUBSTANTIAL SHAREHOLDERS

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

Name	Notes	Number of Shares held	%
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	1	445,731,315	47.45 *
Wheeling Holdings Limited	1	430,491,315	45.83 *
Cheung Kong (Holdings) Limited ("Cheung Kong")	2,3	133,048,717	14.16 *
Max Same Investment Limited	3	91,491,193	9.74 *

* the percentage of shareholding was calculated by dividing the number of shares held by the substantial shareholder (as reported by the substantial shareholder to the Company) by the issued share capital of the Company as at 31 December 2004.

Notes:

- Wheeling Holdings Limited is a wholly-owned subsidiary of Shougang Holding and its interests are included in the interests held by Shougang Holding.
- By virtue of their interests in Cheung Kong, the following person and companies are each deemed to be interested in the Shares held by Cheung Kong:
 - Mr. Li Ka-Shing
 - Li Ka-Shing Unity Trustcorp Limited as a 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.
- Max Same Investment Limited is a wholly-owned subsidiary of Cheung Kong and its interest is included in the interests held by Cheung Kong.

Save as disclosed above, so far as was known to the Directors, there was no other person (other than the Directors or chief executive of the Company) who, as at 31 December 2004, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company.

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COMPETING INTERESTS

As at 31 December 2004, the interests of the Directors in the businesses (other than those businesses where the Directors 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 were as follows:

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	Note
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
Hui Hung Stephen	Wide Sun Industrial Limited	Holding and rental of properties	director	-

Note:

- Such business may be carried out through its subsidiaries, associates or by way of other forms of investments.

Save as disclosed above, none of the Directors, the chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates, has an interest in any business, which competes or may compete with the business of the Group as at 31 December 2004.



CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions with Shougang Holding and its subsidiaries as set out in note 31 to the financial statements which constituted exempted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), as the total consideration involved in the transaction was less than HK\$1 million and 2.5% of the percentage ratios (as defined under the Listing Rules) of the Group.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 30 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice (the “Code”) contained in Appendix 14 (with was in force during the said period) of the Listing Rules except that the independent non-executive director of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s Bye-laws.

The Code contained in Appendix 14 to the Listing Rules has been replaced by the Code on Corporate Governance Practices with effect from 1 January 2005 and the New Code will apply for subsequent reporting periods.

The Company has adopted the Code of Conduct regarding securities transactions by Directors as set out in Appendix 10 to the Listing Rules during the year ended 31 December 2004 and all directors have complied with the required standard of dealings set out therein.



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PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules during the year and up to the date of this report.

AUDIT COMMITTEE

The Company established an audit committee in accordance with paragraph 14 of the Code throughout the accounting period covered by the annual report. The audit committee of the Company currently comprises three independent non-executive directors, namely Mr. Tam King Ching, Kenny, Mr. Hui Hung Stephen and Ms. Zhou Jianhong. The principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal controls. During the year, the audit committee held two meetings. The audit committee has reviewed the annual result for the year ended 31 December 2004.

AUDITORS

The financial statements of the Company for the year ended 31 December 2004 have been audited by Messrs. Deloitte Touche Tohmatsu.

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cao Zhong

Vice-Chairman

Hong Kong, 18 April 2005