



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in note 53 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 48.

The board of directors of the Company recommends a final dividend of HK\$0.006 per share for the year ended 31 December 2005 (2004: Nil) payable to shareholders whose names appear on the register of members of the Company on Friday, 26 May 2006. This dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Friday, 26 May 2006. The register of members of the Company will be closed from Thursday, 25 May 2006 to Friday, 26 May 2006, both days inclusive, during which period no transfer of shares will be effected. The final dividend is expected to be paid on Friday, 23 June 2006.

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 149 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 15 to the financial statements.

Particulars of the Group's major investment properties as at the balance sheet date are summarised on page 150 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 16 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 41 to the financial statements.



Report of the Directors

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 53 of this annual report and in note 43 to the financial statements, respectively.

DIRECTORS

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

Wang Qinghai	
Cao Zhong	
Chen Zhouping	
Luo Zhenyu	(appointed on 12 January 2005)
Ip Tak Chuen, Edmond	
Leung Shun Sang, Tony	
Choy Hok Man, Constance	
Kan Lai Kuen, Alice*	
Kwan Bo Ren, Dick*	
Wong Kun Kim*	
Zhang Wenhui	(resigned on 12 January 2005)
Tsoi Wai Kwong	(resigned on 16 August 2005)

* *Independent non-executive directors*

In accordance with clause 103(A) of the Company's articles of association, Mr. Wang Qinghai, Mr. Chen Zhouping, Mr. Leung Shun Sang, Tony and Ms. Choy Hok Man, Constance will retire and, being eligible, Mr. Wang Qinghai, Mr. Chen Zhouping and Mr. Leung Shun Sang, Tony will offer themselves for re-election at the forthcoming annual general meeting of the Company. However, Ms. Choy Hok Man, Constance will not offer herself for re-election and it is not intended to fill up Ms. Choy's vacated office 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 of compensation other than statutory compensation.



Report of the Directors

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 2005 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	Interest as to % to the issued share capital as at 31.12.2005
	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	0.47%
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>					2.33%
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>					1.35%
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>					0.26%
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>					0.26%
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>230,468,000</u>	<u>-</u>	<u>230,468,000</u>					



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)

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.

(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	Interests as to % to the issued share capital as at 31.12.2005
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%
Luo Zhenyu	7,652,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	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>92,550,000</u>					



Report of the 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 (continued)

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.

In addition, a director of the Company held non-beneficial interest in one share in a wholly-owned subsidiary of the Company as qualifying share.

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.



Report of the Directors

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:

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
Wang Qinghai	Shougang Corporation [#]	Manufacture, sale and trading of steel products, shipping services and property investment	Director
Cao Zhong	China Shougang International Trade and Engineering Corporation [#]	Trading of steel products, property investment and shipping services	Director
Chen Zhouping	Shougang Holding (Hong Kong) Limited ("Shougang Holding") [#]	Property investment and shipping services	Director
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited ("Cheung Kong") [#]	Property investment and investment in securities	Director
	Cheung Kong Infrastructure Holdings Limited [#]	Energy infrastructure, investment holding and investment in securities	Director
	CK Life Sciences Int'l., (Holdings) Inc. [#]	Investment holding	Director

[#] Such businesses may be carried out through its subsidiaries or associates or by way of other forms of investments.

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 or 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	Number of shares held in the Company (other than equity derivatives)	Interests under cash settled unlisted equity derivatives	Total interests as to % to the total issued share capital of the Company as at 31.12.2005	Note(s)
Shougang Holding	Beneficial owner, interests of controlled corporations	2,876,960,686	58,109,090	59.49%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	–	17.60%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	–	31.01%	1
Cheung Kong	Interests of controlled corporations	455,401,955	–	9.23%	2,3
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	–	8.57%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	–	9.23%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	–	9.23%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	–	9.23%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	–	9.23%	3



Report of the Directors

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 Holding and their respective interests were included in the interests held by Shougang Holding.
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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

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.



Report of the Directors

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 437,924,000 which represents approximately 7.47% 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 3.64% 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 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.



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SHARE OPTION SCHEME (continued)

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:

Category of grantees	Options to subscribe for shares of the Company				At the end of the year	Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Transferred from other category during the year	Transferred to other category during the year	Exercised during the year ⁵				
Directors of the Company ^{1 & 2}	85,850,000	-	(22,950,000) ⁴	-	62,900,000	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
	223,750,000	-	(52,796,000) ⁴	(21,746,000) ³	149,208,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	<u>327,960,000</u>	<u>-</u>	<u>(75,746,000)</u>	<u>(21,746,000)</u>	<u>230,468,000</u>			
Employees of the Group	3,100,000	-	-	(3,100,000)	-	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	110,000	-	-	-	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>14,210,000</u>	<u>-</u>	<u>-</u>	<u>(3,100,000)</u>	<u>11,110,000</u>			
Other participants	54,050,000	22,950,000 ⁴	-	(300,000)	76,700,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	61,850,000	-	-	-	61,850,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280
	-	52,796,000 ⁴	-	-	52,796,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410
	5,000,000	-	-	-	5,000,000	18.3.2004	18.3.2004 – 17.3.2014	HK\$0.660
	<u>120,900,000</u>	<u>75,746,000</u>	<u>-</u>	<u>(300,000)</u>	<u>196,346,000</u>			
<u>463,070,000</u>	<u>75,746,000</u>	<u>(75,746,000)</u>	<u>(25,146,000)</u>	<u>437,924,000</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 and Mr. Chen Zhouping, all being directors of the Company as at 31 December 2005, 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. The share options were exercised by a grantee who ceased to be a director of the Company during the year.
4. The share options were held by a grantee who ceased to be a director of the Company during the year but remained as a director of the Company's subsidiaries. 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.
5. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK\$0.68 per share.

No share option was granted, cancelled or lapsed in accordance with the terms of the Scheme during the year.

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 approximately HK\$86,045,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK\$29,604,000 has been proposed as a final dividend for the year.



Report of the Directors

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 77% of the total purchases for the year and purchases from the largest supplier included therein amounted to 47%. The Company's ultimate holding company has beneficial interests in four 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 by the Company with the disclosure and independent shareholders' approval requirements of the Listing Rules for the continuing connected transactions as mentioned in item (a) below for the three financial years ended 31 December 2005. The continuing connected transactions as mentioned in items (b), (c) and (d) below have been approved by the shareholders of the Company other than Shougang Holding and its associates (the "Independent Shareholders") for a period of three financial years ending 31 December 2007 on terms in compliance with the Listing Rules:

- (a) (i) the sales of steel products (principally steel plates), scrap materials (principally scrap metals), services (principally processing 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"), a wholly owned subsidiary of the Company (the "Steel Sales"); and (ii) the purchases of raw materials (principally steel billets, iron ingots and steel slabs), spare parts, energy and services (principally repair and maintenance services) in relation to the production of steel products and other related products by Qinhuangdao Plate Mill from Shougang Corporation (the "Steel Purchases").



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CONNECTED TRANSACTIONS (continued)

I. Continuing connected transactions during the year (continued)

- (b) (i) the sales of energy, raw materials and products, including 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; and (ii) the purchases of energy/raw materials (including water, coal, gas, nitrogen, coal gas for high temperature boilers and furnaces, compressed air, steam and chemicals), products (including spare parts and components) and services (including construction, repair and maintenance and daily amenity services) by Beijing Power Plant from Shougang Corporation.
- (c) the purchases of raw materials and products principally iron ore and steel products from Shougang Corporation by Shougang Concord Steel International Trading Co. Ltd., a wholly-owned subsidiary of the Company.
- (d) the purchases of raw materials (including ore powders and iron ores), materials (including steel materials, wire-rods, flame durable bricks and flame durable materials), fuel (including coal and coking coal), equipment (including various types of equipment for the production of steel products) and services (including repair and maintenance services) from Shougang Corporation by Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), a non-wholly owned subsidiary of the Company.

Details of the connected transactions as mentioned in items (a), (b) and (c) above have been included in the Company's previous annual reports in compliance with the Listing Rules. As set out in the Company's circular dated 30 September 2005, the master agreement (the "Master Agreement I") governing the connected transactions mentioned in item (d) above was entered into between Shouqin and Shougang Corporation, a connected person of the Company by virtue of it being the holding company of Shougang Holding which is a substantial shareholder of the Company, on 5 August 2005 and 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 HK\$2,600,000,000, HK\$4,800,000,000 and HK\$6,000,000,000, respectively. 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 the Independent Shareholders on 17 October 2005.

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:

- (1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;



Report of the Directors

CONNECTED TRANSACTIONS (continued)

I. Continuing connected transactions during the year (continued)

- (2) the transactions were conducted on normal commercial terms, or if there is no available comparison, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties;
- (3) the transactions mentioned in items (b), (c) and (d) above were entered into in accordance with the relevant agreements governing such transactions;
- (4) the transactions were entered into on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (5) 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 2004; and
- (6) 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 2004.

II. Continuing connected transactions subsequent to the balance sheet date

- (a) As the conditional waiver granted by the Stock Exchange in relation to the Steel Sales and the Steel Purchases was expired on 31 December 2005, the Company sought the approval by the Independent Shareholders of the master agreement dated 22 November 2005 (the "Master Agreement II") entered into between Qinhuangdao Plate Mill and Shougang Corporation and the proposed cap amounts in relation to the Steel Sales and the Steel Purchases. As set out in the Company's circular dated 9 December 2005, the Master Agreement II has a term of three financial years ending 31 December 2008. The proposed cap amounts of the transactions contemplated under the Master Agreement II for each of the three financial years ending 31 December 2008 will not exceed (i) HK\$190,000,000 for the Steel Sales; and (ii) HK\$100,000,000 for the Steel Purchases. The transactions contemplated under the Master Agreement II are subject to the condition as set out in the said circular. The Master Agreement II was ratified, approved and confirmed and the said proposed cap amounts were approved by the Independent Shareholders on 4 January 2006.



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CONNECTED TRANSACTIONS (continued)

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

- (b) As set out in the Company's circular dated 9 February 2006, a master agreement (the "Master Agreement III") was entered into between Shouqin and Shougang Corporation on 3 January 2006. Pursuant to the Master Agreement III, Shouqin will supply to Shougang Corporation steel products (principally steel slabs and steel plates) and other related products. The Master Agreement III has a term of three financial years ending 31 December 2008. The proposed cap amounts of the transactions contemplated under the Master Agreement III for each of the three financial years ending 31 December 2008 will not exceed HK\$1,500,000,000, HK\$2,800,000,000 and HK\$2,800,000,000, respectively. The transactions contemplated under the Master Agreement III are subject to the condition as set out in the said circular. The Master Agreement III was ratified, approved and confirmed and the said proposed cap amounts were approved by the Independent Shareholders on 28 February 2006.

III. Further Investments in Steel Manufacturing Segment

On 5 August 2005, an agreement (the "First Agreement") was entered into between Central Pro Investments Limited ("Central Pro"), a wholly-owned subsidiary of the Company, Mr. Guo Fengshan (the "First Vendor"), Silver Plus Development Limited (the "Second Vendor") and Middle Asia Limited (the "Third Vendor"). Pursuant to the First Agreement, Central Pro agreed to acquire from the First Vendor, the Second Vendor and the Third Vendor the entire issued share capital of Hong Kong-Canada Welcen Kingsway International Investments (Holdings) Limited ("Welcen"), which was interested in 35% interest in the registered capital of Shouqin, for an aggregate consideration of RMB367,500,000 (or HK\$352,359,000), which was satisfied as to RMB220,500,000 (or HK\$211,415,400) in cash and as to RMB147,000,000 (or HK\$140,943,600) by the issue of 81,149,346, 79,013,836 and 53,387,727 new shares of the Company at an issue price of HK\$0.66 per share to the First Vendor, the Second Vendor and the Third Vendor, respectively.

On 6 August 2005, an agreement (the "Second Agreement") was entered into between Central Pro and Profit Access Investments Limited ("Profit Access"). Pursuant to the Second Agreement, Central Pro agreed to acquire from Profit Access the entire issued share capital in Standnew Limited, which sole asset was its 10% interest in the registered capital of Shouqin, for a consideration of RMB100,000,000 (or HK\$95,880,000), which was satisfied as to RMB60,000,000 (or HK\$57,528,000) in cash and as to RMB40,000,000 (or HK\$38,352,000) by the issue of 58,109,090 new shares of the Company at an issue price of HK\$0.66 per share to Profit Access.



Report of the Directors

CONNECTED TRANSACTIONS (continued)

III. Further Investments in Steel Manufacturing Segment (continued)

As at the date of signing of each of the First Agreement and the Second Agreement, Welcen was interested as to 35% of the registered capital of Shouqin and Profit Access was interested as to 10% of the registered capital of Shouqin. As such, the First Vendor, the Second Vendor, the Third Vendor and Profit Access were considered to be connected persons by the Stock Exchange under the Listing Rules. Before completion of the above acquisitions, the Group was beneficially interested as to 51% of Shouqin. At completion of the said acquisitions, the Group is beneficially interested in 96% of Shouqin. Shouqin is a Sino-foreign joint venture enterprise established in the People's Republic of China (the "PRC") and is engaged in the manufacture and sale of steel products, its related processed products and by-products. The acquisitions represent an attractive opportunity for the Company to increase its interest in and further consolidate its control over Shouqin. As Shouqin has commenced production in July 2004, it is expected that further investment in Shouqin can further enhance the Group's position in the manufacture and sale of steel products in the PRC and enable the Group to further extend its market presence. Taking into account of the positive result recorded for the first quarter of 2005 for Shouqin, the planned increase in the production capacity for steel slabs, the planned commencement of production of steel plates in 2006 and the increased interest in Shouqin, it is expected that the earnings of the Group can also be enhanced through contributions from Shouqin. The First Agreement and the Second Agreement were ratified, approved and confirmed by the Independent Shareholders on 17 October 2005 and the transactions were completed during the year 2005.

IV. Tenancy agreements

As stated in the announcement of the Company dated 3 January 2006, the following tenancy agreements were entered into or renewed:

- (a) a tenancy agreement dated 3 January 2006 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 5,865 square feet was leased by Wonderfine Development Limited ("Wonderfine"), an indirect wholly-owned subsidiary of Shougang Holding which is a connected person of the Company by virtue of it being a substantial shareholder of the Company, to Shougang Concord Services Limited ("Shougang Services"), a direct wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$105,500, exclusive of rates and other charges.



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CONNECTED TRANSACTIONS (continued)

IV. Tenancy agreements (continued)

- (b) a tenancy agreement dated 3 January 2006 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 962 square feet was leased by Wonderfine to Shougang Concord Shipping Services Limited, an indirect wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$17,300, exclusive of rates and other charges.
- (c) a tenancy agreement dated 3 January 2006 whereby a portion of the 6th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 1,445 square feet was leased by Winluck Properties Limited, an indirect wholly-owned subsidiary of Shougang Holding 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 2006 at a monthly rental of HK\$26,000, exclusive of rates and other charges.
- (d) a tenancy agreement dated 3 January 2006 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, an indirect wholly-owned subsidiary of the Company to Santai Corporate Services Limited, a direct wholly-owned subsidiary of Shougang Concord Technology Holdings Limited which is a connected person of the Company by virtue of it being an associate of Shougang Holding, for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$76,000, exclusive of rates and other charges.
- (e) a tenancy agreement dated 3 January 2006 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 Holding to Shougang Services for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$19,000, exclusive of rates and other charges.
- (f) a tenancy agreement dated 3 January 2006 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 Holding to Shougang Services for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$10,000, exclusive of rates and other charges.



Report of the Directors

CONNECTED TRANSACTIONS (continued)

IV. Tenancy agreements (continued)

- (g) a tenancy agreement dated 3 January 2006 whereby Flat 2411, Block P, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang Holding to Shougang Services for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$10,000, exclusive of rates and other charges.
- (h) a tenancy agreement dated 3 January 2006 whereby Flat 1906B, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 508 square feet was leased by Shougang Holding to Shougang Services for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$8,000, exclusive of rates and other charges.
- (i) a tenancy agreement dated 3 January 2006 whereby Flat A2, 8th Floor, Pearl City Mansion, Nos. 22-36 Paterson Street, Causeway Bay, Hong Kong with an aggregate gross floor area of approximately 600 square feet was leased by Shougang Management to Shougang International Trade (Hong Kong) Limited, a direct wholly-owned subsidiary of Shougang Holding, for a term of one year commencing from 1 January 2006 at a monthly rental of HK\$12,600, 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) above were used by the senior executives of the respective tenants as their quarters.

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 52(b), (f), (l), part of (a), (c), (m) and (n) 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 52(d), (e), (g), (h), (i) and (k) to the financial statements under the heading of "Related Party Disclosures" 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 which took place during the year as set out under the heading of "Related Party Disclosures" did not constitute connected transactions.



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DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Under the dual currency facility agreement dated 1 February 2006 entered into between a number of banks (the "Banks") and the Company in relation to the facility in the amounts of HK\$163,800,000 and US\$129,000,000 (equivalent to an aggregate of approximately US\$150,000,000) (the "Facility") made available by the Banks to the Company, each of the following will constitute an event of default upon which the Facility will, among others, become immediately due and payable: (i) Shougang Holding ceases to be the single largest beneficial shareholder of the Company; (ii) Shougang Holding ceases to have management control in the Company; (iii) Shougang Holding ceases to be a wholly-owned subsidiary of Shougang Corporation, the holding company of Shougang Holding; and (iv) Shougang Corporation ceases to have management control in Shougang Holding.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 27 of this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 51 to the financial statements.

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, 20 April 2006