

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Other than the acquisition of the Group's electricity generation business and the disposal of the Group's property investment and management business, further details of which are set out in notes 40(b) and 8 to the financial statements, respectively, the activities of its principal subsidiaries have not changed during the year and are detailed in note 39 to the financial statements.

## RESULTS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 108.

## 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 109 of this annual report.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in note 15 to the financial statements.

Particulars of the Group's major investment properties at 31 December 2002 are summarised on page 110 of this annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 36 and 37 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements.

## Report of the Directors ►

### DIRECTORS

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

Wang Qinghai

Cao Zhong

Chen Zhouping *(appointed on 15 November 2002)*

Zhang Wenhui *(appointed on 2 July 2002)*

Xu Xianghua

Tsoi Wai Kwong *(appointed on 2 July 2002)*

Ip Tak Chuen, Edmond

Leung Shun Sang, Tony

Lai Kam Man, David\*

Choy Hok Man, Constance\*

\* *Independent Non-executive Directors*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Mr. Chen Zhouping, Mr. Zhang Wenhui, Mr. Tsoi Wai Kwong, Ms. Xu Xianghua and Mr. Leung Shun Sang, Tony 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the directors' rights to subscribe for shares in the Company at the balance sheet date, which were also recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

### I. Share options in the Company

Name of director	Number of share options to subscribe for shares in the Company			Date of grant/ acceptance	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Wang Qinghai	–	22,950,000	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Cao Zhong	–	22,950,000	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Zhang Wenhui	–	22,950,000	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Xu Xianghua	–	22,950,000	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Tsoi Wai Kwong	–	4,200,000	4,200,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Ip Tak Chuen, Edmond	–	8,000,000	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Leung Shun Sang, Tony	–	8,000,000	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Lai Kam Man, David	–	1,000,000	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Choy Hok Man, Constance	–	1,000,000	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	–	<u>114,000,000</u>	<u>114,000,000</u>			

The above share options were granted pursuant to the Company's share option scheme adopted on 7 June 2002 as detailed in note 37 to the financial statements. Each of the directors paid HK\$1 to the Company as consideration for the share options granted. None of the share options were exercised by the directors during the year.

## Report of the Directors ►

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** (continued)**II. Share options in associated corporation – Shougang Concord Century Holdings Limited ("Shougang Century")**

Name of director	Number of share options to subscribe for shares in Shougang Century			Date of grant/ acceptance	Exercise period	Exercise price per share
	At the beginning of the year	Granted during the year	At the end of the year			
Cao Zhong	–	7,652,000	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Chen Zhouping	–	7,652,000	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Xu Xianghua	–	7,652,000	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Leung Shun Sang, Tony	–	4,592,000	4,592,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
Lai Kam Man, David	–	382,000	382,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295
	–	<u>27,930,000</u>	<u>27,930,000</u>			

The above share options were granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Each of the directors paid HK\$1 to Shougang Century as consideration for the share options granted. None of the share options were exercised by the directors during the year.

Save as disclosed 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' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**

At the balance sheet date, none of the directors, chief executives or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

**DIRECTORS' INTERESTS IN CONTRACTS**

No director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the following directors have declared interests in the following businesses (other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or 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 HK")	Property investment and shipping services	Director
Zhang Wenhui	Hanbonn Shipping Limited*	Shipping services	Director
Xu Xianghua	Shougang HK*	Property investment and shipping services	Director
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited* ("Cheung Kong")	Leasing and investment	Director
	Cheung Kong Infrastructure Holdings Limited*	Finance and investment	Director

\* Such businesses may be carried out through its subsidiaries, associates or by way of other forms of investments.



## Report of the Directors ►

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

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.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At the balance sheet date, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company:

<b>Name of shareholder</b>	<i>Notes</i>	<b>Number of ordinary shares held</b>
Shougang HK		900,821,925
Grand Invest International Limited ("Grand Invest")	1	568,340,765
Cheung Kong	2	255,401,955

*Notes:*

- 1 Grand Invest was a wholly-owned subsidiary of Shougang HK and its interests had been included in the interests held by Shougang HK.
- 2 By virtue of their interests in Cheung Kong, the following person and companies were each deemed to be interested in the 255,401,955 shares held by Cheung Kong:

Mr. Li Ka Shing

Li Ka-Shing Unity Holdings Ltd

Li Ka-Shing Unity Trustee Co Ltd as trustee of The Li Ka-Shing Unity Trust

Li Ka-Shing Unity Trustee Corporation Ltd as trustee of The Li Ka-Shing Unity Discretionary Trust

## 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 of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year.

## DISTRIBUTABLE RESERVES

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

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the five largest customers accounted for less than 30% of the total sales for the year. Purchases from the five largest suppliers accounted for 64% of the total purchases for the year and purchases from the largest supplier included therein amounted to 42%. The Company's ultimate controlling shareholder has beneficial interests in one 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 suppliers.

## CONNECTED TRANSACTIONS

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

### I. Ongoing connected transactions

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

- (a) the supply of steel by Shougang Corporation to the Group and the sale of scrap metals to Shougang Corporation by the Group.
- (b) the arrangement by SCIT (Chartering) Limited, an indirect wholly-owned subsidiary of the Company, for the shipping of iron ores for related companies of Shougang Corporation.

## Report of the Directors ►

**CONNECTED TRANSACTIONS** (continued)**I. Ongoing connected transactions** (continued)

- (c) the purchases of raw materials (principally steel billets, iron ingots and steel slabs), spare parts, energy, services (principally repairs and maintenance services) in relation to the production of steel products and other related products from Shougang Corporation and/or its associates (collectively "Shougang Corp") (the "Steel Purchases"); and the sales of steel products (principally wire products, steel bars, steel plates), scrap materials (principally scrap metals), services (principally processing services) and other related products to Shougang Corp by Beijing Shougang-Pohseng Strip Steel Co., Ltd. ("Pohseng") and Qinhuangdao Shougang Plate Mill Co., Ltd. ("Qinhuangdao"), being a then non-wholly owned subsidiary of the Company and a non-wholly owned subsidiary of the Company, respectively (the "Steel Sales").
- (d) (i) the sales of electricity, steam and hot water to Shougang Corp by Beijing Shougang Firstlevel Power Co., Ltd. ("BSFPCL"), a non-wholly owned subsidiary of the Company (the "BSFPCL 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 BSFPCL from Shougang Corp (the "BSFPCL Purchases"); (iii) the construction of fixed assets of plants, machinery and equipment by Shougang Corp for BSFPCL (the "Construction"); and (iv) the repairs and maintenance service for plants, machinery and equipment and any other related ancillary services provided to BSFPCL by Shougang Corp (the "Services").

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

- (a) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;
- (b) the transactions were conducted on normal commercial terms, and are fair and reasonable as far as the shareholders, taken as a whole, are concerned;
- (c) the transactions were entered into either in accordance with the terms of the agreements governing such transactions or, on terms that are no less favourable than terms available to or from (as the case may be) independent third parties;
- (d) the Steel Purchases by each of Pohseng and Qinhuangdao did not exceed 20% and 27%, respectively, of the annual turnover of the Group for the immediately preceding financial year;



**CONNECTED TRANSACTIONS** (continued)**I. Ongoing connected transactions** (continued)

- (e) the Steel Sales by each of Pohseng and Qinhuangdao did not exceed 1.5% and 5%, respectively, of the annual turnover of the Group for the immediately preceding financial year;
- (f) the BSFPCL Sales did not exceed 30% of the annual turnover of the Group for the financial year 2002;
- (g) the BSFPCL Purchases did not exceed 15% of the annual turnover of the Group for the financial year 2002;
- (h) the aggregate amount payable by BSFPCL to Shougang Corp for the Construction did not exceed 3% of the annual turnover of the Group for the financial year 2002; and
- (i) the aggregate amount payable for the Services provided to BSFPCL by Shougang Corp did not exceed 3% of the annual turnover of the Group for the financial year 2002.

The auditors of the Company have reviewed the connected transactions and have provided the directors of the Company with an auditors' letter in respect of the Steel Purchases and Steel Sales above, confirming that:

- (a) the transactions have received the approval of the board of directors of the Company;
- (b) the transactions have been entered into in accordance with the terms of the agreements governing such transactions;
- (c) the Steel Purchases by each of Pohseng and Qinhuangdao did not exceed 20% and 27%, respectively, of the annual turnover of the Group for the immediately preceding financial year;
- (d) the Steel Sales by each of Pohseng and Qinhuangdao did not exceed 1.5% and 5%, respectively, of the annual turnover of the Group for the immediately preceding financial year; and
- (e) the transactions have been entered into in accordance with the pricing policies of the Group as stated in the Company's financial statements.

## Report of the Directors ►

**CONNECTED TRANSACTIONS** (continued)**II. Tenancy agreements**

As stated in the announcement of the Company dated 7 January 2002, the following tenancy agreements were renewed or entered into:

- (a) a tenancy agreement dated 7 January 2002 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 3,485 square feet was leased by Wonderfine Development Limited ("Wonderfine"), an indirect wholly-owned subsidiary of Shougang HK to Shougang Concord Services Limited ("Shougang Services"), a wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$52,275, exclusive of rates and other charges.
- (b) a tenancy agreement dated 7 January 2002 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 3,015 square feet was leased by Wonderfine to Long Cosmos Investment Limited, which is an indirect wholly-owned subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand"), a then non wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$45,225, exclusive of rates and other charges. The shares of Shougang Grand are listed on the Stock Exchange. The Group's interest in Shougang Grand was disposed of on 21 June 2002.
- (c) a tenancy agreement dated 7 January 2002 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 1,886 square feet was leased by Winluck Properties Limited ("Winluck"), an indirect wholly-owned subsidiary of Shougang HK, 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 2002 at a monthly rental of HK\$28,290, exclusive of rates and other charges.
- (d) a tenancy agreement dated 7 January 2002 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 1,728 square feet was leased by Winluck to Shougang Concord Shipping Services Limited ("Shougang Shipping"), an indirect wholly-owned subsidiary of the Company, for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$25,920, exclusive of rates and other charges.

**CONNECTED TRANSACTIONS** (continued)**II. Tenancy agreements** (continued)

- (e) a tenancy agreement dated 7 January 2002 whereby Flat E, 22nd Floor, Hoi Tien Mansion, Taikoo Shing, Hong Kong with an aggregate gross floor area of approximately 876 square feet was leased by Shougang HK to Shougang Services for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$20,000, exclusive of rates and other charges.
- (f) a tenancy agreement dated 7 January 2002 whereby Flat 1816, Block P, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang HK to Shougang Services for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$10,000, exclusive of rates and other charges.
- (g) a tenancy agreement dated 7 January 2002 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 HK to Shougang Management for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$10,000, exclusive of rates and other charges.
- (h) a tenancy agreement dated 7 January 2002 whereby Flat 3303A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 545 square feet was leased by Shougang HK to Shougang Shipping for a term of one year commencing from 1 January 2002 at a monthly rental of HK\$8,500, 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 (h) were used by the senior executives of the respective tenants as their quarters.

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

- (a) a tenancy agreement dated 6 January 2003 whereby a portion of the 7th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 4,024 square feet was leased by Wonderfine to Shougang Services for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$56,300, exclusive of rates and other charges.



## Report of the Directors ►

**CONNECTED TRANSACTIONS** (continued)**II. Tenancy agreements** (continued)

- (b) a tenancy agreement dated 6 January 2003 whereby a portion of the 7th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 1,456 square feet was leased by Wonderfine to Shougang Management for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$20,400, exclusive of rates and other charges.
- (c) a tenancy agreement dated 6 January 2003 whereby a portion of the 7th Floor of Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 1,021 square feet was leased by Wonderfine to Shougang Shipping for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$14,300, exclusive of rates and other charges.
- (d) a tenancy agreement dated 6 January 2003 whereby Workshops 4, 5, 8, 9 and 15-18 on the 10th Floor of Honour Industrial Centre, 6 Sun Yip Street, Chai Wan, Hong Kong with an aggregate gross floor area of approximately 15,335 square feet was leased by Good News Investment Limited, an indirect wholly-owned subsidiary of the Company to Santai Corporate Services Limited, a wholly-owned subsidiary of Shougang Concord Technology Holdings Limited ("Shougang Technology") which is an associate of Shougang HK, for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$66,000, exclusive of rates and other charges.
- (e) a tenancy agreement dated 6 January 2003 whereby Flat E, 22nd Floor, Hoi Tien Mansion, Taikoo Shing, Hong Kong with an aggregate gross floor area of approximately 876 square feet was leased by Shougang HK to Shougang Services for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$16,500, exclusive of rates and other charges.
- (f) a tenancy agreement dated 6 January 2003 whereby Flat 1816, Block P, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang HK to Shougang Services for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$8,800, exclusive of rates and other charges.

**CONNECTED TRANSACTIONS** (continued)**II. Tenancy agreements** (continued)

- (g) a tenancy agreement dated 6 January 2003 whereby Flat 1401, Block N, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 620 square feet was leased by Shougang HK to Shougang Services for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$8,800, exclusive of rates and other charges.
- (h) a tenancy agreement dated 6 January 2003 whereby Flat 3303A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area of approximately 545 square feet was leased by Shougang HK to Shougang Shipping for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$7,700, exclusive of rates and other charges.
- (i) a tenancy agreement dated 6 January 2003 whereby Flat 2602, Block N, Kornhill, Quarry Bay, Hong Kong with an aggregate gross floor area of approximately 582 square feet was leased by Linksky Limited, an indirect wholly-owned subsidiary of Shougang Grand which is a subsidiary of Shougang HK, for a term of one year commencing from 1 January 2003 at a monthly rental of HK\$8,200, exclusive of rates and other charges.

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

**III. Issue of convertible note**

On 10 April 2002, the Company entered into a conditional subscription agreement with a wholly-owned subsidiary of Shougang HK (the "Subscriber") pursuant to which a wholly-owned subsidiary of the Company agreed to issue and the Subscriber agreed to subscribe, in cash, for a 3% convertible note due in 2004 with a principal amount of HK\$200 million (the "Convertible Note"). The transaction was approved by the independent shareholders of the Company on 3 June 2002 and the Convertible Note was issued to the Subscriber on 7 June 2002. Further details of the Convertible Note are set out in note 33 to the financial statements.

## Report of the Directors ►

**CONNECTED TRANSACTIONS** (continued)**IV. Asset acquisition**

On 10 April 2002, Shougang Corporation and a wholly-owned subsidiary of the Company (the "Acquirer") entered into a conditional asset acquisition agreement, pursuant to which, Shougang Corporation agreed to sell and the Acquirer agreed to purchase a 51% interest in BSFPCL, a Sino-foreign joint venture established in Mainland China engaged in the power generation business, for a cash consideration of approximately HK\$198.2 million. The transaction was approved by the independent shareholders of the Company on 3 June 2002 and the acquisition was completed in November 2002.

**V. Asset disposals**

- (a) On 10 April 2002, a conditional asset disposal agreement was entered into between certain wholly-owned subsidiaries of the Company and Shougang Corporation and a wholly-owned subsidiary of Shougang HK, pursuant to which the Company agreed to dispose of 50% of its then 65% interest in each of Pohseng, Beijing Shougang-Liwoh Bar Steel Co., Ltd. and Beijing Shougang-Gitane Alloy Materials Co., Ltd. ("Gitane") to Shougang Corporation and a wholly-owned subsidiary of Shougang HK in the proportion of 40% and 10%, respectively, for an aggregate consideration of approximately HK\$101.9 million. The transactions were approved by the independent shareholders of the Company on 3 June 2002 and the disposals were completed in November 2002.
- (b) On 11 April 2002, a conditional agreement was entered into between the Company and a wholly-owned subsidiary of Shougang HK (the "First Purchaser") and a wholly-owned subsidiary of Cheung Kong (the "Second Purchaser") pursuant to which, the Company agreed to sell and the First Purchaser agreed to acquire 430,491,315 ordinary shares of HK\$0.01 each in the capital of Shougang Grand (the "Shougang Grand Shares") and the Second Purchaser agreed to acquire 91,491,193 Shougang Grand Shares, respectively, for an aggregate cash consideration of HK\$172,254,000 (equivalent to HK\$0.33 per Shougang Grand Share). The transaction was approved by the independent shareholders on 3 June 2002 and the disposal was completed in June 2002. The Company has no interests in Shougang Grand since the completion of the disposal.

Further details of the above transactions are set out in notes 44(a)(i) to (iii), (vi), (xiii), (xv) to (xix) and (b) to (d) to the financial statements under the heading of "Related party transactions".

## CONNECTED TRANSACTIONS (continued)

Save as aforesaid and as far as the transactions which took place in the year are concerned, the transactions carried out by Gitane as set out in notes 44(a)(i) and (ii) and the transactions as set out in notes 44(a)(iv), (v), (vii), (viii), (x), (xii) and (xiv) to the financial statements under the heading of “Related party transactions” were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders’ approval requirements under the Listing Rules. The remaining transactions as set out under the heading of “Related party transactions” did not constitute connected transactions.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules throughout the period covered by this annual report, except in relation to paragraph 7, as the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company’s articles of association.

## AUDIT COMMITTEE

The Company has an audit committee which was established with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee comprises the two independent non-executive directors, namely Mr. Lai Kam Man, David and Ms. Choy Hok Man, Constance. Its principal duties include the review of the Company’s financial reporting process, internal controls and the results of the Group. A meeting of the Audit Committee was held on 9 April 2003 for, amongst other things, reviewing the final results of the Group for the financial year ended 31 December 2002.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board

**Cao Zhong**

*Managing Director*

Hong Kong, 16 April 2003

