

# REPORT OF THE DIRECTORS

The Board is pleased to present this annual report and the audited financial statements of the Company for the year ended 31 December 2001.

## Principal Activities

The Company is a large steel product manufacturing enterprise in the PRC. It is principally engaged in the production and sale of billets, wire rods, thick plates, cold rolled sheets and large steel products.

The segmental structure of principal operating revenue and profit from principal operations of the Company for the reporting period (in accordance with PRC Accounting Standards)

Name of products	Sales revenue Rmb'000	Percentage	Profit	Percentage	Cost of sales Rmb'000	Gross
		to total revenue %	from principal operations Rmb'000	to profit from principal operations %		profit margin %
Cold rolled sheets	3,086,572	32.52	221,403	21.41	2,856,711	7.17
Thick plates	2,426,689	25.57	306,751	29.66	2,113,728	12.64
Wire rods	1,690,819	17.82	54,926	5.31	1,631,313	3.25
Large steel products	2,286,443	24.09	451,238	43.62	1,829,177	19.74

A geographical analysis of the Company's turnover is set out on page 59 of this report. All of the Company's business operations are conducted in the PRC.

## Profit Distribution Proposal for the Year

The Board recommends a distribution of dividend for 2001 of Rmb0.08 (tax inclusive) in cash per share. The proposal is subject to the approval at the Company's annual general meeting for 2001. After approval at the annual general meeting, the dividend will be payable to the shareholders of the Company whose names appear on the register of members of the Company at the close of trading on 15 April 2002.

## Profit Distribution for the Reporting Period

The Company held its general meeting on 16 May 2001, at which the profit distribution proposal for 2000 was passed. It was resolved that a cash dividend of Rmb0.9 for every 10 shares be paid. On 11 June 2001, the Company paid cash dividends to its holders of H shares at the applicable exchange rate of HK\$100 to Rmb106.126, being the average basic exchange rate between Renminbi and Hong Kong dollar as announced by the Bank of China for one calendar week preceding the date appointed for the holding of the general meeting. The cash dividend actually paid to holders of H shares is HK\$0.0848 per share. On 22 June 2001, the Company paid cash dividend to holders of domestic listed A shares and State-owned legal person shares. As at the registration date of 21 June 2001, the Company had 741,019,984 listed A shares and 1,319,000,000 State-owned legal person shares. Cash dividends of Rmb0.9 for every 10 shares were distributed.

### Shares held by Directors, Supervisors, and Senior Management

As at 31 December 2001, interests in the Company's issued share capital held by directors, supervisors and senior management were as follows:

Name	Position	Terms of appointment	Number of shares held as at 1 January 2001 (share)	Change for the year (share)	Number of shares held as at 31 December 2001 (share)
LIU Jie	Chairman of the Board	2000.5.8-2003.5.7	5,000	—	5,000
CAI Denglou	Vice Chairman	2000.10.18-2003.5.7	—	—	—
YANG Hua	Vice Chairman	2000.10.18-2003.5.7	—	—	—
YAO Lin	Director, GM	2000.5.8-2003.5.7	5,000	—	5,000
WANG Baolin	Director	2000.5.8-2003.5.7	5,000	—	5,000
LI Zhongwu	Director, Deputy GM	2000.10.18-2003.5.7	—	—	—
ZHANG Lifen	Director, Deputy GM	2000.10.18-2003.5.7	—	—	—
FU Jihui	Director, Deputy GM	2000.5.8-2003.5.7	5,000	—	5,000
LU Xianliang	Director, Deputy GM	2000.5.8-2003.5.7	5,000	—	5,000
YU Wanyuan	Non-executive Director	2000.5.8-2003.5.7	—	—	—
YANG Tianjun	Independent Non-executive Director	2000.5.8-2003.5.7	—	—	—
Venantius TAN	Independent Non-executive Director	2000.5.8-2003.5.7	—	—	—
QI Cong	Chairman of the Supervisory Committee	2000.5.8-2003.5.7	—	—	—
ZHOU Fa	Supervisor & Chairman of the Labour Union	2000.5.8-2003.5.7	5,000	—	5,000
JIN Zuoyong	Supervisor	2000.5.8-2003.5.7	5,000	—	5,000
FU Wei	Deputy General Manager	2000.8.16-present	6,000	3,000	9,000

- (1) Mr. LIU Jie, Chairman of the Board of the Company, has been serving as the General Manager of Angang Holding, the controlling shareholder of the Company, since December 1994.
- (2) Mr. CAI Denglou, Vice-Chairman of the Board of the Company, has been serving as the Deputy General Manager of Angang Holding since January 1999.
- (3) Mr. YU Wanyuan, Non-executive Director of the Company, has been serving as the Deputy General Manager of Angang Holding since December 2001.
- (4) Mr. QI Cong, Chairman of the Supervisory Committee of the Company, has been serving as a member of the senior management of Angang Holding since November 1998.

### Shares held by Directors, Supervisors, and Senior Management (continued)

Save as disclosed herein, as at 31 December 2001, none of the Directors, supervisors, chief executive or senior management staff of the Company and their associates had any beneficial interest in the issued share capital or debt securities of the Company and/or any associated corporation (within the meaning as defined in the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)) which were required to be entered in the register of interest maintained by the Company pursuant to section 29 of the SDI Ordinance or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year of 2001, none of the Directors, supervisors, chief executive or senior management staff of the Company and /or any of their respective spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

### Remuneration of the Directors, Supervisors and Senior Management

The remuneration of the directors and supervisors in 2001 was proposed by the Board and will be approved by the shareholders in general meeting. The remuneration was determined on the basis of the status of the operations of the Company and of the remuneration paid by similar enterprises in the mainland.

The total remuneration payable to directors, supervisors and senior management of the Company in 2001 was Rmb1,266,800 (excluding the retirement scheme contributions). The total remuneration payable to the three directors and senior management with highest remuneration were Rmb300,000. The director’s fee payable to Yu Wanyuan, a non-executive Director, was Rmb20,000; the director’s fee payable to Yang Tianjun, an independent Director, was Rmb20,000; the director’s fee payable to Venantius Tan, an independent Director, was Rmb21,400; and the director’s fee payable to Ho Ying, an independent Director, was Rmb21,400. The number of directors, supervisors and senior management whose remuneration was in the band of below Rmb50,000 was 1; whose remuneration was in the band of Rmb50,000 - 80,000 was 3; and, whose remuneration was in the band of Rmb80,001 - 100,000 was 9.

In 2001, the five highest paid staff of the Company were Directors of the Company.

### Resignation of Directors, Supervisors and Senior Management during the reporting period

The Company convened the sixth meeting of the second Board on 14 November 2001 and the meeting approved the resignation of Mr. Ho Ying, an independent Director of the Company, from the aforesaid post. Mr. Ho Ying resigned from the position of independent Director because he considered that he was unable to set aside sufficient time to discharge his duties as an independent Director.

### Major Suppliers and Customers

The cost of raw materials purchased from the Company’s five largest suppliers represented 58.7% of the Company’s total purchase for the year, of which purchases from the largest supplier represented 57% of the Company’s total purchases. The sales to the Company’s five largest customers in aggregate represented 35% of the Company’s total turnover for the year and the largest customer accounted for 17%.

Angang New Steel and Iron Company Limited (“ANSI”) is a subsidiary of Angang Holding, the controlling shareholder of the Company and the largest supplier of materials to the Company.

Except as disclosed herein, none of the directors, supervisors, their associates or any shareholders who, to the knowledge of the Board, hold more than 5% of the shares of the Company, has interests in the suppliers or customers mentioned above during the year.

### **The Code of Best Practice**

To the best knowledge of the Board, the Company had, throughout the year 2001, complied with the requirements of paragraphs 1 to 14 of the Code of Best Practice, as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

### **Service Contracts of Directors and Supervisors**

Each of the executive directors and supervisors of the Company has entered into a service contract with the Company for an initial term of 3 years commencing from 8 May 2000. The newly elected directors and supervisors hold the same tenure as that of the other members of the Board and the Supervisory Committee. No director or supervisor has entered into any service contract with the Company which may not be terminated by the Company within one year without compensation other than statutory compensation.

### **Purchase, Sale and Redemption of Securities**

In 2001, the Company issued 39,991,818 A shares in respect of the conversion of the convertible debentures issued by the Company in March 2000. Other than these A shares issued upon such conversion, there were no other purchase, sale or redemption by the Company or any of its subsidiaries of its securities during the year.

### **Pre-emptive Rights**

In accordance with the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

### **Directors' and Supervisors' Interest in Contracts**

During the year, none of the directors or supervisors of the Company or its subsidiaries had any material interests in any contracts of significance to which the Company or any of its subsidiaries was a party.

### **Trust Deposits**

As at 31 December 2001, the Company did not have any trust deposits placed with any financial institutions in the PRC and did not encounter any difficulties in making withdrawals of the Company's fixed deposits with banks.

### **Fixed Assets**

Movements in the fixed assets during the year are set out on pages 66 to 67 and page 97 of this report.

### **Convertible Debentures**

Details of the convertible debentures are set out on pages 70 to 71 and page 101 of this report.

### **Reserves**

As at 31 December 2001, the reserves available for distribution to shareholders by the Company was Rmb1,042,838,000 after deduction of 2000 dividend of Rmb2,875,000 paid during the year. Movements in the reserves during the year are set out on pages 72 to 73 and pages 102 to 103 of this report.

### **Statutory Public Welfare Fund**

Details of the statutory public welfare fund in terms of its nature, application, movement and basis of calculation (including the percentage used and amount of profits for calculation) are set out on pages 72 to 73 and page 102 of this report.

### **Employee Retirement Scheme**

The Company participates in an employee pension scheme pursuant to the relevant regulations prescribed by Anshan City and the Liaoning Provincial Government in accordance with the guidelines of the PRC Government. All the employees of the Company are entitled to receive, on retirement, pension payments from this scheme. The Company has no other material obligation for payment of retirement benefits beyond the contributions which are calculated based on 30.5% of the aggregate monthly salaries of all employees of the Company. For the year ended 31 December 2001, the total contribution of the Company to such scheme was Rmb47,796,000.

### **Connected Transactions**

Details of connected transactions for the year are set out on pages 75 to 77 and pages 105 to 107 of this report. The independent non-executive Directors of the Company has confirmed that (i) all connected transactions entered into by the Company during 2001 have been entered into in the ordinary and usual course of business, either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders are concerned; and (ii) the consideration of each of the connected transactions has not exceeded the respective prescribed cap as granted by the Stock Exchange.

### **Five-year summary**

A summary of the results and of the asset and liabilities of the Company for the past five years is set out on page 80 of this report.

### **Practice Note 19**

The Company did not advance any money to any entity which accounted for over 25% of the Company's net assets, nor provide any financial assistance and guarantees to any of its affiliated companies which accounted for 25% of the Company's net assets. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor make any loan agreements imposing specific obligations on the controlling shareholders.

### **Auditors**

KPMG (Certified Public Accountants in Hong Kong) and KPMG Peat Marwick Huazhen (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2001. A resolution for the reappointment of KPMG and KPMG Peat Marwick Huazhen as the Company's international and domestic auditors respectively for the year 2002 will be proposed at the forthcoming annual general meeting to be held on 15 May 2002.

### Working Report of the Board

1. On 20 March 2001, the Company convened the fourth meeting of the second Board at Angang Dongshan Hotel, 108 Dong Fong Street, Tie Dong District, Anshan City, Liaoning Province, the PRC. Resolutions regarding the following were considered and approved:
  - a. the 2000 working report of the Board;
  - b. the 2000 annual report and its summaries;
  - c. the 2000 audited financial statements of the Company;
  - d. the profit distribution proposal of the Company for 2000;
  - e. the remuneration of the directors and the supervisors of the Company for 2000;
  - f. the re-appointment of the Company's auditors for 2001 and the authorization to the directors to determine the auditors' remuneration;
  - g. the representation letter and representation on related party transactions for 2000 financial statements to KPMG and KPMG Peat Marwick Huazhen;
  - h. the appointment of Central Clearing (Registrars) Company Limited to issue and seal the Company's new shares from 1 April 2000 to 28 February 2001. The share number is from 46280 to 46554.

The announcement of the above-mentioned meeting was issued in the China Securities Journal, the Securities Times, the Hong Kong iMail and the Hong Kong Economic Times on 21 March 2001.

2. On 13 August 2001, the Company held its fifth meeting of the second Board at Angang Dong Shan Hotel, 108 Dong Fong Street, Tie Dong District, Anshan City, Liaoning Province, the PRC. Resolution regarding the following were considered and approved:
  - a. the 2001 interim report and its summary;
  - b. the 2001 interim profit appropriation proposal. No distribution of interim profit was declared and no transfer from the Company's common reserves to its share capital was made during the 2001 interim period.

The announcement of the above-mentioned meeting was issued in the China Securities Journal, the Securities Times, the Hong Kong iMail and the Hong Kong Economic Times on 14 August 2001.

3. On 14 November 2001, the Company held its sixth meeting of the second Board at Angang Dong Shan Hotel, 108 Dong Fong Street, Tie Dong District, Anshan City, Liaoning Province, the PRC. Resolutions regarding the following were considered and approved:
  - a. the authorisation of Yao Lin, General Manager, to represent the Company to sign the Supply of Materials and Services Agreement;
  - b. the proposal for the setting up of galvanised steel sheet and color coating steel sheet production line;
  - c. the resignation of Mr. Ho Ying from the position of independent non-executive Director of the Company.
  - d. the establishment of level I American depository receipt.

The announcement of the above-mentioned meeting was issued in the China Securities Journal, the Securities Times, the Hong Kong iMail and the Hong Kong Economic Times on 15 November 2001.

### Working Report of the Board *(continued)*

4. On 31 December 2001, the Company held its seventh meeting of the second Board at Angang Dong Shan Hotel, 108 Dong Fong Street, Tie Dong District, Anshan City, Liaoning Province, the PRC. Resolutions regarding the following were considered and approved:
  - a. the borrowing of RMB2 billion from the Bank of China and the authorisation of Yao Lin, General Manager, to handle matters in connection therewith;
  - b. the borrowing of RMB63 million from the Industrial and Commercial Bank of China for the renovation of the pipe wire production system, and the authorisation of Yao Lin, General Manager, to handle matters in connection therewith;
  - c. the appointment of Morrison & Foerster as the international legal adviser of the Company.

The announcement of the above-mentioned meeting was issued in the China Securities Journal, the Securities Times, the Hong Kong iMail and the Hong Kong Economic Times on 4 January 2002.

5. On 10 July 2001, the Board passed a written resolution to remove Mr. Yuan Dong Zhu and Mr. Cai Changyi as members of the Audit Committee; and appointed Mr. Yu Wanyuan and Mr. Venantius Tan as members of the Audit Committee.
6. On 27 August 2001, the Board passed a written resolution to approve the agreement entered into between the Company and the Liquidation Division of 鞍山東北風冷軋帶鋼股份有限公司 (Anshan Dongbeifeng Cold Rolling Steel Company Limited) (“Dongbeifeng”), pursuant to which the Company agreed to acquire from Dongbeifeng the assets of the Makoutie Railway Phase I project including, inter alia, a piece of land with an area of 66,442.08m<sup>2</sup>, a plant and an office building together with the relevant equipment and facilities for a consideration of RMB50,000,000.
7. Execution by the Board of resolutions passed at general meetings

During the year, the Board executed all the resolutions passed at the general meetings of the Company.

One behalf of the Board

**Liu Jie**  
*Chairman*

25 March 2002