

SIGNIFICANT EVENTS

1. Material Litigation and Arbitration

The Company was not involved in any material litigation or arbitration during the year.

2. Purchase and Sale of Assets of the Company

The Company acquired the assets of Dongbeifeng's Makoutie Phase I project including, inter alia, a piece of land with an area of 66,422.08m², a plant and an office building together with the relevant equipment and facilities for a consideration of Rmb50,000,000 in December 2001. At present, such facilities are not engaged in production and operation. The consideration of such acquisition accounted for 0.67% of the net asset value of the Company as at the end of 2001. This will not have any material impact on the financial status and operating results of the Company.

3. Material Connected Transactions

In 2001, the Company purchased most of the raw materials, energy and utilities necessary for its production operations from Angang Holding and ANSI, and sold to Angang Holding and ANSI part of its products which were needed for its technological transformation and equipment maintenance. The transactions and prices were in compliance with the supply of materials and services agreements entered into by the parties.

Major items provided by ANSI to the Company were as follows:

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Billets	Not higher than the minimum sales price for the preceding month offered by ANSI to its independent third party customers and the average of the prices of batch raw materials quoted to the Company by five independent suppliers in the PRC	Rmb1,513/tonne	1,232,986	100
Slabs		Rmb1.700/tonne	434,159	94.23
Hot rolled coils		Rmb2,047/tonne	2,476,198	100
Molten iron		Rmb1,063/tonne	2,084,731	100
Scrap steel		Rmb977/tonne	164,055	100
Water for industrial use	At cost	Rmb0.62/tonne	13,973	100
Recycled water		Rmb0.33/tonne	23,328	100
Soft water		Rmb3.67/tonne	3,186	100
Mixed gas	At cost	Rmb18.32/GJ	119,078	100
Nitrogen		Rmb0.07/M ³	9,526	100
Oxygen		Rmb0.38/M ³	46,275	100
Argon		Rmb1.00/M ³	2,586	100
Hydrogen		Rmb1.95/M ³	9,094	100
Compressed air		Rmb0.07/M ³	16,581	100

3. Material Connected Transactions (continued)

Major items provided by the Company to ANSI were as follows:

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Billets	Not less than the average of the sales prices for the preceding month offered by the Company to its independent third parties	Rmb1,758/tonne	56,493	7.68
Slabs		Rmb1,613/tonne	4,527	3.92
Cold rolled sheets		Rmb3,078/tonne	1,224	0.04
Thick plates		Rmb2,606/tonne	62,100	2.70
Wire rods		Rmb2,035/tonne	33,651	2.00
Large steel products		Rmb2,354/tonne	2,476	0.18
Pipe billets		Rmb1,880/tonne	647,932	100
Scrap steel		Rmb930/tonne	226,577	69

Major items provided by Angang Holding to the Company were as follows:

Items	Pricing principle	Price (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Railway transportation	State price	24,601	100
Road transportation	Market price	13,922	53.36
Export agency	1.5% as commission	13,357	100
Purchase of heavy oil liquefied gas		1,043	100
Testing and analysis of products	State price	9,372	44.94
Repair and maintenance of equipment		11,749	12.15
Design and engineering		6,125	77
Heat supply to staff quarters		3,558	30.22
Telephone/fax, TV services		1,254	50.79
Lime		Not higher than the average of the sales prices for the preceding month offered by Angang Holding to independent third parties	Unit price: Rmb435/tonne
Refractory materials	Unit price: Rmb1,866/tonne		18,003

3. Material Connected Transactions (continued)

The above connected transactions of the Company were all settled in cash.

In 2001, the gross profit margin of the pipe billets sold by the Company to ANSI was 11.53%.

The above connected transactions, as confirmed by the independent non-executive Directors, were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; (iii) in accordance with the terms of the Services Agreement; and (iv) subject to the terms and conditions of the conditional waiver granted by the Stock Exchange.

Subject to the abovementioned connected transactions, there were no other material contracts entered into between the Company and its controlling shareholder in 2001.

4. Appointment, Change and Termination of Appointment of Auditors

KPMG and KPMG Peat Marwick Huazhen were appointed at the 2000 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2001. The remuneration for auditors for 2001 amounted to HK\$1,820,000 in respect of auditing services for H shares and HK\$1,480,000 in respect of auditing services for A shares, totalling HK\$3,300,000.

5. Material Contracts and Their Performance

The Company did not enter into any trust, contractual or lease arrangement during the reporting period. The Company also did not provide guarantees to any third parties nor entered into any trust financial arrangements.

6. Other Material Contracts

1. On 29 August 2001, the Company entered into the Assets Transfer Agreement with Dongbeifeng in respect of the Makoutie Phase I Project.
2. On 14 November 2001, the Company entered into the Supplemental Supply of Materials and Services Agreement with Angang Holding.
3. On 8 February 2001, the Company initially entered into a Angang New Steel - Thyssen joint venture agreement with German Company Thyssen Krupp Stahl AG in respect of the setting up of a galvanised production line in Dalian, Liaoning Province.

7. Purchase of Staff Quarters

The Company purchased staff quarters with an area of 19,789m² and paid subsidies of Rmb5,013,000.

8. Subsequent Events

On 9 January 2002, the Company entered into a joint venture agreement, an articles of association and a technology transfer agreement with Thyssen Krupp Stahl of Germany, which were approved by the Ministry of Foreign Trade and Economic Cooperation on 1 February 2002. Pursuant to an agreement entered on 9 January 2002, the Bank of China, Liaoning Branch agreed to arrange to provide necessary financing to ANSC-TKS Galvanizing Co., Ltd. (to be set up jointly by the Company and Thyssen Krupp Stahl AG) in relation to its galvanized steel production line. On 8 February 2002, the Company and Thyssen Krupp Stahl AG jointly established ANSC-TKS Galvanizing Co., Ltd. with a registered capital of US\$60,000,000 with each party holding a 50% interest. On 2 February 2002, the Company entered into an agreement in respect of color coating steel sheet with 新日鐵公司 of Japan pursuant to which 新日鐵公司 will provide equipment and technology necessary for the proposed color coating steel sheet business of the Company.

9. Supplementary Information Supplied In accordance with the PRC Requirement

1. Analysis on the difference of net assets and net profits in accordance with the PRC Accounting Rules and Regulations and International Accounting Standards

	Net assets <i>Rmb'000</i>	Net profits <i>Rmb'000</i>
In accordance with PRC accounting standards	7,201,397	403,743
1. Dividend	236,635	—
2. Convertible debentures	8,225	—
3. Deferred tax	(2,715)	(37,262)
In accordance with IAS	7,443,542	366,481

9. Supplementary Information Supplied In Accordance with the PRC Requirement (continued)

2. Return on net assets and earnings per share (In accordance with the PRC accounting standards)

	Fully diluted	Weighted
Return on net assets	5.61%	5.61%
Earnings per share	0.136	0.137

3. A breakdown of the provision for diminution in value of assets for 2001 (In accordance with the PRC accounting standards)

Item	Opening balance <i>Rmb'000</i>	Addition <i>Rmb'000</i>	Transfer <i>Rmb'000</i>	Closing balance <i>Rmb'000</i>
1. Total provision for bad debts	21	35	—	56
Including: other account receivables	21	35	—	56
2. Total inventory provision (components spare and parts)	77,920	—	(4,454)	73,466

4. In accordance with the PRC accounting standards, non-operating expenses of the Company amounted to Rmb33,457,000 for 2001, which increased by Rmb28,750,000 from Rmb4,707,000 for 2000. It was attributable to loss arising from renovation of retired fixed assets of Cold Rolled Plant and Large Section Plant.