

Report of the Directors

The Board is pleased to present this annual report and the audited financial statements for the year ended 31 December 2002.

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 information of principal operating revenue and profit from principal operations of the Company for the reporting period (in accordance with PRC Accounting Rules and Regulations, Unit: Rmb'000)

Products	Income from principal activities	Cost of principal activities	Gross profit margin (%)	Percentage change of income from principal activities compared with previous year	Percentage change of cost of principal activities compared with previous year	Gross profit margin Increase (+) /decrease (-) (%)
				Increase (+) /decrease (-) (%)	Increase (+) /decrease (-) (%)	
Cold rolled sheets	4,302,645	3,837,017	10.82	39.40	34.32	45.23
Thick plates	2,309,085	2,066,566	10.50	-4.85	-2.23	-18.60
Wire rods	1,653,465	1,575,276	4.73	-2.21	-3.44	34.38
Large steel products	2,198,228	1,701,935	22.58	1.38	-0.32	6.26
Steel billets	307,654	293,003	4.76	160.45	140.72	256.58
Including: connected transactions	1,208,952	1,092,783	9.61	8.25	7.01	12.27

Pricing policy for connected transactions

Not less than the average of selling prices between the Company and its independent third parties during the previous month.

Description on the necessity and continuity of connected transactions

Steel production requires a larger degree of continuity. The Company relies on Angang Holding and its subsidiaries for supply of most of its raw materials and sells part of its products to Angang Holding and its subsidiaries. Therefore, such connected transactions will continue for future productions and operations of the Company.

Report of the Directors *(Continued)*

PRINCIPAL ACTIVITIES *(continued)*

Note:

1. Increase in income from cold rolled sheet (as principal operations) over the previous year was mainly due to an increase in sales volume of cold rolled sheet, expansion in the proportion of high value-added products and a rise in price of products. In 2002, sale volume of cold rolled sheet increased 29% over the previous year; price of products increased by 8.35% over the previous year;
2. Increase in costs for cold rolled sheet (as principal operation) over the previous year was mainly due to an increase in sales volume and purchase prices for raw materials of cold rolled sheet;
3. Increase in gross profit margin of cold rolled sheet over the previous year was mainly due to an increase in price of products and expansion in the proportion of high value-added products;
4. Increase in gross profit margin of wire rods over the previous year was mainly due to an expansion in the proportion of high value-added products for wire rods and a rise in price of wire rods products;
5. Increases in income, costs and gross profit margin from steel billets (as principal operations) over the previous year were mainly due to the adoption of processing substituting material method in 2001 and the adoption of product selling method in 2002.

All of the Company's business operations are conducted in the PRC.

The increase in profitability of the Company's principal operations during the year was mainly attributable to the Company's realignment of its product mix in an active manner, expansion in the proportion of high value-added products and a rise in prices of the Company's products, in particular, the price for cold rolled sheet products had increased by 8.35%.

PROFIT DISTRIBUTION PROPOSAL FOR THE YEAR

The Board recommends a distribution of dividend for 2002 of Rmb0.1 (tax inclusive) in cash per share. The proposal is subject to the approval at the Company's annual general meeting for 2002. After approval at the annual general meeting, the dividend will be payable to the holders of H shares of the Company whose names appear on the register of members of the Company at the close of trading on 23 April 2003.

PROFIT DISTRIBUTION FOR THE REPORTING PERIOD

The Company held its annual general meeting for 2001 on 15 May 2002, at which the profit distribution proposal for 2001 was passed. It was resolved that a cash dividend of Rmb0.8 for every 10 shares be paid. On 10 July 2002, the Company paid cash dividends to its holders of H shares at the applicable exchange rate of HK\$100 to Rmb106.2, 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\$0.0753 per share. On 4 July 2002, the Company paid cash dividend to holders of domestic listed A shares and State-owned legal person shares. As at the registration date of 3 July 2002, the Company had 750,805,941 listed A shares and 1,319,000,000 State-owned legal person shares. Cash dividends of Rmb0.8 for every 10 shares were distributed.

Report of the Directors *(Continued)*

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

As at 31 December 2002, 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 2002 (share)	Change during the year (share)	Number of shares held as at 31 December 2002 (share)
LIU Jie	Chairman of the Board	2000.5.8-2003.5.7	5,000	0	5,000
CAI Denglou	Vice Chairman	2000.10.18-2003.5.7	0	0	0
YANG Hua	Vice Chairman	2000.10.18-2003.5.7	0	0	0
YAO Lin	Director, General Manager	2000.5.8-2003.5.7	5,000	0	5,000
WANG Baolin	Director	2000.5.8-2003.5.7	5,000	0	5,000
LI Zhongwu	Director, Deputy General Manager	2000.10.18-2003.5.7	0	0	0
ZHANG Lifan	Director, Deputy General Manager	2000.10.18-2003.5.7	0	0	0
FU Jihui	Director, Deputy General Manager	2000.5.8-2003.5.7	5,000	0	5,000
LU Xianliang	Director, Deputy General Manager	2000.5.8-2003.5.7	5,000	0	5,000
YU Wanyuan	Non-executive Director	2000.5.8-2003.5.7	0	0	0
YANG Tianjun	Independent non-executive Director	2000.5.8-2003.5.7	0	0	0
Venantius TAN	Independent non-executive Director	2000.5.8-2003.5.7	0	0	0
LIU Yongze	Independent non-executive Director	2002.11.20-2003.5.7	0	0	0
QI Cong	Chairman of the Supervisory Committee	2000.5.8-2003.5.7	0	0	0
ZHOU Fa	Supervisor & Chairman of the Labour Union	2000.5.8-2003.5.7	5,000	0	5,000
JIN Zuoyong	Supervisor	2000.5.8-2003.5.7	5,000	0	5,000
FU Wei	Deputy General Manager	2000.8.16-present	9,000	0	9,000
MA Lianyong	Chief Accountant	2002.3.25-present	0	0	0

Report of the Directors *(Continued)*

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT *(continued)*

- 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. Yang Hua, Vice-Chairman of the Board of the Company, has been serving as the Deputy Secretary to the Party Committee of Angang Holding since December 2001.
- (3) 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.
- (4) Mr. YU Wanyuan, Non-executive Director of the Company, has been serving as the Deputy General Manager of Angang Holding since December 2001.
- (5) 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.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the directors and supervisors in 2002 was proposed by the Remuneration and Review Committee under the Board. It was considered by the Board and will be approved by the shareholders at the 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 2002 was Rmb1,472,900. The total remuneration payable to the three directors with highest remuneration, who are also the members of the senior management, were Rmb351,800. 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 Liu Yongze, an independent director, was Rmb20,000; the director's fee payable to Venantius Tan, an independent Director, was HK\$20,000. 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 - 100,000 was 3; whose remuneration was in the band of Rmb100,000 - 120,000 was 9; and whose remuneration was in the band of Rmb120,000-140,000 was 1; In 2002, 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 seventh meeting of the second Board on 25 March 2002 at which the Board appointed Mr. Ma Lianyong as the chief accountant of the Company.

On 20 November 2002, the Company convened an extraordinary general meeting for 2003 at which a resolution was passed to elect Mr. Liu Yongze as an independent director of the Company.



Report of the Directors *(Continued)*

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLING COMPANY AND INVESTEE COMPANIES

ANSC-TKS Galvanizing Co., Ltd., is an investee company of the Company with registered capital of USD60 million. The Company holds 50% equity interest in it. As to the date of this annual report, this company is in a preparation stage and has not formally commenced production and operation.

MAJOR SUPPLIERS AND CUSTOMERS

The cost of raw materials purchased from the Company's five largest suppliers represented 59% 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 17% of the Company's total turnover for the year and the largest customer accounted for 6.35%.

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 2002, 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

Other than the independent non-executive directors, each of the 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 2002, the Company issued 2,938,530 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.

Report of the Directors *(Continued)*

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed herein, as at 31 December 2002, 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, none of the directors or supervisors of the Company had any material interests in any contracts in which the Company, or the holding Company or any of its subsidiaries were involved in.

TRUST DEPOSITS

As at 31 December 2002, the Company did not have any trust deposits placed with any non-banking 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 pages 114 to 116 of this report.

CONVERTIBLE DEBENTURES

Details of the convertible debentures are set out on page 76 and pages 121 to 122 of this report.

RESERVES

Movements in the reserves during the year are set out on pages 78 to 79 and pages 124 to 126 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 page 78 and pages 124 to 126 of this report.

EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out on page 85 and page 131 of this report.

CONNECTED TRANSACTIONS

Details of connected transactions for the year are set out on pages 82 to 85 and pages 128 to 130 of this report. The independent non-executive Directors of the Company has confirmed that (i) all connected transactions entered into by the Company during 2002 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.

Report of the Directors *(Continued)*

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 136 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 Huazhen (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2002. A resolution for the reappointment of KPMG and KPMG Huazhen as the Company's international and domestic auditors respectively for the year 2003 will be proposed at the forthcoming annual general meeting to be held on 23 May 2003.

WORKING REPORT OF THE BOARD

1. On 25 March 2002, the Company convened the eighth meeting of the second Board. Resolutions regarding the following were considered and approved:
 - (1) the 2001 working report of the Board;
 - (2) the 2001 annual report and its summaries;
 - (3) the 2001 audited financial statements of the Company;
 - (4) the profit distribution proposal of the Company for 2001;
 - (5) the remuneration of the directors of the Company for 2001;
 - (6) the appointment of Mr. Ma Lianyong as the chief accountant of the Company;
 - (7) the proposal to the general meeting regarding the re-appointment of KPMG and KPMG Huazhen as international and domestic auditors of the Company for 2002 respectively and the authorization to the Board to determine their remunerations;
 - (8) the amendments to the Articles of Association of the Company;
 - (9) the Rules of Procedures for Annual General Meeting;

Report of the Directors *(Continued)*

WORKING REPORT OF THE BOARD *(continued)*

- (10) the Rules of Procedures for the Board of Directors' Meeting; and
 - (11) the resolution to establish special committees under the Board.
2. On 24 April 2002, the Company held its ninth meeting (by written statements) of the second Board at which the first quarterly report for 2002 was approved;
 3. On 19 August 2002, the Company held its tenth meeting of the second Board. Resolution regarding the following were considered and approved:
 - (1) the 2002 interim report and its summary;
 - (2) the 2002 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 2002 interim period.
 - (3) the nomination of Mr. Liu Yongze as an independent director of the Company.
 4. On 24 September 2002, the Board passed the resolution (by written statements), which approved the Company to enter into the Purchase Agreement with Angang Holding, subject to the approval by independent directors at the extraordinary general meeting for 2002.
 5. On 22 October 2002, the Board passed the resolution (by written statements), which approved the Company to pledge its 50% equity interest in ANSC-TKS Galvanizing Co., Ltd. as guarantee for the banking facilities regarding the project and provision of support for completion and fund shortage, and granted the authorization to Mr. Li Zhongwu, a director, to enter into an equity pledge agreement (the "Equity Pledge Agreement"), a completion support agreement (the "Completion Support Agreement"), a fund shortage support agreement (the "Fund Shortage Support Agreement") and an equity retention and subordination agreement (the "Equity Retention and Subordination Agreement").
 6. On 24 October 2002, the Company held its eleventh meeting (by written statements) of the second Board at which the third quarterly report for 2002 was approved;
 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.

On behalf of the Board

Liu Jie
Chairman

31 March 2003