

# Significant Event

## 1. MATERIAL LITIGATION AND ARBITRATION

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

## 2. ACQUISITION AND DISPOSAL OF INVESTMENT

The Company has no acquisition and disposal of investment during the year.

## 3. MATERIAL CONNECTED TRANSACTIONS

In 2002, the Company purchased most of the raw materials, energy and utilities necessary for its production operations from Angang Holding and Angang New Steel and Iron Company Limited ("ANSI"), a subsidiary of Angang Holding, and sold to Angang Holding and ANSI part of its products which were needed for their technological transformation and equipment maintenance. The transactions and prices were in compliance with the supply of materials and services agreement 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	Rmb1,485/tonne	775,139	100
Slabs		Rmb1,664/tonne	302,584	100
Hot rolled coils		Rmb2,201/tonne	3,502,370	100
Molten iron		Rmb1,060/tonne	2,664,361	100
Scrap steel		Rmb973/tonne	256,618	100
Water for industrial use	At cost	Rmb0.74/tonne	17,584	100
Recycled water		Rmb0.33/tonne	20,718	100
Soft water		Rmb2.56/tonne	2,504	100
Mixed gas	At cost	Rmb18.25/GJ	131,873	100
Nitrogen		Rmb0.06/M <sup>3</sup>	7,857	100
Oxygen		Rmb0.34/M <sup>3</sup>	51,718	100
Argon		Rmb1.00/M <sup>3</sup>	2,730	100
Hydrogen		Rmb1.34/M <sup>3</sup>	8,116	100
Compressed air		Rmb0.08/M <sup>3</sup>	18,826	100
Steam		Rmb27.09/GJ	22,506	100

# Significant Event *(Continued)*

## 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		Rmb1,943/tonne	56,034	45.53
Slabs		Rmb1,605/tonne	299,573	99.89
Cold rolled sheets	Not less than the average of the sales prices for the preceding month offered by the Company to its independent third parties	Rmb1,074/tonne	1,764	0.04
Thick plates		Rmb2,470/tonne	36,655	1.64
Wire rods		Rmb1,928/tonne	22,825	1.39
Large steel products		Rmb2,442/tonne	2,283	0.16
Pipe billets		Rmb1,883/tonne	571,917	99.63
Scrap steel		Rmb907/tonne	215,140	100

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	21,601	100		
Road transportation	Market price	15,129	59.19		
Export agency	1.5% as commission	8,626	100		
Testing and analysis of products	State price	14,598	83.57		
Repair and maintenance of equipment		34,358	10.67		
Design and engineering		107,567	6.36		
Heat supply to staff quarters		8,195	92.40		
Telephone/fax/TV services		1,318	80.27		
Lime		Not higher than the average of the sales prices for the preceding month offered by Angang Holding to independent third parties	Unit price: Rmb401/tonne	62,643	100
Refractory materials			Unit price: Rmb1,588/tonne	17,003	12.27

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

# Significant Event *(Continued)*

## **3. MATERIAL CONNECTED TRANSACTIONS *(continued)***

In 2002, the gross profit margin of the pipe billets sold by the Company to ANSI was 14.70%.

The above connected transactions, as confirmed by the independent non-executive Directors of the Board who were independent of the controlling shareholder, were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the terms of the Services Agreement.

Subject to the above-mentioned connected transactions, there were no other material contracts entered into between the Company and its controlling shareholder in 2002.

## **4. MATERIAL CONTRACTS AND THEIR PERFORMANCE**

(1) The Company did not enter into any trust, contractual or lease arrangement during the reporting period.

(2) Pledge of equity interest in jointly controlled entity

The Board of Directors passed a resolution on 22 October 2002 which approved the Company to enter into the Equity Pledge Agreement, the Equity Retention and Subordination Agreement, the Completion Support Agreement and the Fund Shortage Support Agreement with Thyssen Krupp Stahl AG ("Thyssen") and Bank of China for a syndicated loan to ANSC-TKS. Pursuant to these agreements, the Company and Thyssen pledged their respective interests in ANSC-TKS for a syndicated loan of Rmb 1.08 billion.

(3) The Company did not entrust the management of any of its assets during the reporting period.

(4) There were no other material contracts entered into by the Company during the reporting period.

## **5. APPOINTMENT, CHANGE AND TERMINATION OF APPOINTMENT OF AUDITORS**

KPMG and KPMG Huazhen were appointed at the 2001 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2002. The remuneration of the auditors for 2002 amounted to HK\$3.5 million. The Company reimbursed out of pocket expenses arising from auditing. KPMG and KPMG Huazhen have been appointed as international and domestic auditors of the Company for six consecutive years for auditing services.

# Significant Event *(Continued)*

## 6. UNDERTAKING

The second Board of Directors proposed at its eighth meeting the following profit distribution proposal of the Company for 2002 :

The Company intended to make a profit distribution after completion of the financial auditing for the year 2002. It is expected that not be less than 40% of the realized net profit for 2002 will be used for profit distribution, which will be mainly made in the form of cash.

The profit distribution proposal for 2002 was implemented in accordance with the above board resolution.

## 7. PURCHASE OF STAFF QUARTERS

In 2001 and 2002, the Company purchased staff quarters with an area of 19,789m<sup>2</sup> and paid subsidies of Rmb8,718,090, including Rmb5,012,700 paid for subsidies in 2001 and Rmb3,705,390 paid for subsidies in 2002.

## 8. SUBSEQUENT EVENTS

- (1) On 14 January 2003, the Company convened a Board meeting and passed a resolution which approved the Transfer Agreement between the Company and Angang Holding. Pursuant to this transfer agreement, the Company agreed to acquire the land use rights of three pieces of land and the title to six buildings situated thereon from Angang Holding for a total consideration of Rmb150,915,000. The three pieces of land consist of a total area of 335,133.80 square metres and the total gross floor area of the buildings is 6,350.1 square metres. The land and buildings were acquired for the improvement and expansion of the production facilities at the Cold Rolling Plant, the construction of the Galvanised Steel Production Line and the improvement of the production facilities at the Large Section Plant.
- (2) On 17 February 2003, the Company convened a Board meeting and passed a resolution which approved a proposal for the adjustment of the depreciation rates applicable to the fixed assets of the Company with effect from 1 January 2003. After making the adjustments to the depreciation rates, it is estimated that, based on the total fixed assets of the Company in 2003, the provision for depreciation for 2003 will increase by approximately Rmb103 million compared to 2002.
- (3) On 17 March 2003, the Company convened a Board meeting and passed a resolution which approved a joint venture contract (the "Joint Venture Contract") between the Company, 鞍鋼集團公司國際貿易公司 (Angang International Trading (Group) Company) ("AITG") and Angang New Steel and Iron Company Limited ("ANSI") for the joint establishment of 鞍鋼瀋陽鋼材加工配送有限責任公司 (Angang Shenyang Steel Product Processing & Distribution Company Limited) ("Angang Shenyang"). Angang Shenyang is principally engaged in the processing, sales, warehousing and delivering of steel. According to the Joint Venture Contract, the total investment of Rmb48 million was contributed by (i) the Company, as to Rmb14.4 million, representing 30% of the total investment; (ii) AITG as to Rmb19.2 million, representing 40% of the total investment; and (iii) ANSI as to Rmb14.4 million, representing 30% of the total investment.