

Significant Events

1. MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation or arbitration in 2003.

2. ACQUISITION AND DISPOSAL OF INVESTMENT

A meeting of the Board was held on 14 January 2003, at which a resolution was passed to approve a transfer agreement for land use rights between the Company and Angang Holding. Pursuant to the agreement, the Company agreed to acquire the land use rights of three pieces of land and the title to six buildings from Angang Holding for Rmb150,915,000. The total area of the three pieces of land was 335,133.80 square metres and the gross floor area of the six buildings was 6,350.1 square metres. The land use rights and the buildings were acquired for the improvement and expansion of the production facilities at the Cold Rolling Plant, construction of the Galvanised Steel Production Line and improvement of the production facilities at the Large Section Plant.

3. MATERIAL CONNECTED TRANSACTIONS

- (1) In 2003, the Company purchased most of the raw materials, energy and utilities necessary for its production operations from Angang Holding and its subsidiaries, and sold to Angang Holding and its subsidiaries some of its products required for technological improvement and equipment maintenance. The transactions and prices were in accordance with the Materials and Services Supply Agreement entered into between the parties.

ANSI is a subsidiary of Angang Holding. The Processing Company is a subsidiary of Angang Holding and a Company invested by the Company.

Significant Events *(Continued)*

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

Major items provided by ANSI to the Company and the Processing 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	Rmb1,778/tonne	666,486	100
Slabs		Rmb1,894/tonne	160,636	100
Hot rolled coils		Rmb2,707/tonne	5,153,581	100
(of which provided to the Company and the Processing Company)		Rmb2,597/tonne	5,105,026	100
Molten iron		Rmb1,280/tonne	48,555	100
Scrap steel		Rmb1,280/tonne	3,645,734	100
		Rmb970/tonne	278,213	100
Water for industrial use	At cost	Rmb0.78/tonne	12,466	100
Recycled water		Rmb0.35/tonne	9,410	100
Soft water		Rmb2.69/tonne	2,668	100
Mixed gas	At cost	Rmb19.16/GJ	157,386	100
Nitrogen		Rmb0.06/M ³	7,464	100
Oxygen		Rmb0.36/M ³	59,781	100
Argon		Rmb1.05/M ³	3,022	100
Hydrogen		Rmb1.41/M ³	11,049	100
Compressed air		Rmb0.08/M ³	16,957	100
Steam		Rmb28.44/GJ	26,354	100

Significant Events *(Continued)*

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

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

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Billets		Rmb1,891/tonne	44,725	47.85
Slabs		Rmb1,864/tonne	803,334	98.74
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	Rmb3,668/tonne	26,282	0.42
(of which provided to ANSI and the Processing Company)		Rmb4,322/tonne	4,089	0.07
Thick plates		Rmb3,558/tonne	22,193	0.35
Wire rods		Rmb3,307/tonne	77,586	2.81
Large steel products		Rmb2,455/tonne	48,191	2.79
Pipe billets		Rmb3,067/tonne	4,264	0.21
Scrap steel		Rmb2,051/tonne	833,364	100
		Rmb886/tonne	253,966	100

Significant Events *(Continued)*

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

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	21,897	100	
Road transportation	Market price	19,675	74.17	
Imports of components and accessories	1.5% as commission	1,332	100	
Export agency		9,269	100	
Purchase of heavy oil and liquified gas		70	100	
Testing and analysis of products	State price	15,784	66.29	
Repair and maintenance of equipment		88,538	23.39	
Design and engineering		121,748	27.61	
Heat supply to staff quarters		9,259	94.41	
Newspaper and other publications		149	48.61	
Telephone/fax/TV services		1,462	84.32	
Lime	Not higher than the average of the sales prices for the preceding month offered by Angang Holding and the company to independent third parties	Average unit price: Rmb395/tonne	71,824	100
Refractory materials		Average unit price: Rmb1,388/tonne	19,583	9.7

The major items provided by the Company to its jointly controlled entities are:

Item	Amount (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Cold hard coils	25,193	0.40

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

Significant Events *(Continued)*

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

In 2003, the gross profit margin of the pipe billets sold by the Company to ANSI was 9.49%.

The above connected transactions, as confirmed by the independent non-executive Directors of the Board who are 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.

Save as the above-mentioned connected transactions, there were no other material contracts entered into between the Company and its controlling shareholder in 2003.

- (2) A meeting of the Board was held on 14 January 2003, at which a resolution was passed to approve the Land Use Rights Transfer Agreement with Angang Holding. Pursuant to the agreement, the Company agreed to acquire the land use rights of three pieces of land and the six buildings constructed thereon from Angang Holding for a consideration of Rmb150,915,000. The total gross floor areas of the three pieces of land and the six buildings are 335,133.80 square metres and 6,350.1 square metres respectively. The land use rights of the land and the buildings thereon are acquired for the purposes of the improvement and expansion works of the Cold Rolling Plant, the construction of galvanized steel production line and the improvement of the Large Section Plant.
- (3) A meeting of the Board was held on 17 March 2003, at which a resolution was passed to approve the conclusion of a joint venture agreement amongst the Company, AITG and ANSI for the establishment of the Processing Company. The Processing Company is principally engaged in the processing, sales, warehousing and delivery of steel products. Pursuant to the agreement, the three parties would jointly contribute Rmb48,000,000, of which Rmb14,400,000 would be contributed by the Company, representing 30% of the investment; Rmb19,200,000 by AITG, representing 40%; and Rmb14,400,000 by ANSI, representing 30%.
- (4) On 19 December 2003, the Company convened an extraordinary general meeting in 2003, at which the signing of the 2004-2006 Supply of Materials and Services Agreement by the Company with Angang Holding was approved.

Significant Events *(Continued)*

4. MATERIAL CONTRACTS AND THEIR PERFORMANCE

- (1) The Group did not enter into any trust, contractual or lease arrangement during the reporting period.
- (2) Material guarantee

The Board of Directors passed a resolution on 22 October 2002 which approved the Company to form a jointly controlled entity with Thyssen Krupp Stahl AG ("Thyssen"). In connection with this jointly controlled entity, the Board of Directors also approved the Equity Pledge Agreement, the Equity Retention and Subordination Agreement, the Completion Support Agreement and the Fund Shortage Support Agreement with the Bank of China. Pursuant to these agreements, the Company and Thyssen jointly provided a pledge guarantee for the jointly controlled entity in relation to a loan of Rmb1,080,000,000 from the Bank of China. The loan pledge guarantee born by the Company totaled Rmb540,000,000. As of 31 December 2003, the Company's external guarantee totaled Rmb540,000,000, representing 6.03% of the net asset of the Company by the end of 2003.

- (3) The Group 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 Group during the reporting period.

5. APPOINTMENT, CHANGE AND TERMINATION OF APPOINTMENT OF AUDITORS

KPMG and KPMG Huazhen were appointed at the 2002 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2003. The remuneration of the auditors for 2003 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 seven consecutive years for auditing services.

6. UNDERTAKING

The Group or shareholders holding over 5% stake did not have any undertaking in 2003.

Significant Events *(Continued)*

7. PURCHASE OF STAFF QUARTERS

In 2003, the Company purchased staff quarters with an area of 4,422.78m² and paid subsidies of Rmb1,959,000.

8. SUBSEQUENT EVENTS

1. On 9 March 2004, the Company and 中國冶金建設集團公司 (China Metallurgical Construction (Group) Company), 武漢鋼鐵集團公司 (Wuhan Iron and Steel (Group) Company), 武漢市青山區國有資產經營有限公司 (State-owned Assets Operation Company Limited, Qingshan District, Wuhan City) and 深圳國際信托投資有限責任公司 (Shenzhen International Trust and Investment Company Limited) jointly established 中冶南方工程技術有限公司 (Zhongye Nanfang Engineering Technology Company Limited). Its registered capital is Rmb100,000,000. Of which, the contributions by the Company, Wuhan Iron and Steel (Group) Company, State-owned Assets Operation Company Limited and Qingshan District, Wuhan City represented a premium of 1:1.5, which amounted to Rmb10,500,000, Rmb10,500,000 and Rmb2,250,000 respectively and accounted for 7%, 7% and 1.5% equity interests thereof. The portion of the premium will be included in the capital reserve. The capital contributions by China Metallurgical Construction (Group) Company and Shenzhen International Trust and Investment Company Limited were in the proportion of 1:1, which amounted to Rmb45,000,000 and Rmb39,500,000 respectively and accounting for 45% and 39.5% equity interests thereof. The company is principally engaged in the research and development of new technologies, advanced technologies and new equipment and facilities; technology transfer; technological consultation; engineering design; procurement of equipment and materials and services; manufacture and supply of core equipment and materials; management of projects' implementation; management of construction of projects, contracting of projects.
2. On 23 March 2004, the Board approved the signing of the Asset Purchase Agreement by the Company with Angang Holding, pursuant to which the Company would acquire from Angang Holding the water supply station which provides recycled water to the Company's thick plate plant and wire rod plant. The assets comprise land with a gross floor area of 61,858.57 square meters, buildings, machinery and equipment. The consideration was based on the valuation by the domestic valuer of Rmb62,206,000. As Angang Holding is the controlling shareholder of the Company, the above transaction constituted a connected transaction. The agreement is subject to the approval by independent shareholders at the 2003 annual general meeting of the Company.

Significant Events *(Continued)*

8. SUBSEQUENT EVENTS *(continued)*

Supplementary information:

Schedule of the asset impairment in 2003

Items	Balance at the beginning of the year	Provision for the year	Written back for the year	<i>Unit:Rmb'000</i>
				Balance at the end of the year
Bad debt provision	160	—	157	3
including :				
other receivables	160	—	157	3
Provision in				
diminution in value	54,282	15,130	5,816	63,596
including:				
spare parts	54,282	—	5,816	48,466
finished products	—	15,130	—	15,130