

### 1. MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation or arbitration in 2004.

### 2. ACQUISITION AND DISPOSAL OF INVESTMENT

- (1) On 23 March 2004, the Board approved the entering into of the Asset Purchase Agreement by the Company and Angang Holding, pursuant to which, the Company shall 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 comprised fixed assets including land and buildings with a gross floor area of 61,858.57 square meters and machinery and equipment. The consideration of Rmb62,205,800 was determined on the basis of the valuation by a domestic valuer. The agreement was approved by shareholders at the Company's 2003 Annual General Meeting on 15 June 2004 and was completed on 30 July 2004.
- (2) On 29 December 2004, the Board approved certain proposals in relation to the acquisition under the acquisition agreement in respect of the 100% Equity between Angang Holding and the Company to be financed by the proceeds from the rights issue and placing of domestic shares to Angang Holding. The Company expects to integrate its core steel business through the acquisition of 100% equity interests in ANSI which operates the upstream facilities for steel production, so as to significantly increase its competitiveness as a listed company. The consideration of acquisition = initial consideration + final adjustment amount. Initial consideration represents the net asset value of ANSI as at the valuation base date as assessed in the valuation report of a PRC domestic value, which is subject to approval and adjustment by State-owned Assets Supervision and Administration Commission. The final adjustment amount = the audited book value of net assets of ANSI as at the Completion Date - the audited net asset value of ANSI as at the valuation base date - depreciation, amortisation and other factors resulting from an increase (or decrease) in net asset value of ANSI for the period commencing on the valuation base date and ending on the completion date. The acquisition was approved by the shareholders at the extraordinary general meeting, the class meetings for holders of A Shares and the class meeting for holders of H Shares of the Company, respectively on 28 February 2005, subject to a further approval by relevant regulatory authority.

### 3. MATERIAL CONNECTED TRANSACTIONS

- (1) In 2004, 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. Shenyang Steel Processing Company (“the Shenyang Processing Company”) is a subsidiary of Angang Holding and an associated company with investment by the Company.

#### 1) Connected Purchase

Major items provided by Angang Holding and its subsidiaries 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 transactions (%)
Billets		Rmb2,292/tonne	690,339	100
Slabs		Rmb2,550/tonne	221,569	100
Hot rolled coils		—	9,318,953	100
Including:				
Provided to the Company	Not higher than the minimum sales price for the preceding month offered by Angang Holding and its subsidiaries to their independent third party customers and the average prices of batch raw materials quoted to the Company by five independent suppliers in the PRC	Rmb3,609/tonne	9,317,025	100
Provided to the Processing Company (the amount of connected transaction is based on 30% as shareholding of the Company)		Rmb3,226/tonne	1,928	100
Molten iron		Rmb1,787/tonne	5,898,584	100
Scrap steel		Rmb1,399/tonne	402,487	100
Water for industrial use		Rmb0.82/tonne	8,539	99.69
Recycled water		Rmb0.37/tonne	10,147	100
Soft water		Rmb2.82/tonne	2,414	100
Mixed gas		Rmb20.12/GJ	176,825	100
Nitrogen	At cost	Rmb0.06/M <sup>3</sup>	9,723	100
Oxygen		Rmb0.38/M <sup>3</sup>	70,615	100
Argon		Rmb1.10/M <sup>3</sup>	3,751	100
Hydrogen		Rmb1.48/M <sup>3</sup>	12,910	100
Compressed air		Rmb0.08/M <sup>3</sup>	14,559	100
Steam		Rmb29.86/GJ	30,844	98.64
Lime		Rmb393/tonne	87,587	100
Refractory materials		Rmb2,897/tonne	21,077	8.65
Other ancillary materials		—	83,400	9.84
Total	—	—	17,064,323	94.53

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

#### 2) Connected Sales

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

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)	
Billets		2,555/tonne	72,150	69.20	
Slabs		2,421/tonne	727,204	100	
Cold rolled sheets	The average selling prices for the preceding month offered by the Group to its independent third parties	4,391/tonne	16,077	0.20	
Galvanized steel sheets		4,824/tonne	900	0.04	
Colour coating plates		5,935/tonne	9,642	8.11	
Thick plates		3,923/tonne	271,614	5.84	
Wire rods		3,225/tonne	86,154	3.13	
Large steel products		3,521/tonne	20,732	0.80	
Scrap steel		1,071/tonne	496,630	96.39	
Pipe billets		Production cost plus a margin not less than 9%	2,773/tonne	1,093,320	100
Total		—	—	2,794,423	12.49

### 3. MATERIAL CONNECTED TRANSACTIONS (continued)

#### 3) Comprehensive services

Supportive services and financial services provided by the Company to Angang Holding and its subsidiaries were as follows:

Items	Pricing principle	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Railway transportation	State price	33,769	100
Road transportation	Market price	27,027	62.23
Export agency		47,155	100
Import of components and accessories		2,916	100
Purchase of heavy oil and liquefied gas		1	100
Testing and analysis of products		15,695	49.90
Repair and maintenance of equipment		99,672	24.62
Design and engineering services	State price	31,255	5.03
Heat supply to staff quarters		464	3.97
Newspaper and other publications		3	0.50
Telephone/fax/TV services		2,183	73.17
Total	—	260,140	21.67
Interest paid to the Company by Angang Group Financial Company Limited	Interest rates published by the People's Bank of China from time to time	5,863	23.71
Maximum deposit of the Company at Angang Group Financial Company Limited for settlement purpose	—	990,178	—

Material Processing Service provided by the Company to ANSI:

Items	Pricing principle	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Material processing service	Processing of cold rolled silicon steel per tonne amounted to RMB622 Packaging fee for cold rolled silicon steel per roll amounted to RMB350	84,201	99.80

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

- 4) The major items provided by the Company to its jointly controlled entities were as follows:

Items	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Cold hard coils	946,827	11.66

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

In 2004, the gross profit margin of the pipe billets sold by the Company to ANSI was 11.63%.

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 (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms; (3) in accordance with the terms of the Services Agreement; and (4) in accordance with the provisions and prerequisites under the conditional waiver granted by the Stock Exchange.

- (2) Amounts due to or from the connected parties of the Company

As at 31 December 2004, Rmb1,963,000,000 of the Company's bank loan was guaranteed by Angang Holding.

Angang Holding also provided a guarantee for the convertible debentures issued by the Company in March 2000. Currently, Angang Holding has significantly increased its profitability with great improvement in its asset status and creditability.

- (3) On 23 March 2004, the Board approved the entering into of the Asset Purchase Agreement by the Company with Angang Holding, pursuant to which the Company shall 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 comprised fixed assets including land and buildings with a gross floor area of 61,858.57 square meters and machinery and equipment. The consideration of Rmb62,205,800 was determined on the basis of the valuation by a domestic valuer. The agreement was approved by shareholders at the Company's 2003 Annual General Meeting on 15 June 2004 and was completed on 30 July 2004.

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

- (4) On 29 December 2004, the Board approved certain proposals in relation to the acquisition under the acquisition agreement in respect of the 100% Equity between Angang Holding and the Company to be financed by the proceeds from the rights issue and placing of domestic shares to Angang Holding. The Company expects to integrate its core steel business through the acquisition of 100% equity interests in ANSI which operates the upstream facilities for steel production, so as to significantly increase its competitiveness as a listed company. The consideration of acquisition = initial consideration + final adjustment amount. Initial consideration represents the net asset value of ANSI as at the valuation base date as assessed in the valuation report of a PRC domestic value, which is subject to approval and adjustment by State-owned Assets Supervision and Administration Commission. The final adjustment amount = the audited book value of net assets of ANSI as at the Completion Date - the audited net asset value of ANSI as at the valuation base date - depreciation, amortisation and other factors resulting from an increase (or decrease) in net asset value of ANSI for the period commencing on the valuation base date and ending on the completion date. The acquisition was approved by the shareholder at the extraordinary general meeting, the class meetings for holders of A Shares and the class meeting for holders of H Shares of the Company, respectively on 28 February 2005, subject to a further approval by relevant regulatory authority.

### 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 security**

The Board passed a resolution on 22 October 2002 to authorize the Company to form a joint venture with ThyssenKrupp Stahl AG. In connection with this joint venture, the Board also approved an equity pledge agreement, an equity retention and subordination agreement, a completion support agreement and a fund shortage support agreement with the Bank of China. Pursuant to these agreements, the Company and ThyssenKrupp Stahl AG jointly provided a pledge for the joint venture in relation to a loan of Rmb1,080,000,000 from the Bank of China. The Company provided a pledge of its assets for the total amount of Rmb540 million under the loan. As of 31 December 2004, the Company's pledge provided security for the loan in the total amount of Rmb540 million, representing 5.33% of the net assets of the Company (prepared in accordance with the PRC Accounting Rules and Regulations) as of 31 December 2004.

**4. MATERIAL CONTRACTS AND THEIR PERFORMANCE** *(continued)*

- (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 2003 Annual General Meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2004. The remuneration of the auditors for 2004 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 eight consecutive years for auditing services.

**6. UNDERTAKING**

There was no undertaking which would have a material impact on the Group's operating results or financial position that was made by the Group or shareholders holding 5% or more of stakes in the Company during 2004 or occurred in the previous period but subsisting during the reporting period.

**7. PURCHASE OF STAFF QUARTERS**

In 2004, the Company purchased staff quarters with an area of 10,548 m<sup>2</sup> and paid subsidies Rmb1,247,000.

## 8. SUBSEQUENT EVENTS

- (1) On 28 February 2005, the Company convened the 2005 first extraordinary general meeting, the 2005 first class meeting for holders of domestic shares and the 2005 first class meeting for holders of foreign shares, at which, among other things, the Acquisition and Acquisition Agreement, the Rights Issue and Domestic Share Placing, Non-Exempt Continuing Connected Transaction under the Supply of Materials and Services Agreement, Whitewash Waiver (all as defined in the circular of the Company dated 15 January 2005) and the construction of a cold rolling line were duly approved by the shareholders of the Company.
- (2) In March 2000, the Company issued Rmb1.5 billion of convertible debentures with a maturity term of 5 years. As set out in the prospectus for the convertible debentures, the convertible debentures shall expire on 13 March 2005. The Company made full repayment of the principal amount and the interest accrued thereon on 14 March 2005 and the conversion was terminated with delisting of the debenture on the same day. Such repayment was made for the principal and interest accrued thereon in a total amount of Rmb3,463,009.6. As at the expiry date, a total of 453,985,697 A Shares have been issued upon conversion of the Company's convertible debentures.

Supplementary information:

Particulars of the asset impairment in 2004

*Unit: Rmb'000*

Items	Balance at the beginning of the year	Provision for the year	Written back for the year	Balance at the end of the year
Provision for bad debt	3	212	212	3
Including: other receivables	3	212	212	3
Provision for diminution in value	63,596	1,996	15,130	50,462
Including: Spare parts	48,466	—	—	48,466
Finished products	15,130	1,996	15,130	1,996