

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



首長國際企業有限公司

SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)  
(Stock Code: 697)

CONTINUING CONNECTED TRANSACTIONS  
AND  
AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board announces that on 22 November 2005, QHD and Shougang Corporation entered into the Master Agreement. QHD is a wholly-owned subsidiary of the Company. Shougang Corporation is the holding company of Shougang Holding which in turn is a substantial shareholder of the Company. Accordingly, transactions between QHD and Shougang Corporation and/or its associates will constitute connected transactions of the Company under the Listing Rules.

As the annual amount of the Continuing Connected Transactions is expected to exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. Shougang Holding and its associates will abstain from voting in the extraordinary general meeting to be convened for the approval of the Continuing Connected Transactions.

An independent board committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Master Agreement and an independent financial adviser will be appointed to advise the independent board committee of the Company on the terms of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

The Directors also proposed to amend the Articles to ensure compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

A circular containing, amongst other things, a notice convening the Extraordinary General Meeting and further details relating to the Master Agreement and the Continuing Connected Transactions and a letter from an independent financial adviser to be appointed to advise the independent board committee on the Continuing Connected Transactions, and details on the proposed amendments to the Articles will be despatched to the shareholders of the Company as soon as practicable.

THE MASTER AGREEMENT

Date: 22 November 2005

Parties: QHD  
Shougang Corporation

Subject: Pursuant to the Master Agreement, Shougang Corporation will, and will procure its associates, to provide raw materials (principally steel billets, iron ingots and steel slabs), spare parts, energy and services (principally repair and maintenance services) in relation to the production of steel products and other related products to QHD (the "Purchases") and QHD will in turn supply to Shougang Corporation and its associates steel products (principally steel plates), scrap materials (principally scrap metals), services (principally possessing services) and other related products ("Sales").

The Purchases and the Sales are together referred to as the Continuing Connected Transactions.

Term: The Master Agreement has a fixed term of three financial years ending on 31 December 2008 and will be subject to the approval by the Independent Shareholders at the Extraordinary General Meeting.

Price: The basis of determining the prices for the Continuing Connected Transactions will be in accordance with: (1) a comparable market price; or (2) by agreement between the parties based on prices no less favourable to/from third parties or reasonably agreed between the parties, if no comparable market price can be taken as a reference.

Condition: The Master Agreement is subject to approval by the Independent Shareholders.

Payment: Payments for the Sales and Purchases shall be at credit terms to be agreed by the parties in accordance with their respective normal term of supplies to third parties.

The Directors propose that the cap amounts of the Continuing Connected Transactions under the Master Agreement for each of the three financial years ending 31 December 2008 will not exceed:

- (i) HK\$100 million for the Purchases; and
- (ii) HK\$190 million for the Sales.

The cap amounts are determined with reference to the historical figures of the transaction amounts between QHD and Shougang Corporation and/or its associates for the 9 months of 2005 projected for the entire year, and the anticipated business volume of QHD for the three financial years ending 31 December 2008 being maintained at the current level of transactions between QHD and Shougang Corporation and/or its associates plus a buffer of approximately 5% for fluctuation in the prices of steel products. For the two years ended 31 December 2004, the sales of steel products, scrap materials, services and related products by QHD to Shougang Corporation and/or its associates accounted for approximately 10.5% and 6.6% of the total turnover of the Group for the immediately preceding financial year and the purchases of raw materials, spare parts, energy and services by QHD from Shougang Corporation and/or its associates accounted for approximately 28.4% and 21.3% of the total turnover of the Group for the immediately preceding financial year.

Transactions in respect of the sales of steel products, scrap materials, services and related products by QHD to Shougang Corporation and/or its associates and the purchases of raw materials, spare parts, energy and services by QHD from Shougang Corporation and/or its associates were disclosed in the circular of the Company dated 29 October 2003 and were approved by the then independent shareholders at the extraordinary general meeting held on 18 November 2003. A waiver from strict compliance with the disclosure and independent shareholders' approval requirements of the Listing Rules for the three financial years ending 31 December 2005 had been granted by the Stock Exchange to the Company on 16 December 2003.

The historical transaction amounts between QHD and Shougang Corporation and/or its associates for the two financial years ended 31 December 2004 and the 9 months ended 30 September 2005 were as follows:

| Type of transactions | For the year ended | For the year ended | For the 9 months     |
|----------------------|--------------------|--------------------|----------------------|
|                      | 31 December 2003   | 31 December 2004   | ended September 2005 |
|                      | Amount             | Amount             | Amount*              |
|                      | HK\$ million       | HK\$ million       | HK\$ million         |
| Purchases            | 567.14             | 494.86             | 70.45                |
| Sales                | 210.25             | 153.22             | 135.65               |

\* unaudited figures.

Since Qinhuangdao Shouqin Metal Materials Co., Ltd., a subsidiary of the Group, commenced production in July 2004, the Group's reduces its purchases from Shougang Corporation and its associates, as the Group has started to purchase steel products from Qinhuangdao Shouqin Metal Materials Co., Ltd.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

QHD is principally engaged in the production and sale of steel products and will need to purchase raw materials to satisfy its production requirements. As Shougang Corporation is one of the largest steel producers in the PRC, the Directors consider that the Continuing Connected Transactions are in the interest of the Shareholders because it would guarantee a stable source of supply of raw materials and regular sales to one of the largest steel companies in the PRC. The Directors consider that the Continuing Connected Transactions are of the types that are entered into in the ordinary and usual course of business of QHD and on a frequent and regular basis. Therefore, the Directors consider that it would be: (i) impracticable to negotiate for numerous agreements with individual associates of Shougang Corporation for the Continuing Connected Transactions; and (ii) too costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules. Hence, the Directors (including the independent non-executive Directors) are of the view that the Master Agreement will be beneficial to the Shareholders and the Group as a whole.

QHD is a wholly-owned subsidiary of the Company established in the PRC. Shougang Corporation is a PRC state-owned enterprise and is one of the largest steel producers in the PRC. It is the holding company of Shougang Holding which in turn is a substantial shareholder of the Company. Accordingly, transactions between QHD and Shougang Corporation and/or its associates will constitute connected transactions of the Company under the Listing Rules. Shougang Holding and its associates will abstain from voting in the extraordinary general meeting to be convened for the approval of the Continuing Connected Transactions.

As the annual amount of the Continuing Connected Transactions is expected to exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group and the terms of the Continuing Connected Transactions have been negotiated and will be conducted on an arm's length basis and on normal commercial terms, between the Group and Shougang Corporation and/or its associates. The Directors (including the independent non-executive Directors) are of the view that as far as the Independent Shareholders are concerned, the Continuing Connected

Transactions and the terms thereof are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

The Company will therefore seek the approval by the Independent Shareholders of the Master Agreement and the proposed cap amounts in relation to the Continuing Connected Transactions for a period of three financial years ending 31 December 2008 on terms in compliance with Rules 14A.37 to 14A.41 of the Listing Rules.

GENERAL

The Group is principally engaged in the business of manufacture, sale and trading of steel products, manufacture and installation of kitchen and laundry equipment, shipping operations and electricity generation. As at the date of this announcement, Shougang Holding is beneficially interested as to approximately 58% of the issued share capital of the Company.

An independent board committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Master Agreement and an independent financial adviser will be appointed to advise the independent board committee in respect of the terms of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

AMENDMENTS TO THE ARTICLES

The Listing Rules have been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 to the Listing Rules by a new Code on Corporate Governance Practices and adding a new Appendix 23 on the requirements for a Corporate Governance Report to be included in the annual reports of listed issuers. Subject to certain transitional arrangements, the amendments took effect on 1 January 2005.

Following a review of the Company's corporate governance practices with reference to the Code on Corporate Governance Practices, the Directors proposed to amend the Articles to ensure compliance with the Code on Corporate Governance Practices. Further details on the amendments will be included in the Circular to be despatched to Shareholders.

EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting will be convened at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions where Shougang Corporation, Shougang Holding and their associates will abstain from voting. A special resolution will also be proposed to consider and, if thought fit, approve the proposed amendments to the Articles. The Circular containing, amongst others, further information on the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions, the advice of the independent financial adviser to the independent board committee of the Company in relation to the Continuing Connected Transactions, the recommendation of the independent board committee of the Company to the shareholders of the Company in relation to the Continuing Connected Transactions, the details of the proposed amendments to the Articles, and the notice of the Extraordinary General Meeting will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

|                                     |  |
|-------------------------------------|--|
| "Articles"                          | the articles of association of the Company   |
| "associate"                         | has the same meaning as given to it under the Listing Rules  |
| "Board"                             | the board of Directors   |
| "Circular"                          | the circular to be despatched to the Shareholders regarding the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions and the amendments to the Articles  |
| "Company"                           | Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange   |
| "Continuing Connected Transactions" | the transactions contemplated under the Master Agreement   |
| "Director(s)"                       | the director(s) of the Company   |
| "Extraordinary General Meeting"     | the extraordinary general meeting of the Company to be convened to approve the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions and the amendments to the Articles, or any adjournment thereof |
| "Group"                             | the Company and its subsidiaries   |
| "HK\$"                              | Hong Kong dollar, the lawful currency of Hong Kong   |
| "Hong Kong"                         | the Hong Kong Special Administrative Region of the PRC   |
| "Independent Shareholders"          | the shareholders of the Company other than Shougang Holding and its associates   |
| "Listing Rules"                     | the Rules Governing the Listing of Securities on the Stock Exchange  |
| "Master Agreement"                  | the master agreement entered into between QHD and Shougang Corporation on 22 November 2005   |
| "PRC"                               | the People's Republic of China   |
| "QHD"                               | Qinhuangdao Shougang Plate Mill Co., Ltd., a wholly-owned subsidiary of the Company established in the PRC   |
| "Shareholders"                      | holders of the shares of the Company   |
| "Shougang Corporation"              | Shougang Corporation, a state-owned enterprise in the PRC and the holding company of the entire interest of Shougang Holding   |
| "Shougang Holding"                  | Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Shougang Corporation and a substantial shareholder of the Company  |
| "Stock Exchange"                    | The Stock Exchange of Hong Kong Limited  |
| "substantial shareholder"           | has the same meaning ascribed to it under the Listing Rules  |
| "%"                                 | per cent.  |

By order of the Board  
Shougang Concord International  
Enterprises Company Limited  
Cao Zhong  
Managing Director

22 November 2005

As at the date of this announcement, the Directors are Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Managing Director), Mr. Chen Zhenyu (Deputy Managing Director), Mr. Luo Zhenyu (Deputy Managing Director), Mr. Ip Tak Chuen, Edmond, Mr. Leung Shun Sang, Tony, Ms. Choy Hok Man, Constance, Ms. Kan Lai Kuen, Alice (independent non-executive Director), Mr. Kwan Bo Ren, Dick (independent non-executive Director) and Mr. Wong Kun Kim (independent non-executive Director).