

## VI. REVIEW OF SIGNIFICANT EVENTS

### (1) Review of corporate governance

The Company has established a sound corporate governance system strictly in accordance with the requirements of the Company Law, the Securities Law, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Rules for Corporate Governance of Listed Companies and other applicable rules and regulations. An independent directorship system has been established. The Company has achieved the “Five Independence” from its major shareholder.

### (2) Interim profit appropriation plan and proposal to transfer

The Company does not recommend the payment of any interim dividends in respect of the six months ended 30 June 2003. In addition, no surplus reserves will be transferred to the share capital of the Company.

### (3) Implementation of profit appropriation plan

On 23 May 2003, the Company convened its 2002 annual general meeting in Anshan, at which the 2002 profit appropriation plan was discussed and approved. It was resolved to distribute a cash dividend of Rmb1 per 10 shares, of which the dividend for domestic-listed Renminbi ordinary share was inclusive of tax. On 10 June 2003, the Company distributed cash dividend to holders of H shares. The applicable exchange rate was based on the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the annual general meeting, being HK\$100 to Rmb106.1. The cash dividend actually paid to holders of H shares was HK\$0.09425 per share. On 11 June 2003, the Company distributed cash dividend to the holders of A shares and state-owned legal person shares. As at 10 June 2003, there were 752,409,684 A shares listed and 1,319,000,000 state-owned legal person shares; the Company distributed Rmb207,140,968 in aggregate to the holders of domestic listed A shares and state-owned legal person shares. The cash dividend for 2002 was Rmb296,148,698.

#### **(4) Material litigation and arbitration**

The Group was not involved in any material litigation or arbitration during the reporting period.

#### **(5) Material purchase, sale and disposal of assets**

A meeting of the Board was held on 14 January 2003, at which a resolution approving a transfer agreement for land use rights between the Company and Angang Holding was passed. 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.

#### **(6) Material connected transactions during the reporting period**

During the reporting period, 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”), and sold to Angang Holding and ANSI certain products which were required for their technological development and equipment maintenance. The execution of the transactions and the prices were in compliance with the agreement for the supply of materials and services agreements.

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	Rmb1,472/tonne	168,917	100
Slabs	sales price for the preceding	Rmb1,691/tonne	83,162	100
Hot rolled coils	month offered by ANSI to its	Rmb2,658/tonne	2,466,656	100
Molten iron	independent third party	Rmb1,200/tonne	1,585,182	100
Scrap steel	customers and the average of the prices of large quantities of raw materials quoted to the Company by five independent suppliers in the PRC	Rmb970/tonne	129,826	100
Water for industrial use	At cost	Rmb1.82/tonne	18,637	100
Recycled water		Rmb0.60/tonne	7,823	100
Soft water		Rmb3.64/tonne	1,686	100
Mixed gas	At cost	Rmb14.00/GJ	73,779	100
Nitrogen		Rmb0.07/M <sup>3</sup>	4,252	100
Oxygen		Rmb0.40/M <sup>3</sup>	31,157	100
Argon		Rmb1.00/M <sup>3</sup>	1,341	100
Hydrogen		Rmb1.60/M <sup>3</sup>	7,123	100
Compressed air		Rmb0.07/M <sup>3</sup>	8,046	100
Steam		Rmb30.00/GJ	17,901	100

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

Items	Pricing principle	Price	As a percentage of the contractual amount of similar transaction	
			Amount (Rmb'000)	(%)
Billets	Not less than the average	Rmb1,929/tonne	16,900	41.80
Slabs	of the sales prices for	Rmb1,585/tonne	200,703	100
Cold rolled sheets	the preceding month	Rmb3,147/tonne	17,004	1.03
Thick plates	offered by the Company	Rmb3,236/tonne	45,750	4.19
Wire rods	to independent third parties	Rmb2,246/tonne	20,385	2.61
Large steel products		Rmb2,797/tonne	301	0.04
Pipe billets		Rmb2,046/tonne	310,870	100
Scrap steel		Rmb895/tonne	109,789	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	
			Amount	(%)
Railway transportation	State price	10,418		100
Road transportation	Market price	7,786		60
Agency Service	1.5% as commission	2,972		100
Testing and analysis of products	State price	23,980		36.44
Repair and maintenance of equipment	State price	23,912		11.39
Design and engineering	State price	36,095		75
Heat supply to staff quarters	State price	4,477		83.55
Telephone/fax/TV services	State price	668		52.6
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	Unit price: Rmb392/tonne	36,037	100
Refractory materials	Not higher than the average of the sales prices for the preceding month offered by Angang Holding and the Company to independent third parties	Unit price: Rmb1,245/tonne	10,802	12.33

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

During the reporting period, the gross profit margin of pipe billets sold by the Company to ANSI was 12.5%.

- (7) The subsidiaries of Angang Holding constructed the production lines of ANSC-TKS Galvanizing Co., Ltd. in accordance with the terms and pricing principle similar to those offered to independent third parties. For the six months ended 30 June 2003, the costs of relevant project services amounted to Rmb13,676,000.
- (8) A meeting of the Board was held on 17 February 2003, at which a resolution approving the adjustment of depreciation rate for fixed assets from 1 January 2003 was made. Because of the adjustment of depreciation rate, the depreciation in the first half of 2003 increased by Rmb39,392,000.
- (9) A meeting of the Board was held on 17 March 2003, at which a resolution approving the conclusion of a joint venture agreement amongst the Company, 鞍鋼集團國際經濟貿易公司 (Angang International Trading (Group) Company) (“AITG”) and Angang New Steel and Iron Company Limited (“ANSI”) for the establishment of 鞍鋼瀋陽鋼材加工配送有限公司 (Angang Shenyang Steel Product Processing & Distribution Company Limited) (“JVCo”) was passed. JVCo is principally engaged in the processing, sales, warehousing and delivery of steel. 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%.

## (10) Material contracts and their performance

1. The Company did not enter into any trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company during the reporting period.
2. Material guarantee

On 22 October 2002, the Board passed a resolution approving the Company's entry into four agreements with Thyssen Krupp Stahl AG ("Thyssen") and the Bank of China on the same day in respect of a syndicated loan to ANSC-TKS. The four agreements comprised of the equity pledge agreement, the equity retention and subordination agreement, the completion support agreement and the fund shortage support agreement, pursuant to which the Company and Thyssen pledged their respective equity interest in ANSC-TKS in respect of the Rmb1.08 billion loan.

3. The Company did not entrust the management of any of its assets during the reporting period.
4. The Company did not enter into any other material contract during the reporting period.

(11) For the reporting period, neither the Company nor shareholders holding 5% or more of the Company's issued share capital had made any commitment which may have material impact on the Company's operating results and financial position. No such commitments have been made in the past which would continue to be effective during the reporting period.

## (12) Purchase of staff quarters

For the six months ended 30 June 2003, neither the Company nor its subsidiaries purchased any staff quarters or sold quarters to any of its staff.

### **(13) Purchase, sale or redemption of the Company's listed shares**

For the six months ended 30 June 2003, the Company issued 702,995 A shares in respect of the conversion of the convertible debentures issued by the Company in March 2000. Other than these A share 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.

### **(14) Code of Best Practice**

The Board believes that, for the six months ended 30 June 2003, the Company has complied with paragraphs 1 to 14 of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

**(15)** The Audit Committee and the Board had reviewed the relevant accounting principles, accounting standards and methods, and discussed matters relating to the audit, internal control and financial statements, including the unaudited interim report of the Company for the six months ended 30 June 2003.