

VI. REVIEW OF SIGNIFICANT EVENTS

(1) Review of corporate governance

The Company has strictly complied with the requirements of the Company Law, the Securities Law, the relevant requirement of the China Securities Regulatory Commission, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong, Rules Governing the Listing of Shares on the Shenzhen Stock Exchange and Rules for Corporate Governance of Listed Companies. The Company has regulated operations, amended the Articles of Association of the Company and established a sound corporate governance system.

(2) Proposed interim profit appropriation and transfer from common reserve to share capital

The Company does not recommend the payment of any interim dividends in respect of the six months ended 30 June 2004. In addition, no surplus reserves will be transferred to the share capital of the Company.

(3) Implementation of profit appropriation plan

On 15 June 2004, the Company convened its 2003 annual general meeting in Anshan, at which the 2003 profit appropriation plan was discussed and approved. It was resolved to distribute a cash dividend of Rmb2 per 10 shares, with the dividends for domestic-listed Renminbi ordinary shares inclusive of tax. On 7 July 2004, the Company distributed cash dividends 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 Rmb106.173. The cash dividends actually paid to holders of H shares was HK\$167,649,300. On 30 June 2004, the Company distributed cash dividends to the holders of A shares and state-owned legal person shares. As at 29 June 2004, there were 753,847,565 A shares listed and 1,319,000,000 state-owned legal person shares; the Company distributed Rmb386,705,480.56 in aggregate to the holders of domestic listed A shares and state-owned legal person shares. The cash dividends for 2003 was Rmb564,703,771.85.

(4) Material litigation and arbitration

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

(5) Acquisition, sale of assets and asset restructuring

There was no material acquisition, sale of assets and assets restructuring by the Company during the reporting period.

(6) Material connected transactions in the reporting period

During the reporting period, the Company purchased most of its raw materials, energy and utilities necessary for production from Angang Holding and its subsidiaries, and sold to Angang Holding and its subsidiaries some of its products. The transactions and prices were in accordance with the Materials and Services Supply Agreement entered into between the parties.

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	Rmb2,297/tonne	326,958	100	
Slabs		Rmb2,462/tonne	96,797	100	
Hot rolled coils		Including: Provided to the company	Rmb3,542/tonne	4,190,671	100
			Rmb3,490/tonne	1,751	100
Provided to the Processing Company					
Molten iron		Rmb1,779/tonne	2,779,898	100	
Scrap steel		Rmb1,352/tonne	189,447	100	
Water for industrial use		At cost	Rmb2.37/tonne	11,511	100
Recycled water			Rmb1.05/tonne	11,889	100
Soft water			Rmb3.67/tonne	1,529	100
Mixed gas			Rmb18.70/GJ	79,694	100
Nitrogen			Rmb0.08/M ³	6,204	100
Oxygen			Rmb0.40/M ³	35,250	100
Argon	Rmb1.00/M ³		1,540	100	
Hydrogen	Rmb1.40/M ³		5,541	100	
Compressed air	Rmb0.06/M ³		5,652	100	
Steam	Rmb30.00/GJ		16,582	100	

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		Rmb2,500/tonne	24,014	57.28
Slabs		Rmb2,383/tonne	292,052	100
Cold rolled sheets		Rmb3,898/tonne	8,083	0.22
Including:				
Provided to ANSI	Not less than the average of the sales prices for the preceding month offered by the Company to its independent third parties	Rmb4,312/tonne	4,742	0.13
Provided to the Processing Company		Rmb3,428/tonne	3,341	0.09
Galvanized steel sheets		Rmb4,711/tonne	702	0.10
Color coating steel sheets		Rmb5,753/tonne	3,189	100
Thick plates		Rmb3,988/tonne	183,832	8.92
Wire rods		Rmb3,365/tonne	40,590	3.74
Large steel products		Rmb3,618/tonne	11,215	0.96
Pipe billets		Rmb2,744/tonne	650,613	100
Scrap steel		Rmb1,053/tonne	183,965	100

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

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transaction (%)
Railway transportation	State price		12,547	100
Road transportation	Market price		10,732	71.70
Imports of components and accessories	1.5% as commission		1,132	100
Export agency			12,704	100
Purchase of heavy oil and liquified gas			1	100
Testing and analysis of products	State price		6,717	56.60
Repair and maintenance of equipment			27,294	19.70
Design and engineering			7,483	80
Heat supply to staff quarters			34	1.20
Newspaper and other publications			3	62.90
Telephone/fax/TV services			804	85.56
Lime	Not higher than the average of the sales prices for the preceding month offered by the relevant members of Angang Holding to independent third parties	Average unit price: Rmb394/tonne	39,870	100
Refractory materials		Average unit price: Rmb2,331/tonne	9,611	15.37

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	294,405	8.13

Other connected transactions between the Company and Angang Holding and its subsidiaries:

Items	Amount incurred (Rmb'000)
Material processing provided by the Company to ANSI	32,649
Maximum amount of deposit of the Company in the financial companies of Angang Holding	830,000
Interest paid by the financial companies of Angang Holding to the Company	2,267

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 11.67%.

(7) Creditors' rights and debts between the Company and connected parties

Apart from the creditors' rights and debts incurred from normal production activities, there is no other creditor and debtor relationship between the Company and connected parties.

As of 30 June 2004, bank loans in the amount of Rmb2,163,000,000 of the Company were guaranteed by Angang Holding.

(8) 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. Charge of equity interests of jointly controlled entities

Name of guaranteed parties	Date of guarantee	Guaranteed amount	Type of guarantee	Terms of guarantee	Implementation completed	Whether a guarantee for connected parties
Joint Venture Company	22 October 2002	Rmb540,000,000	Pledged	12.5 years	Not completed	Yes
The incurred amount of guarantee in total		Rmb540,000,000				
The remaining amount of guarantee in total		Rmb540,000,000				
Among them: the amount of guarantee for connected parties in total		Rmb540,000,000				
Amount of guarantee breaching rules in total		Nil				
The percentage of the total amount of guarantee represented in the net assets of the Company and jointly controlled entity		5.96%				
The incurred amount of guarantee of the Company for its controlling subsidiary in total		—				

Specific statement of independent directors on the cumulative and current external guarantee and the implementation of “Notice in relation to certain issues concerning the regulation of funds transaction between listed companies and connected parties, and external guarantees entered into listed companies” and opinion of independent directors:

In accordance with the document Zheng Jan Hui Fa [2003] No. 56 “Notice in relation to the issues of the regulation of cash flow between listed companies and connected parties, and external guarantees entered into by listed companies” (the “Notice”) as issued by the China Securities Regulatory Commission, we are practical and realistic in carrying out cautious and responsible examination on Angang New Steel Company Limited’s (the “Company”) external guarantee. Details of which are as follows:

- (1) The Company has been in compliance with the relevant requirements of the Listing Rules since its listing, and has not provided any guarantee to its controlling shareholders and any other connected parties with shareholdings below 50%, or non-legal person units or individuals.

- (2) The Company has not provided any guarantee for any other companies in the first half of the year.
 - (3) As at 30 June 2004, external guarantees entered into by the Company amounted to Rmb540,000,000, accounting for 5.96% of the net assets of the Company and its affiliates.
 - (4) As of the date hereof, the Company has not been subjected to any penalty, criticism nor condemnation by the securities regulatory departments in respect of the Company's external guarantees.
 - (5) The Company had amended its Articles of Association pursuant to the requirements of the Notice which were approved at the 2003 Annual General Meeting of the Company.
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;
 5. The Company did not entrust any parts with funds administration during the reporting period.
- (9) During 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.

(10) Subsequent Events

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 such fixed assets which include land with a gross floor area of 61,858.57 square meters, buildings, machinery and equipment. The consideration was based on the valuation by a domestic valuer of Rmb62,205,800. The agreement was approved by shareholders at the Company's 2003 annual general meeting on 15 June 2004 and was implemented on 30 July 2004.

(11) Purchase of staff quarters

For the six months ended 30 June 2004, neither the Company nor its subsidiaries purchased any staff quarters or sold quarters to any of its staff.

(12) Purchase, sale or redemption of the Company's listed shares

For the six months ended 30 June 2004, the Company issued 538,913 A shares in respect of the conversion of the convertible debentures issued by the Company in March 2000. Other than these A shares 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.

(13) Code of Best Practice

The Board believes that, for the six months ended 30 June 2004, 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.

(14) Having made specific enquiry of all directors of the Company, each of the directors has complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

(15) The Audit Committee and the Board had reviewed the relevant accounting principles, accounting standards and methods, and discussed matters relating to over internal auditing control and financial statements, including the unaudited interim report of the Company for the six months ended 30 June 2004.