

1. MATERIAL LITIGATIONS AND ARBITRATIONS

(1) The Group defended against the anti-dumping allegations made by the United States (US)

On 23 May 2001, a Statement of Claim was submitted to the International Trade Commission (ITC) of the US by the US iron and steel enterprises to initiate an anti-dumping investigation against H-shaped steel products produced by overseas iron and steel enterprises (including the Group). On 9 July 2001, ITC firmly held that H-shaped steel products imported by eight countries, including China, were detrimental to the US iron and steel industry and the case was later handed over to the Department of Commerce (DOC) of the US for further investigation. As the Group did not agree that this was an anti-dumping activity, Wang Hengtao Law Firm of China and O'Melveny & Myers LLP of the US were engaged by the Group to make its defence, and the Company has been under DOC's investigation. The case is now in progress. The litigation would not affect the operating results of the Group for the current year as it would only affect tariffs imposed on future H-shaped steel products exported to the US.

(2) Three other material litigations of the Company had been settled and their judgments were enforced as follows:

Litigation against CITIC Ningbo Inc. by the Company over the dispute of deposit certificate — In 1996, the Company deposited HK\$48 million with the defendant for the term of one year but the defendant did not repay the amount on maturity. The Company then initiated a litigation and got its judgment on appeal. However, CITIC Ningbo Inc. was declared closed and was undergoing liquidation by Shanghai Branch of the Chinese People's Bank. The Company filed the creditor rights on 14 May 2001 for the principal and interests of HK\$42.25 million and HK\$6.17 million, respectively. The liquidation is still in progress.

Litigation against Shenzhen Leasing Co. Ltd ("SLCL") by the Company over the dispute of deposit certificate — In 1996, the Company deposited HK\$80 million with the defendant for the term of one year but the defendant did not repay the amount on maturity. The Company then initiated a litigation, of which the final ruling was in favor of the Company, and the Company applied to the Court for execution of the judgment. However, Sanjiu Group undertook debt and equity reorganisation of SLCL, and thereby incorporated a new company. The Company entered into a reconciliation agreement with the new company on 16 March 2000, whereby the new company shall repay the principal of HK\$10 million within 60 days from the effective date of the agreement and the remaining HK\$70 million and accrued interest thereon shall be repaid within 2½ years commencing from 2003. On 16 May 2000, the Company received the repayment of HK\$10 million from the new company.

1. MATERIAL LITIGATIONS AND ARBITRATIONS (continued)

Litigation against SEG International Trust & Investment Corporation by the Company over the dispute of deposit certificate — In 1996, the Company deposited HK\$50 million with the defendant for the term of nine months and on maturity the defendant repaid only HK\$6.88 million. The Company then initiated a litigation, of which the final ruling was in favor of the Company and the Company applied to the Court for execution of the judgment. However, during the execution of this case, the Corporation was classified by the People's Bank of China as a trust and investment company that needed to be reorganised, merged or closed and the execution of civil judgment is then terminated. On 6 November 2001, the Corporation was in process of business suspension and rectification under the supervision of the People's Bank of China as the former operated in an extremely unlawful manner. The debt of the Corporation will be dealt with in accordance with the law after the rectification process is completed.

2. OTHER NON-RECOVERABLE OVERDUE DEPOSITS

- (1) In 1995, the Company deposited HK\$9.32 million with the representative office of China Venturetech Investment Corporation in Shenzhen for the term of one year. This company was closed and was undergoing liquidation by the People's Bank of China. The liquidation team confirmed that the Company's claim included the principal of HK\$7.138 million and an interest of HK\$2.296 million after deduction of interest payment that the Company had received. The liquidation is still in progress.
 - (2) In 1996, the Company deposited HK\$30 million with Guangdong International Trust & Investment Corporation for the term of one year. This company was also undergoing liquidation. The liquidation team confirmed that the Company's claim included the principal and interest of the deposit totalling RMB36.46 million. In August 2000, the liquidation team conducted the first distribution of assets with distribution ratio of 5.48%. The Company received RMB1,998,182. In December 2001, the liquidation team conducted the second distribution of the assets with distribution ratio of 9.62%. The Company received RMB3,507,758. A total of RMB5,505,940 has been received by the Company.
3. During the reporting period, the Company did not acquire, dispose of assets and undertake merger, nor did it repurchase, sell and redeem any listed securities of the Company.

4. CONNECTED TRANSACTIONS

The business transactions between the Company and Holding for the year 2001 were as follows:

- (1) Under a "Service Agreement" entered into with Holding on 14 October 1993, the Company and Holding will provide each other with certain services, with a view to ensuring that employees of the Company may continue to enjoy certain necessary social benefits after the reorganisation and that the Company continues to operate efficiently. The agreement took effect on 1 September 1993 and will expire on 31 December 2003 unless terminated in advance.

The service fees which the Company and Holding may charge each other should be equal to: (i) the State prices of the agreed services; or (ii) in the absence of such State prices, the market prices of the agreed services; or (iii) in the absence of market prices, the actual cost attributable to the party providing the agreed services. The categories, scope, prices and other details of the services to be provided each year are to be contained in a supplementary agreement between the two parties, renewed annually towards the end of the preceding year. Details of the amounts received and paid by the Company and Holding in respect of the "Service Agreement" from 1 January 2001 to 31 December 2001 are as follows:

Principal Items of Services Rendered by Holding to the Company

| | Pricing basis | Total RMB'000 |
|---|---------------|------------------|
| Primary, secondary and kindergarten education | Actual costs | 24,353 |
| Canteens, baths and nurseries | Actual costs | 67,895 |
| Renting of staff quarters | Actual costs | 33,683 |
| Landscaping of factory districts, sanitation, maintenance and repairs of roads | State prices | 26,303 |
| Others | Market prices | 34,688 |
| Total | | 186,922 |

Principal Items of Services Rendered by the Company to Holding

| | Pricing basis | Total RMB'000 |
|--------------------|---------------|------------------|
| Water supply | Market prices | 528 |
| Electricity supply | Market prices | 8,357 |
| Telephone services | Market prices | 1,755 |
| Total | | 10,640 |

4. CONNECTED TRANSACTIONS (continued)

The Directors are of the opinion that the amounts paid or received by the Company for those services based on market prices were not substantially different from the market prices that prevailed at the time the supplementary agreement for 2001 was made.

- (2) Under an agreement for the sale and purchase of iron ore ("Sale and Purchase of Iron Ore Agreement", made with Holding on 14 October 1993, all the iron ore and limestone produced by Holding must first be offered to the Company. Price of iron ore will be agreed by both Holding and the Company after consultation, and shall not be higher than the prevailing domestic market price. If no market price of iron ore in the PRC has yet been formed at the early stage of the lifting of the restrictions on prices, the prices may be calculated by reference to the price of powder ore of Hamersley, Australia delivered to the Port of Shanghai. The Sale and Purchase of Iron Ore Agreement took effect on 1 September 1993 and will expire on 31 December 2003 unless terminated in advance.

The actual amount of iron ore and limestone to be supplied by Holding to the Company in each year and further details of quantity, prices, quality requirements and specifications are to be contained in a supplementary agreement made between them, renewed annually towards the end of the preceding year. The amounts of purchases by the Company from Holding in respect of the "Sale and Purchase of Iron Ore Agreement" from 1 January 2001 to 31 December 2001 are as follows:

| | Amount of purchase |
|-------------------------------------|---------------------------|
| | RMB'000 |
| Purchases of iron ore and limestone | 742,249 |

The Directors are of the opinion that the above-mentioned amount purchased in respect of the "Sale and Purchase of Iron Ore Agreement" are not substantially different from the market prices at the time the supplemental agreement for 2001 was made.

Significant Matters

4. CONNECTED TRANSACTIONS (continued)

- (3) Save for the connected transactions made pursuant to the “Services Agreement” and the “Sale and Purchase of Iron Ore Agreement” as mentioned above, details of other connected transactions made with Holding are as follows:

| | Amount |
|---|----------------|
| | RMB'000 |
| Steel products purchased by Holding from the Company | (24,656) |
| Other services acquired by Holding from the Company | (24,688) |
| Payment by the Company for fixed assets and construction services | 80,204 |
| Payment by the Company for other services provided by Holding | 62,944 |

The total amount paid represents 1.59% of the audited consolidated net tangible assets of the Group as at 31 December 2001.

The above-mentioned connected transactions have been confirmed by all the Directors who are not associated with Holding (including independent directors Mr. Dong Yuanchi, Madam Cheng Shaoxiu and Mr. Wu Junnian) to be transactions made between the Company and Holding in the normal course of business and that those transactions adopting market prices as the pricing basis were on terms no less favourable to the Company than normal commercial terms.

- (4) Material contracts with the controlling shareholder

Save for the supplementary agreement to the “Service Agreement” and “Sale and Purchase of Iron Ore Agreement” in respect of 2001 as disclosed above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder at any time during the year ended 31 December 2001.

5. THE COMPANY DID NOT ENTRUST, CONTRACT AND LEASE THE ASSETS OF OTHER COMPANIES OR VICE VERSA

The Company was in compliance with the document “Notice of Guarantee for the Third Parties Provided by Listed Companies” (Zheng Jian Gong Si Zi 2000 No.61). The Company did not provide guarantee for third parties.

5. THE COMPANY DID NOT ENTRUST, CONTRACT AND LEASE THE ASSETS OF OTHER COMPANIES OR VICE VERSA (continued)

With a view to maximising the use of funds, the Board of Directors, after taking into account the status and the use of funds, and confirming that the authority exercised was well within the realm of authority given by the Articles, decided to entrust an internal fund of RMB100 million to Shanghai Anshen Investment Management Company Limited to help manage the Company's funds. On 17 March 2001, a designated investment agreement was entered into between the two parties. The said agreement was valid until 3 April 2002 and a total sum of RMB106 million, including the fund entrusted and the income generated thereof, was received on 4 April 2002.

The Board of Directors, after taking into account the status and the use of funds for year 2002, decided to entrust an internal fund of RMB100 million to the International Trust Investment Company of Anhui Province ("Anhui International Trust") to help manage the Company's funds. On 15 April 2002, an investment entrustment agreement was entered into between the two parties, with details set out as follows: (1) the fund would be entrusted for a year effective from 17 April 2002 to 17 April 2003 inclusive; (2) assurances were made by Anhui International Trust that the funds would be safely and effectively managed, and the entrusted fund and the income generated thereof would be paid at the end of the trusteeship. The entrusted fund would be returned forthwith should the Company request to terminate the trusteeship for reasons of policy changes or extraordinary risks; (3) profits generated from the entrusted investment belonged to the Company and only a commission of 5% would be charged on the profit by Anhui International Trust. No commission would be charged should there be any loss incurred in the entrustment.

6. The Company or shareholders with 5% or more shareholding did not disclose their commitment in designated newspapers and website.
7. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young as the PRC and international auditors of the Company respectively. They have audited the financial statements and financial report prepared under PRC and Hong Kong accounting standards, respectively. The remuneration for the two accounting firms amounted to HK\$4.85 million and a sum of HK\$3.95 million has been paid so far. Among the total remuneration, HK\$4.3 million represented the annual audit fees and HK\$0.55 million represented the interim review fees. (The remuneration for the two accounting firms for year 2000 amounted to HK\$5 million, among which HK\$4.50 million represented the final audit fees and HK\$0.5 million represented the interim review fees.) Both the audit fee and the review fee were already inclusive of disbursements incurred by the two auditors and the related taxes on the fees. The meal and accommodation expenses of audit personnel who stayed at the Company were borne by the Company. The resolution of re-appointment of the two accountants as the auditors of the Company for the next year will be submitted to the forthcoming annual general meeting of the Company.

The Company has not changed its auditors for the past three years.

Significant Matters

8. During the reporting period, none of the Company's directors and senior management of the Company were investigated and punished by regulatory departments.
9. During the reporting period, there was no change in the controlling shareholder of the Company, nor re-election or change in more than half of the total number of members of the board of directors. There was also no change in General Manager of the Company and Secretary to the Board.

On 16 January 2002, the Board of Directors, upon discussion, approved the request of Mr. Jiang Ping to resign from the office as Deputy General Manager of the Company for personal reason.

10. During the reporting period, the Company did not change its name or its stock abbreviation.

11. SALE OF STAFF QUARTERS

From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain new staff quarters for its employees. From January 1997, the Company commenced the sale of the staff quarters to its employees in accordance with the government's regulation. Loss arising from the sale of such staff quarters at preferential prices is accounted for as a deferred staff cost and amortised over 10 years. By the end of 2000, the Group recorded a deferred staff cost of approximately RMB163,780,000, and the aggregate amortisation related thereto amounted to approximately RMB58,180,000. The Ministry of Finance stipulated the accounting treatment of loss on disposal of staff quarters. As a move to comply with this directive, the remaining sum of the unamortised deferred staff cost of RMB105,600,000 as at 1 January 2001 was all dealt with as retained profit. As a result, no provision for such cost was made in the financial statements for year 2001. Under Hong Kong accounting standards, the loss arising thereof would still be amortised over 10 years, commencing from the dates of sale of the respective staff quarters. For the year ended 31 December 2001, the amortised loss of staff quarters, as presented in the profit and loss account, amounted to approximately RMB17.6 million.

12. HOUSING SUBSIDIES

According to the relevant stipulations issued by the State Council, the Company has adopted a monetary system of housing allocations. Eligible existing and retired staff will be given one-off housing allowance. According to the stipulation issued by the Ministry of Finance, the housing subsidies for eligible existing staff and retired staff would be accounted for as retained profit on payment basis under PRC accounting standards. Under Hong Kong accounting standards, the Company will charge the housing subsidies of RMB38.8 million given to staff retired before 1 January 2000 on payment basis to the profit and loss account for 2000 on a one-off basis. For the existing staff who will still serve the Company for ten years in average, the one-off housing subsidies of RMB349 million given to them will be accrued on a straight-line basis over ten years commencing from 1 January 2000.

According to the PRC accounting standards and regulations, the housing subsidies of RMB85 million paid to eligible staff between 1 January and 31 December 2001 were accounted for as retained profit; under Hong Kong accounting standards, the one-off amortised housing subsidies paid to the existing eligible staff of RMB34.9 million for the year ended 31 December 2001 were charged to the profit and loss account for the year 2001.

13. UNIFICATION OF INCOME TAX RATE AND THE CANCELLATION OF TAX REBATES

As one of the nine pilot joint stock limited enterprises which formed the first batch of the overseas listed companies, in accordance with the Document Cao Shui Zi (1997) No. 38 dated 10 March 1997 jointly issued by the Ministry of Finance and the State Tax Bureau, the Company continued to be subject to an income tax rate of 15%. The cancellation of tax rebates by local governments had no bearing on the Company. As at the date of this report, no document from any authorities indicating any change in income tax rates applicable to the Company has been received.