

# Significant Matters

## 1. MATERIAL LITIGATIONS

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

On 23 May 2001, a Statement of Claim was submitted to the US International Trade Commission (ITC) 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 determined that H-shaped steel products imported by eight countries, including China, were detrimental to the US iron and steel industry and the case was subsequently referred to the US Department of Commerce (DOC) for further investigation. As the Group was of the opinion that there had been no dumping of the Group’s H-shaped steel products in the US, it appointed O’Melveny & Myers LLP, a US law firm, to defend its case in DOC’s investigations. On 13 May 2002, DOC arrived at a judgment that there had been no dumping of Magang’s H-shaped steel in the US. On 17 June 2002, ITC ruled that the sales of Magang’s H-shaped steel in the US had not effectively undermined or threatened to effectively undermine the US iron and steel industry.

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

- (1) Litigation against CITIC Ningbo Inc. by the Company concerning a dispute over deposit certificates: 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 was granted a favourable judgment on appeal. However, CITIC Ningbo Inc. was subsequently closed down and liquidated by the Shanghai Branch of the People’s Bank of China (“PBOC”). In May 2001, the liquidation team of CITIC Ningbo Inc. has confirmed that the Company’s creditor rights amounted to HK\$48.4188 million (RMB51.3626 million). The liquidation is still in progress.
- (2) Litigation against Shenzhen Leasing Co. Ltd (“SLCL”) by the Company concerning a dispute over deposit certificates: 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 that resulted in a final ruling in favour of the Company, in respect of which the Company applied for court enforcement. However, SLCL subsequently underwent debt and equity restructuring with capital contributions from Sanjiu Group, and was incorporated as a new company. The Company entered into a reconciliation agreement with the new company on 16 March 2000, whereby the new company agreed to repay a principal amount of HK\$10 million within 60 days from the effective date of the agreement and the remaining HK\$70 million and accrued interest thereon within 30 months commencing 2003. On 16 May 2000, the Company received the repayment of HK\$10 million from the new company.

## Significant Matters (continued)

### 1. MATERIAL LITIGATIONS (continued)

- (3) Litigation against SEG International Trust & Investment Corporation (“SEG”) by the Company concerning a dispute over deposit certificates: 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 that resulted in a final ruling in favour of the Company, in respect of which the Company applied for court enforcement. However, the enforcement was suspended when SEG was designated by PBOC as a trust and investment company that had to be either restructured, merged or dissolved. On 6 November 2001, SEG was ordered by PBOC to suspend business for rectification because of serious violations in its operations, and all debts owed by SEG were to be dealt with in accordance with the law after the completion of the rectification process.
2. 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 terminated and was undergoing liquidation by PBOC. The liquidation team confirmed that the Company’s claim included the principal of HK\$7.138 million and an interest amount of HK\$2.296 million after deduction of interest payment that the Company had received. The liquidation is still in progress.
3. In 1996, the Company deposited HK\$30 million with Guangdong International Trust & Investment Corporation for the term of one year. 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 a distribution ratio of 5.48%, in which the Company received RMB1,998,182. In December 2001, the liquidation team conducted the second distribution of assets with a distribution ratio of 9.62%, in which the Company received RMB3,507,758. A total of RMB5,505,940 has been received by the Company in the two distributions. In February 2003, the Company was notified by liquidation team a third distribution would be conducted with a distribution ratio of 4.38%. The amount distributable to the Company is RMB1,597,087, which the Company has not yet received.
4. There were no significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed securities of the Company.

### 5. CONNECTED TRANSACTIONS

Business transactions between the Company and Holding for the year 2002 were as follows:

- (1) Under a “Service Agreement” entered into with Magang Corporation (predecessor of 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

## 5. CONNECTED TRANSACTIONS (continued)

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 2002 to 31 December 2002 are as follows:

### Principal Items of Services Rendered by Holding to the Company

Major item	Pricing basis	Total value (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	33,631
Total		185,865

### Principal Items of Services Rendered by the Company to Holding

Major item	Pricing basis	Total value (RMB'000)
Water supply	Market prices	528
Power supply	Market prices	8,259
Telephone connection	Market prices	1,672
Total		10,459

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 2002 was made.

## Significant Matters (continued)

### 5. CONNECTED TRANSACTIONS (continued)

- (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. The 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 made by the Company from Holding in respect of the "Sale and Purchase of Iron Ore Agreement" from 1 January 2002 to 31 December 2002 were as follows:

	<b>Amount paid</b> (RMB'000)
Purchases of iron ore and limestone	816,320

Note: The amount of iron ore and limestone purchases from the Group accounted for 45.7% of the Company's total amount of iron ore and limestone purchases.

The Directors are of the opinion that the above-mentioned amount paid in respect of the "Sale and Purchase of Iron Ore Agreement" is not substantially different from what would be necessitated from the market prices at the time the supplemental agreement for 2002 was made.

- (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:

	<b>Amount</b> (RMB'000)
Steel products purchased by Holding from the Company	(44,637)
Other services acquired by Holding from the Company	(19,906)
Payment by the Company for fixed assets and construction services	176,812
Payment by the Company for other services provided by Holding	37,937

## 5. CONNECTED TRANSACTIONS (continued)

The connected transactions between the Company and Holding were carried out in the form of cash payment. The total amount paid represents 2.54% of the audited net tangible assets of the Company as at 31 December 2002.

The above-mentioned connected transactions have been confirmed by all the Directors who are not associated with Holding (including independent directors Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr Shi Jianjun and Mr Chen Xusheng) 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 2002 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 2002.

## 6. The Company did not entrust, contract or lease any assets of other companies, nor 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) and did not provide guarantee for third parties.

Significant entrusted investments: The Company entered into an Entrusted Investment Agreement with Anhui International Trust and Investment Company ("Anhui ITIC") on 15 April 2002, whereby the Company placed RMB100 million with Anhui ITIC for a term of one year from 17 April 2002 to 17 April 2003 to be used in short-term investments. As the investment of more funds in the Company's key 10-5 Plan projects were required when full-scale construction of these projects commenced in the second half of 2002, the Company proposed to terminate the Entrusted Investment Agreement to retrieve the entrusted amount and the investment gains accrued, with a view to ensuring funding requirements of the projects. Anhui ITIC repaid the principal investment amount of RMB100 million and an investment gain of RMB833,300 to the Company on 23 September 2002, after deducting related expenses and commission. The agreement was approved by the Board of Directors and disclosed in accordance with relevant requirements.

## 7. Neither the Company nor any shareholders interested in 5% or more of the Company's shares disclosed their commitment in designated newspapers and website.

## Significant Matters (continued)

8. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young respectively as the PRC and international auditors of the Company. 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 (of which a sum of HK\$2.65 million has been paid). Among the total remuneration, HK\$4.30 million represented the annual audit fees and HK\$550,000 represented the interim review fees. (The remuneration for the two accounting firms for year 2001 amounted to HK\$4.85 million, among which HK\$4.30 million represented the annual audit fees and HK\$550,000 represented the interim review fees.) Both the audit fee and the review fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. Meal and accommodation expenses incurred by auditors while performing auditing duties at the Company were borne by the Company. A resolution concerning the re-appointment of the two accountants as auditors of the Company for the next year will be submitted to the forthcoming annual general meeting of the Company.

As at 31 December 2002, Ernst & Young Hua Ming and Ernst & Young had provided auditing services to the Company for nine consecutive years.

9. During the period, none of the Company's directors and senior management of the Company were investigated and punished by regulatory departments.
10. During the period, there was no change in the controlling shareholder of the Company, but the Board of Directors was re-elected.
11. During the reporting period, the Company did not change its name or its stock abbreviation.

### 12. SALE OF STAFF QUARTERS

From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain 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 regulations. 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 opening retained profit. As a result, no provision for such cost was made in the financial statements for year 2002. 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 2002, the amortised loss of staff quarters, as presented in the profit and loss account, amounted to approximately RMB17.6 million.

### 13. HOUSING SUBSIDIES

According to the relevant stipulations issued by the State Council, the Company has adopted the practice of cash housing subsidiaries. Eligible existing and retired staff will be given an one-off housing allowance. According to the stipulations issued by the Ministry of Finance, the housing subsidies for eligible existing staff and retired staff would be accounted for as opening retained profit on a as-incurred 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 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 on 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 RMB73 million paid to eligible staff between 1 January and 31 December 2002 were accounted for as retained profit at the beginning of the year. Under Hong Kong accounting standards, RMB34.9 million, representing one-off housing subsidies paid to in-service employees appropriated for the year ended 31 December 2002, were charged to the profit and loss account for year 2002.

### 14. STAFF MEDICAL INSURANCE

The Company has been providing staff medical insurance to its employees according to “Provisional Regulations Governing Coordination of Staff Social Welfare Insurance Funds Between Maanshan Iron and Steel Company Limited and Maanshan Holding Company” since its incorporation in 1993, whereby an amount equivalent to 10% of the gross amount of salaries paid to the Company’s current employees is appropriated to the medical insurance fund and Magang (Group) Holding Company Limited was entrusted to collect and manage the funds. In future, as further medical reforms unfold at the national level, relevant policies of provinces and cities might also be adjusted accordingly. Nevertheless, since the 10% appropriation rate for the Company’s medical insurance fund is already higher than that stipulated by the State, the Company does not expect any changes in provincial or municipal medical insurance policies in the coming years to have any significant impact on the Company’s operating results and financial conditions.

### 15. UNIFICATION OF INCOME TAX RATE AND 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% and this was unrelated to the cancellation of tax rebates offered by local governments. 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.