

Significant Matters

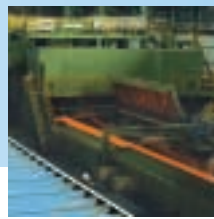
1. MATERIAL LITIGATIONS AND ARBITRATIONS

- (1) There was no material litigation and arbitration of the Company during the reporting period.
- (2) Three material litigations of the Company had been settled in the past but were lasting until the reporting period. Their judgments were enforced as follows:

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 Shenzhen Financial Leasing Company Limited (深圳金融租賃有限公司). The Company entered into a reconciliation agreement with Shenzhen Financial Leasing Company Limited on 16 March 2000, whereby Shenzhen Financial Leasing Company Limited 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 Shenzhen Financial Leasing Company Limited. The Company entered into a debt rescheduling agreement with Shenzhen Financial Leasing Company Limited and Jiangsu Jiayuan Investment Company Limited (江蘇佳源投資有限公司) on 30 March 2004 whereby it was agreed as follows: Jiangsu Jiayuan Investment Company Limited would make an early repayment on behalf of Shenzhen Financial Leasing Company Limited by making a one-off repayment of HK\$40 million owed to the Company. The Company would then write-off its remaining claim. As at 9 April 2004, Jiangsu Jiayuan Investment Company Limited had already repaid HK\$40 million.

Litigations against CITIC Ningbo Inc. and SEG International Trust & Investment Corporation: Their judgements and enforcement were disclosed in the 2002 Annual Report and published in Shanghai Securities Journal, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the Shanghai Stock Exchange Website (<http://www.sse.com.cn>) on 3 April 2003. There has been no change during from the reporting period.

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 by the liquidation team of 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 amount of HK\$2.296 million after deduction of interest payment that the Company had received. The Company has not yet received the final solution from the liquidation team regarding the debt repayment.
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 the assets with a distribution ratio of 9.62%, in which the Company received RMB3,507,758. In February 2003, the



liquidation team conducted the third distribution of the assets with a distribution ratio of 4.38%, in which the Company received RMB1,597,087. A total of RMB7,103,027 has been received by the Company in the three distributions.

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 the Holding for the year 2003 were as follows:

- (1) Under a "Service Agreement" entered into with Magang Corporation (predecessor of the Holding) on 14 October 1993, the Company and the 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 the 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 the Holding in respect of the "Service Agreement" from 1 January 2003 to 31 December 2003 are as follows:

Principal Items of Services Rendered by the 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	71,301
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	37,995
Total		<u>193,635</u>

Significant Matters (continued)

5. CONNECTED TRANSACTIONS (continued)

Principal Items of Services Rendered by the Company to the Holding

	Pricing basis	Total value (RMB'000)
Water supply	Market prices	528
Power supply	Market prices	9,169
Oxygen supply	Market prices	114
Telephone connection	Market prices	2,718
Total		<u>12,529</u>

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 when the supplementary agreement for 2003 was made.

- (2) Under an agreement for the sale and purchase of iron ore, "Sale and Purchase of Iron Ore Agreement", made with the Holding on 14 October 1993, all the iron ore and limestone produced by the Holding must first be offered to the Company. The price of iron ore will be agreed by both the 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 the 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 the Holding in respect of the "Sale and Purchase of Iron Ore Agreement" from 1 January 2003 to 31 December 2003 were as follows:

	Amount paid (RMB'000)
Purchases of iron ore and limestone	844,579

Note: The amount of iron ore and limestone purchases from the Group accounted for 36.91% of the Company's total amount of iron ore and limestone purchases.

The Directors are of the opinions 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 when the supplementary agreement for 2003 was made.

5. 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 the Holding are as follows:

	Amount (RMB'000)
Steel products purchased by the Holding from the Company	14,123
Other services acquired by the Holding from the Company	29,222
Payment by the Company for fixed assets and construction services	227,531
Payment by the Company for other services provided by the Holding	149,381

The connected transactions between the Company and the Holding were carried out in the form of cash payment. The total amount paid represents 2.97% of the audited net tangible assets of the Company as at 31 December 2003.

- (4) Amounts due to/from the Company and connected parties, as well as the cash inflow and outflow generated from normal production and operations with associates, are as follows:

Amounts due to the Company from the connected parties (RMB'000)

Connected parties	Amount	Balance
Magang (Group) Holding Company Limited	1,481,326	66,691
Other connected parties	38,270	8,642
Total	<u>1,519,596</u>	<u>75,333</u>

Amounts due from the Company to the connected parties (RMB'000)

Connected parties	Amount	Balance
Magang (Group) Holding Company Limited	954,173	–
Other connected parties	239,532	106,864
Total	<u>1,193,705</u>	<u>106,864</u>

The above-mentioned connected transactions have been confirmed by all the Directors of the Board of Directors who are not associated with the Holding (including Independent Directors Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing) to be transactions made between the Company and the 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.

Significant Matters (continued)

5. CONNECTED TRANSACTIONS (continued)

(5) Material contracts with the controlling shareholder

Save for the supplementary agreements to the "Service Agreement" and "Sale and Purchase of Iron Ore Agreement" in respect of 2003 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 2003.

6. The Company did not entrust, contract or lease any assets of other companies, nor vice versa, and did not entrust any other parties to implement cash assets management.

The Company was in strict compliance with the documents "Notice of Guarantee for the Third Parties Provided by Listed Companies" (Zheng Jian Gong Si Zi [2000] No.61) and "Notice of Certain Issues Relating to the Standards of Capital Dealings with Connected Parties by Listed Companies and Provisions of External Guarantees by Listed Companies" (Zheng Jian Fa [2003] No.56). During the reporting period, the Company did not provide guarantee for third parties or illegal guarantee matters other than guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, in respect of daily operating loan and issuance of letter of credit of special project amounting to RMB600 million and RMB1,748.47 million, respectively; as well as guarantee provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, in respect of daily operating loan amounting to RMB68.70 million.

The above-mentioned guarantees were guarantees with joint responsibility and were approved by the Board of Directors beforehand and were only provided for the specified import projects required by the Company; loans necessary for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the opening of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery. The guarantees were inapplicable to the investments in real estates, equities, debentures and funds; foreign investments; provision of guarantees for foreign parties; provision of loans to foreign parties; or grants to foreign parties.

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.

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. 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 2003, Ernst & Young Hua Ming and Ernst & Young has provided auditing services to the Company for 10 consecutive years. The Certified Public Accountants Mr Jin Xin and Mr Qin Tongzhou, who have signed the Company's 2003 auditors' report, have provided auditing services to the Company for eight consecutive years and for the first time, respectively.

9. During the reporting period, none of the Company's directors and senior management of the Company were investigated, punished, criticised and blamed in the public by regulatory departments.
10. During the reporting period, there was no change in the controlling shareholder of the Company.
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 RMB163.78 million, and the aggregate amortisation related thereto amounted to approximately RMB58.18 million. The Ministry of Finance stipulated the accounting treatment of loss on disposal of staff quarters in 2001. As a move to comply with this directive, the remaining sum of the unamortised deferred staff cost of RMB105.6 million as at 1 January 2001 under PRC Accounting Standards was all dealt with as opening retained profit. As a result, no provision for such cost was made in the financial statements for year 2003.

In preparation of financial statements under Hong Kong Accounting Standards, due to the increases in turnover of the Company's employees living in the sold quarters as well as the number of retired employees, the expected average remaining years of services of employees differed greatly from the actual ones. Hence, the Group has adopted an applicable accounting approach such that the unamortised amount of approximately RMB61.6 million as at 30 June 2003 would be amortised from the administrative expenses on a one-off basis.

13. HOUSING SUBSIDIES

In accordance with 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. In accordance with 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 an 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.

Significant Matters (continued)

13. HOUSING SUBSIDIES (continued)

As the Company has speeded up the reform of its staff housing scheme and the turnover of its employees has increased, it is no longer possible to pay out the housing subsidies in batches according to the current plan. The Company therefore implemented a reform in respect of relevant regulations on the staff housing subsidies scheme and adopted a corresponding accounting method, under which, in preparing financial statements under PRC Accounting Standards, the unpaid staff housing subsidies are charged to the Company's administrative expenses for year 2003 on a one-off basis and such amount totals approximately RMB 209.5 million. The staff housing subsidies which had not been entirely provided in accordance with the specified years of services of approximately RMB244.2 million were fully charged to the administrative expenses of the financial statements under Hong Kong Accounting Standards for year 2003. Such arrangement was disclosed in the third quarterly report of the Company for year 2003.

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" (Zheng Mi [1993] No.70) 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 Cai 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.