Significant Matters

1. SIGNIFICANT LITIGATIONS AND ARBITRATIONS

(1) The Company had no material litigation and arbitration 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. 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 to the Company 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 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. During the period from 31 March 2004 to 9 April 2004, Jiangsu Jiayuan Investment Company Limited had already repaid HK$40 million to the Company. As at 31 December 2004, the outstanding time deposit the Company placed with Shenzhen Financial Leasing Company Limited was fully settled.

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 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. On 21 July 2004, the liquidation team informed the Company of the debt repayment proposal confirmed by the People's Bank of China: the liquidation team entrusted 中國華融資產管理公司 to assign the entire proceeds from disposal of assets of the company to repay the creditors (excluding the People's Bank of China and four wholly state-owned commercial banks) within five years. Under the arrangement of 中國華融資產管理公司, 10% of the principal of loans were repaid in each of 2003, 2004 and 2005 to the creditors; whereas repayments in each of 2006 and 2007 will be made from the realised amount, with total repayments being subject to the final results of all the asset disposal. In December 2004, the liquidation team carried out the first fund distribution for the repayment of debt, representing 10% of the principal, and the Company received RMB757,000. In February 2005, the liquidation team carried out the second fund distribution for the repayment of debt, representing 10% of the principal, and the Company received RMB757,000.

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. The liquidation team carried out three property distributions in August 2000, December 2001 and February 2003 respectively. A total of RMB7,100,000 has been received by the Company in the three distributions. There has been no change during the reporting period.

4. There were no significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

5. CONNECTED TRANSACTIONS

Business transactions between the Company and the Holding for the year 2004 were as follows:

(1) The 10-year "Service Agreement" entered into between the Company and Magang Corporation (predecessor of the Holding) on 14 October 1993 had expired on 31 December 2003.

With a view to ensuring that the Company continues to operate efficiently and employees of the Company continue to enjoy certain staff training and necessary supporting services that the Company may not be able to obtain or easily obtain from independent third parties in Maanshan, Anhui Province, the PRC, the Company entered into a Service Agreement (effective from 2004 to 2006) with the Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The service fees which the Company and the Holding may charge each other should be equal to or lower than the State prices of the agreed services; or in the absence of such State prices, the market prices of the agreed services. The market prices should be determined upon negotiation by both parties and shall be equal to or lower than the market prices approved by the registered price certification appraiser of Maanshan Market Price Certification Centre.

Details of the amounts (RMB '000) paid by the Company to the Holding according to the new "Service Agreement" from 1 January 2004 to 31 December 2004 are as follows:

Major Item	**Pricing basis**	**Total value**	**Proportion (%) of the transactions of the same category**
On-the-job staff training	State Prices	21,020	100
Catering and sanitation services	Market Prices	48,540	100
Environmental sanitation and maintenance of road	State Prices	13,980	100
Afforestation and management of factory districts	Market Prices	24,730	100
Total		108,270	

All the Directors of the Board of Directors who are not associated with the Holding (including Independent Non-executive Directors) believed that the agreed services, whilst adopting market prices as the pricing basis, were carried out in the normal course of business on normal commercial terms or terms no less favourable than those offered to (or offered by, if appropriate) independent third parties. The prices are fair and reasonable and in the best interests of the Company and its shareholders, accordingly, such connected transactions will not adversely affect the current or future financial position of the Company.

For the financial year ended 31 December 2004, the total value of the year of the agreed services did not exceed the upper limit of the Service Agreement.

(2) The "Sale and Purchase of Iron Ore Agreement" entered into between the Company and the Holding on 14 October 1993 had expired on 31 December 2003.

To ensure that the Company have sufficient iron ore to meet the production requirement, the Holding agreed to continuously provide the Company with iron ore on a first priority basis. The Company entered into an Agreement on the Sales and Purchase of Iron Ore (effective from 2004 to 2006) with the Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The price of iron ore per ton purchased every year by the Company from the Holding will be determined by both the Holding and the Company after negotiation, and shall not be higher than the weighted average price per ton charged by the top three independent suppliers supplying the largest amount of iron ore to the Company in the previous year. The prices of limestone and marble are determined from time to time by both parties after negotiation, and shall not be higher than the weighted average price charged by the top three independent suppliers supplying the largest amounts of limestone and marble to the Company in the previous year.

The payment made by the Company to the Holding in respect of the new "Agreement on the Sales and Purchase of Iron Ore" from 1 January 2004 to 31 December 2004 was as follows (RMB'000):

	Amount paid	**Proportion of transactions of the same category (%)**
Purchases of iron ore, limestone and marble	964,679	22

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 Non-executive Directors) to be transactions entered into in the normal course of business on normal commercial terms or terms no less favourable than those offered to (or offered by, if appropriate) independent third parties. The prices are fair and reasonable and in the best interests of the Company and its shareholders. Accordingly, these connected transactions will not adversely affect the current or future financial position of the Company.

The above amount paid for the raw materials purchased under the "Agreement on the Sales and Purchase of Iron Ore" represented less than 8.74% of the audited cost of sales of the Company for the financial year ended 31 December 2004.

(3) Save for the connected transactions under the new "Service Agreement" and the new "Agreement on the Sales and Purchase of Iron Ore "as mentioned above, amounts of other connected transactions in the ordinary course of business with the Holding are as follows (RMB'000):

	Amount paid	**Proportion of transactions of the same category (%)**
Steel products and other products purchased by the Holding from the Company	3,564	0.01
Water, electricity, telephone and other services acquired by the Holding from the Company	32,708	93.06
Payment by the Company for fixed assets and construction services	279,689	6.71
Payment by the Company to the Holding for other services	173,493	100

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 Non-executive Directors) to be transactions made between the Company and the Holding in the normal course of business and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The major business transactions between the Group and the Holding are carried out in the normal course of business of the Group and the Holding and are settled in cash. The aggregate transaction amounts represented 2.87% of the audited net tangible assets of the Company as at 31 December and did not adversely affect the profit of the Company.

The auditors of the Company, Ernst & Young considers that the Service Agreement entered into by the Company and the Holding and the continuing connected transactions under the Agreement on the Sales and Purchase of Iron Ore for the year 2004 have been approved by the Board of Directors of the Company, in compliance with the terms of these agreements and not exceeding the maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange.

Equity transfer between the Company and the Holding in 2004

As the packaging materials and on-site packaging service provided by Anhui Masteel Holly Packaging Co., Ltd. ("Holly Packaging"), a controlled subsidiary of the Holding, constituted part of the Company's sales of thin plate products, the Board of Directors, in an attempt to integrate the process of production and sale, improve the product quality and reduce connected transactions, decided to acquire the Holding's 71% equity interest in Holly Packaging on 20 October 2004 at a cash consideration and entered into an "Equity Transfer Agreement". The acquisition was based on the net book value of the assets of Holly Packaging as at 30 September 2004, which amounted to RMB30,251,000, as audited by Jiangsu Talent Certified Public Accountants, an auditor engaged by the Company with securities qualification. The total consideration for the transfer of the 71% equity interest was RMB21,748,000. All asset rights and creditor's rights and debt obligations under the acquisition have been fully transferred. The acquisition will exert no adverse impact on the current or future financial and operating results of the Company.

Independent directors consider that the terms of the transaction are in compliance with normal commercial rules. The terms are fair and reasonable, in line with the Company's overall development strategy and are in the best interests of the Company and its shareholders as a whole.

As at 31 December 2004, save for ordinary business transactions, there is no amount due to or from the Company and connected parties.

Material contracts with the controlling shareholder

Save for the above-mentioned new "Service Agreement" and the new "Agreement on the Sales and Purchase of Iron Ore" entered into on 9 October 2003 and approved at the Extraordinary General Meeting held on 11 December 2003, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholders at any time during the year ended 31 December 2004.

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 arrangement.

   The Company was in strict compliance with the document "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) and did not provide any guarantee in breach of the laws. The Company's guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, amounting to RMB2,476 million, of which an amount of RMB1,039 million has been recognised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB68.70 million, which amount has not been recognised; guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully recognised.

   The above-mentioned guarantees incurred a total amount of utilised facilities of RMB2,559.1 million and a remaining balance of RMB1,052.8 million. The total guarantee amount represented 6.04% of the Company's net assets during the reporting period. The guarantees are all guarantees with ancillary responsibilities. All the guarantees were approved by the Board of Directors beforehand and the guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated 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. The guarantee for Anhui Masteel K. Wah New Building Materials Co., Ltd. is only provided for land construction and the purchase of equipment, all the guarantees are not applicable for external investments; provision of guarantees for external parties; provision of loans to external parties; or grants to external parties.

7. During the reporting period, neither the Company nor any shareholders who were interested in 5% or more of the Company's shares disclosed their commitment in designated newspapers and website. None of the Company's directors and senior management of the Company were investigated, punished, criticised or reprimanded in public by regulatory authorities.

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$5,330,000. Among the total remuneration, HK$4,780,000 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 accounting firms as auditors of the Company for the next year will be proposed at the forthcoming Annual General Meeting of the Company.

As at 31 December 2004, Ernst & Young Hua Ming and Ernst & Young has provided auditing services to the Company for 11 consecutive years. The Certified Public Accountants Mr Yang Jun and Mr Qin Tongzhou, who have signed the Company's 2004 auditors' report, have provided auditing services to the Company for the first time and for two consecutive years, respectively.

9. 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 will have any significant impact on the Company's operating results and financial conditions.

10. UNIFICATION OF INCOME TAX RATE AND CANCELLATION OF TAX REBATES OFFERED BY LOCAL GOVERNMENTS

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.